CATALINA HOLDINGS (BERMUDA) LTD.

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT AUDITORS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

CATALINA HOLDINGS (BERMUDA) LTD.

FINANCIAL STATEMENTS

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Independent Auditor's Report

The Board of Directors
of **Catalina Holdings (Bermuda) Ltd.**

We have audited the accompanying consolidated financial statements of Catalina Holdings (Bermuda) Ltd. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Catalina Holdings (Bermuda) Ltd. and its subsidiaries as of December 31, 2016 and 2015, and the results of its their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
March 30, 2017

CATALINA HOLDINGS (BERMUDA) LTD.
CONSOLIDATED BALANCE SHEETS
December 31, 2016 and 2015
(Expressed in thousands of U.S. dollars)

		2016		2015
Assets				
Investments at fair value	$	1,329,817	$	1,525,960
Cash and cash equivalents		403,429		324,541
Restricted cash and cash equivalents		121,094		84,557
Accrued investment income		11,431		13,131
Investments in real estate		162,116		134,452
Outstanding losses and loss expenses recoverable		419,684		470,689
Deferred reinsurance premiums		7,444		11,429
Funds held by cedants and claims administrators		75,196		92,556
Insurance and reinsurance balances receivable		26,267		44,732
Other assets		30,213		21,128
Intangible assets		12,750		16,750
Total assets	$	2,599,441	$	2,739,925
Liabilities				
Outstanding losses and loss expenses	$	1,392,247	$	1,560,347
Unearned premiums		14,279		26,031
Insurance and reinsurance balances payable		70,676		60,947
Accounts payable, accrued expenses and other liabilities		47,196		36,355
Long term subordinated debt		194,913		170,725
Loans payable		282,801		351,857
Total liabilities		2,002,112		2,206,262
Shareholders' equity				
Ordinary shares		7,040		7,711
Preference shares		375,453		358,403
Additional paid-in capital		40,982		26,477
Retained earnings		190,518		144,218
Accumulated other comprehensive loss		(24,979)		(7,858)
Total Catalina Holdings (Bermuda) Ltd. shareholders' equity		589,014		528,951
Non-controlling interest		8,315		4,712
Total shareholders' equity		597,329		533,663
Total liabilities and shareholders' equity	$	2,599,441	$	2,739,925

The accompanying notes are an integral part of these consolidated financial statements

CATALINA HOLDINGS (BERMUDA) LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended December 31, 2016 and 2015
(Expressed in thousands of U.S. dollars)

	2016	2015
Revenues		
Gross premiums written	$ (400)	$ 3,206
Premiums ceded	273	6,085
Net premiums written	(127)	9,291
Change in net unearned premiums	7,349	15,747
Net premiums earned	7,222	25,038
Net losses and loss expenses	44,859	60,525
Commissions	1,394	(2,251)
Net run-off income	53,475	83,312
Net investment income	39,038	37,432
Net gains (losses) on investments	66,520	(10,447)
Rental income	10,217	5,494
Net foreign exchange gains	6,282	6,489
Gain on acquisition	-	7,298
Gain on sale of real estate and licenses	5,718	-
General and administrative expenses	(60,623)	(52,074)
Change in subordinated debt fair value	(923)	8,271
Interest expense	(23,088)	(21,076)
Income before income taxes	96,616	64,699
Income tax expense	(15,383)	(7,529)
Net income	$ 81,233	$ 57,170
Net income attributable to non-controlling interest	(507)	(121)
Net income attributable to Catalina Holdings (Bermuda) Ltd.	$ 80,726	$ 57,049

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2016 and 2015
(Expressed in thousands of U.S. dollars)

	2016	2015
Net income attributable to Catalina Holdings (Bermuda) Ltd.	$ 80,726	$ 57,049
Other comprehensive loss, before and net of tax:		
Foreign currency translation adjustments	(17,308)	(8,531)
Increase in fair value of interest rate swap	187	489
Other comprehensive loss, before and net of tax	(17,121)	(8,042)
Comprehensive income	$ 63,605	$ 49,007

The accompanying notes are an integral part of these consolidated financial statements

CATALINA HOLDINGS (BERMUDA) LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2016 and 2015
(Expressed in thousands of U.S. dollars except for share and per share amounts)

	2016	2015
Share capital - "A" Ordinary shares of par value $1.00 each		
Balance at beginning of year	$ 6,693	$ 6,693
Repurchased during year	(648)	-
Balance at end of year	6,045	6,693
Share capital - "B" Ordinary shares of par value $1.00 each		
Balance at beginning and end of year	600	600
Share capital - "C" Ordinary shares of par value $1.00 each		
Balance at beginning of year	418	400
Issued during year	37	18
Repurchased during year	(60)	-
Balance at end of year	395	418
Preference share capital - Preference shares of par value $1.00 each		
Balance at beginning of year	358,403	258,761
Issued during year	15,994	97,667
Change in accrued dividends during year	1,056	1,975
Balance at end of year	375,453	358,403
Additional paid-in capital		
Balance at beginning of year	26,477	15,508
Dividends on "B" and "C" Ordinary shares	-	(120)
Increase in subscription value of preference shares	13,857	11,089
Repurchased "A" Ordinary shares	648	-
Balance at end of year	40,982	26,477
Retained earnings		
Balance at beginning of year	144,218	114,188
Preference shares dividends and subscription value increase	(30,904)	(24,731)
Dividends on "B" and "C" Ordinary shares	(2,778)	(2,437)
Repurchased "C" Ordinary shares	(1,038)	-
Issued "C" Ordinary shares as stock-based compensation	294	106
Other	-	43
Net income attributable to Catalina Holdings (Bermuda) Ltd.	80,726	57,049
Balance at end of year	190,518	144,218
Accumulated other comprehensive (loss) income		
Balance at beginning of year	(7,858)	184
Other comprehensive loss	(17,121)	(8,042)
Balance at end of year	(24,979)	(7,858)
Non-controlling interest		
Balance at beginning of year	4,712	1,647
Contribution of capital	4,904	3,231
Dividends paid	(485)	(78)
Net income attributable to non-controlling interest	507	121
Foreign currency translation adjustment	(1,323)	(209)
Balance at end of year	8,315	4,712
Total shareholders' equity	$ 597,329	$ 533,663

The accompanying notes are an integral part of these consolidated financial statements

CATALINA HOLDINGS (BERMUDA) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2016 and 2015
(Expressed in thousands of U.S. dollars)

	2016	2015
Cash flows from operating activities		
Net income	$ 81,233	$ 57,170
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Gain on acquisitions	-	(7,298)
Gain on sale of real estate	(4,768)	-
Gain on sale of licenses	(950)	(256)
Depreciation of property and equipment	1,392	653
Amortization of net discounts on investments	4,101	4,139
Net (gains) losses on investments	(66,520)	10,447
Change in subordinated debt fair value	923	(8,271)
"C" shares issued as stock-based compensation	331	124
Changes in assets and liabilities:		
Accrued investment income	5,274	(3,685)
Funds held by cedants and claims administrators	18,759	24,245
Outstanding losses and loss expenses recoverable	69,906	84,389
Insurance and reinsurance balances receivable	16,021	26,393
Deferred reinsurance premiums	3,986	9,560
Other assets	(6,880)	18,192
Outstanding losses and loss expenses	(391,045)	(9,244)
Unearned premiums	(11,753)	(23,904)
Insurance and reinsurance balances payable	8,519	(27,365)
Accounts payable, accrued expenses and other liabilities	(11,291)	(22,663)
Net cash (used in) provided by operating activities	(282,762)	132,626
Cash flows provided by (used in) investing activities		
Payment for acquisitions, net of cash acquired	(24,527)	(53,099)
Proceeds from sale of real estate and licenses	50,508	2,956
Securities transferred from novation	-	(60,064)
Purchases of investments	(1,143,095)	(868,548)
Proceeds from sale or maturity of investments	1,617,354	975,865
Investment in real estate	(82,730)	(74,104)
Net cash provided by (used in) investing activities	417,510	(76,994)
Cash flows (used in) provided by financing activities		
Proceeds from issuance of preference shares	-	86,000
Capital contributions for non-controlling interest	4,904	3,231
"B" and "C" Ordinary shares dividend	(2,778)	(2,557)
Proceeds from issuance of long term subordinated debt	24,118	-
Proceeds from issuance of loans payable	185,441	107,820
Non-controlling interest dividend	(485)	(78)
Repayment of loans	(228,000)	(97,100)
Net cash (used in) provided by financing activities	(16,800)	97,316
Effect of exchange rate changes	(2,523)	(6,971)
Increase in cash, cash equivalents, and restricted cash	115,425	145,977
Cash, cash equivalents, and restricted cash at beginning of year	409,098	263,121
Cash, cash equivalents, and restricted cash at end of year	$ 524,523	$ 409,098
Supplemental information:		
Interest paid	$ 24,674	$ 18,595
Income taxes paid	$ 10,477	$ 17
Reconciliation to consolidated balance sheets:		
Cash and cash equivalents	$ 403,429	$ 324,541
Restricted cash and cash equivalents	121,094	84,557
Cash and cash equivalents, and restricted cash	$ 524,523	$ 409,098

The accompanying notes are an integral part of these consolidated financial statements

(Expressed in thousands of U.S dollars except for share amounts, or as otherwise stated)

1. Description of business

Catalina Holdings (Bermuda) Ltd. ("Catalina" or the "Company"), incorporated on June 25, 2007, is a holding company organized under the laws of Bermuda. Catalina, through its subsidiaries located in Bermuda, the United States, the United Kingdom, Ireland and Switzerland, acquires and manages non-life insurance and reinsurance companies and portfolios of insurance and reinsurance business in run-off. Since October 2008, Catalina has completed the acquisition of insurance and reinsurance companies and portfolios of insurance and reinsurance business. The acquisitions are:

• Quanta Capital Holdings Ltd. ("Quanta")	October 2008
• Alea Holdings UK Limited	October 2009
• Western General Insurance Ltd. ("WestGen")	July 2010
• Glacier Reinsurance AG ("Glacier Re")	April 2011
• Residential Loss Control Holdings, LLC ("RLCH")	October 2011
• HSBC Reinsurance Limited and HSBC Insurance (Ireland) Limited	October 2012
• KX Reinsurance Company Ltd.	April 2013
• American Safety Reinsurance Ltd. ("Catalina Safety")	October 2013
• Alea Group Holdings (Bermuda) Ltd. ("AGHBL")	March 2014
• SPARTA Insurance Holdings, Inc.,	September 2014
• Danielson Indemnity Company ("Danielson")	November 2014
• PXRE Reinsurance Company ("PXRE")	May 2015
• Papiro AG ("Papiro")	October 2015
• Allianz Suisse Ruckversicherungs-Gesselschaft AG ("Allianz Suisse Re")	December 2015
• AGF Insurance Limited ("AGF")	October 2016

The portfolio transfers are:

• Contractors wrap-up policies from Renaissance Reinsurance Ltd.	November 2012
• Marine insurance liabilities from the Delta Lloyd Group	June 2014
• Residential construction liabilities from NationsBuilders Insurance Company	February 2015
• UK and EU insurance liabilities from Quinn Insurance Limited	June 2015

Catalina has renamed many of the entities acquired and simplified the group structure by merging and amalgamating entities where possible. As at December 31, 2016, Catalina had thirteen regulated entities of which the most significant are Catalina General Insurance Ltd. ("CatGen"), SPARTA Insurance Company ("SIC"), AGF, Catalina London Limited, Glacier Re, and Catalina Insurance Ireland dac ("CII").

On July 21, 2016, the Company through its wholly owned subsidiary Catalina Holdings UK Limited signed a definitive agreement to acquire Hartford Financial Products International Limited ("HFPI") and Downlands Liability Management Limited ("DLM") from subsidiaries of The Hartford Financial Services Group Inc. ("The Hartford").

HFPI is a UK regulated insurance company into which The Hartford transferred the business of Excess Insurance Company Limited, Hart Re (the UK branch of Hartford Fire) and certain business written by London & Edinburgh through a Part VII transfer, which completed in October 2015. At December 31, 2016, HFPI and DLM had combined total assets of $952 million, HFPI had undiscounted gross reserves of $658 million, and combined shareholder's equity of $282 million.

The transaction is subject to approval by the Prudential Regulation Authority, the UK insurance regulator, and is expected to close in the 2nd quarter of 2017. Upon closing of the transaction, it is proposed that HFPI will enter into a 100% Quota-Share Reinsurance Agreement (" the 100% Quota-Share") with Catgen to reinsure its entire book of business, net of any inuring reinsurance. On February 23, 2017, the Bermuda Monetary Authority ("BMA") confirmed that they had no objection to Catgen entering into the 100% Quota-Share.

2. Significant accounting policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities reported at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. While management believes the amounts included in the consolidated financial statements reflect management's best estimates and assumptions, the actual results could ultimately be materially different from the amounts currently provided for in the consolidated financial statements. The Company's principal estimates relate to the development or determination of the following:

- valuation of outstanding losses and loss expenses;
- valuation of investments and determination of hierarchical inputs used to measure fair value of investments;
- valuation of assets and liabilities under business combination accounting;
- valuation of long term subordinated debt;
- provisions for litigation and other contingent liabilities;
- provision for non-collectible reinsurance balances recoverable;
- recoverability of insurance and reinsurance balances receivable; and
- valuation of intangible assets.

The Company's consolidated financial statements include the financial statements of the Company and all of its subsidiaries in which it owns, directly or indirectly through subsidiaries, over fifty percent of the voting rights or is in a position to govern the financial and operating policies of the entity. All significant balances and transactions among related companies have been eliminated on consolidation. The results of subsidiaries acquired are included from the dates of their acquisition by the Company.

Premiums

The Company's insurance and reinsurance subsidiaries wrote insurance policies and reinsurance contracts prior to entering into run-off. These subsidiaries no longer write new policies or contracts but premiums continue to be earned over the terms of the associated insurance policies and reinsurance contracts in proportion to the amount of insurance protection provided. The term of the insurance or reinsurance coverage provided may be cancelled by the insured or ceding company resulting in a return of written premium.

Profit commission accruals are recorded as commission expenses and are adjusted at the end of each year based on the experience of the underlying contract. Such adjustments related to profit commissions may be significant.

In some instances, prior to acquisition by the Company, ceded reinsurance or retrocessional coverage was used to limit the Company's insurance and reinsurance subsidiaries' individual and aggregate exposures to risks of losses arising from contracts of insurance or reinsurance. Reinsurance premiums ceded to reinsurers are recorded and earned in a manner consistent with that of the original contracts or policies written and the terms of the reinsurance agreements.

Premiums written and ceded relating to the unexpired periods of coverage or policy terms are recorded on the consolidated balance sheet as unearned premiums and deferred reinsurance premiums, respectively. Unearned premiums and deferred reinsurance premiums are recorded at fair value at the date that they were acquired. The fair value of the unearned premiums reserve was based on the estimated timing of reserve settlements discounted at a risk free rate.

Assumed premiums on life insurance contracts are recognized as revenue when payable by the policyholder on underlying reinsurance policies. Premiums collected by intermediaries but not yet received are assessed based on estimates from underwriting or past experience and are included in premium revenue.

2. Significant accounting policies (continued)

Retroactive reinsurance

Consideration received in excess of estimated liabilities assumed with respect to retroactive reinsurance contracts is recognized as deferred income at inception of such contracts. Deferred income is subsequently amortized using the interest method over the expected claims settlement periods. Changes to the estimated timing or amount of loss payments produce changes in periodic amortization. Changes in such estimates are applied retrospectively and are included within net income in the year in which such changes are made. Deferred income is reported within outstanding losses and loss expenses in the consolidated balance sheets and deferred income amortization is recognized within net losses and loss expenses in the consolidated statements of operations.

Outstanding losses and loss expenses

The Company establishes reserves for outstanding losses and loss expenses for estimates of future amounts to be paid in settlement of its ultimate liabilities for claims arising under its contracts of insurance and reinsurance that have occurred at or before the consolidated balance sheet date. The estimation of ultimate loss and loss expense liabilities is a significant judgment made by management and is inherently subject to significant uncertainties.

The Company's loss reserves fall into two categories; case reserves for reported losses and loss expenses ("case reserves") and reserves for losses and loss expenses incurred but not reported ("IBNR reserves"). Case reserves are based initially on claim reports received from insureds, brokers or ceding companies, and may be supplemented by the Company's claims professionals with estimates of additional ultimate settlement costs. IBNR reserves are estimated by management using generally accepted statistical and actuarial techniques and are reviewed by independent actuaries. In applying these techniques, management uses estimates as to ultimate loss emergence, severity, frequency, settlement periods and settlement costs. In making these estimates, the Company relies on the most recent information available, including industry information, and on its own historical loss and loss expense experience.

On periodic payment order claims ("PPO's"), due to the long delay from when the claim was settled and when the final payment will be made, the outstanding claims are discounted to take account of investment income receivable to the final payment date. The Company discounts its PPO's at a real discount rate of 0%, assuming a long term care index inflation rate of 2.5% per annum, offset by expected investment returns of 2.5%. For known PPO's, cash flows were projected in accordance with the claimants' life expectancy. Annual cash flows were increased in line with an assumed inflation rate of 2.5% per annum. These cash flows are then discounted to the valuation date at an assumed discount rate of 2.5% per annum. The Company has discounted the cash flows as it is of the opinion that estimating undiscounted reserve for PPO's is neither reliable nor representative of the underlying value of the losses. The unreliability stems from the significant uncertainty involved in estimating an absolute level of indexation. Discounting cash flows using a real yield assumption based on the relationship of investment returns relative to inflation indices is more reliable in the long term.

A significant amount of the Company's loss and loss expense reserves are related to casualty lines of business. This is due to Catalina typically acquiring companies, or reinsuring portfolios, that have been in runoff for many years and therefore have significant exposure to casualty lines of business due to the long-tail nature of that business. As of December 31, 2016 most of the Company's reserves are casualty lines of businesses. In addition, the Company has exposure to Asbestos and Environmental ("A&E") from US Asbestos, US Pollution and UK EL Asbestos. A&E makes up 21% of the Company's net reserves as at December 31, 2016. The Company has a relatively small amount (4% of net reserves) of US A&E reserves and therefore the methodologies relied on by the Company are based on Industry benchmarks (Survival Ratio and IBNR to Case Ratio). UK EL Asbestos makes up 17% of the Company's net reserves as at December 31, 2016. For UK EL Asbestos, the Company's reserve estimate relies on a Frequency / Severity methodology. The Company's estimates of future asbestos (particularly mesothelioma), deaths are derived by applying a model developed in 2009 by the Health and Safety Laboratory (HSL), a specialist modeling arm of the UK Health and Safety Executive. The number of future claims is derived by the Institute of Actuaries UK Asbestos Working Party by applying the HSL model for the number of asbestos deaths, although the Company makes adjustments to the standard assumptions where management believes that it is appropriate to do so. These adjustments may have a significant impact on the results. The future severity estimates come from analyzing previous payments made by type of asbestos claim and then applying a severity trend. Asbestos claims, particularly mesothelioma claims, have significant risk due to the long manifestation period of in excess of 40 years. The most significant causes of uncertainty that may affect A&E claims are the emergence of future claims reporting, the development of future average

2. Significant accounting policies (continued)

claim settlements and the potential for future judicial developments that may result in significant changes in the expected settlement of these claims.

Management believes the Company's reserving techniques represent a reasonable basis for estimating ultimate claim costs and that the outstanding losses and loss expenses are sufficient to cover claims from losses occurring up to the consolidated balance sheet date; however, ultimate losses and loss expenses may be subject to significant volatility as a result of significant uncertainties. These uncertainties are driven by many variables that are difficult to quantify. These uncertainties include, for example, the period of time between the occurrence of an insured loss and actual settlement, fluctuations in inflation, prevailing economic, social and judicial trends, legislative changes, internal and third party claims handling procedures and the lack of complete historical data on which to base loss expectations. Accordingly, ultimate liabilities may differ materially from the amounts recorded in the consolidated financial statements.

The Company regularly reviews and adjusts its reserve estimates and reserving methodologies taking into account current information. Outstanding losses and loss expenses are adjusted as claim experience develops and new information becomes available. Any adjustments to previously established reserves may significantly impact net income.

Reinsurance recoverable

Reinsurance recoverables are recorded at fair value at the date that the subsidiary owning the assets is acquired. The fair value of the recoverable from reinsurers is based on the estimated timing of reserve settlements discounted at a risk adjusted rate determined by management.

The Company estimates outstanding loss and loss expenses recoverable using methodologies and assumptions consistent with those used in estimating reserves for losses and loss expenses. The estimation of outstanding loss and loss expenses recoverable is a significant judgment made by management and is inherently subject to significant uncertainties. The Company establishes allowances for amounts recoverable that are considered potentially uncollectible from its reinsurers. The valuation of this allowance for uncollectible reinsurance recoverable includes a review of the credit ratings of the reinsurance recoverables by reinsurer, an analysis of default probabilities as well as identifying whether or not coverage issues exist. These factors require management judgment and the impact of any adjustments to those factors is reflected in net income in the year that the adjustment is determined. The Company is subject to credit risk with respect to the reinsurance ceded because the ceding of risk does not relieve the Company from its original obligations to its insureds.

Life contracts

Life contracts comprise of traditional life savings business assumed through coinsurance and modified coinsurance reinsurance contracts. They have all been in run-off for several years although many have recurring premiums. Liabilities for life reinsurance contracts are booked at the amounts reported by the ceding companies. The Company estimates the policy benefits for the life and annuity contracts using standard actuarial techniques and cash flow models. Policy benefits are reviewed annually and the Company performs a liability adequacy test based on cash flow projections. Since estimating the policy benefits depends on cash flow projection, the Company makes assumptions based on experience and industry mortality tables, longevity, morbidity rates, lapse rates, expenses and investment experience including provision for adverse deviation. The assumptions used are determined at the acquisition of the Company that wrote the contract and locked in throughout the life of the contract unless a premium deficiency develops. The assumptions are reviewed at acquisition and annually and unlocked if it results in material adverse development. The estimates are established based on information provided by the ceding companies, contract specific historical experience and industry experience.

The policy benefits are maintained at a level that, when taken together with future premium payments and investment income, are expected to be sufficient to cover policyholder obligations as they fall due. Provision is made where current best estimates of future contractual cash flows arising from the contracts are expected to exceed the policy obligations net of premiums receivable. Investment income from the assets backing the liabilities is taken into account when calculating such provision. The assessment of whether an additional provision needs to be booked is based on information available after offsetting the surpluses and deficits arising on contracts within the life portfolio. Any deficiency is charged to the statement of operations by establishing a provision for losses arising from the liability adequacy test for the unexpired risk portion. The amount of the provision depends on the risk adjusted returns available on assets designated to support life

2. Significant accounting policies (continued)

contract liabilities.

Structured settlements

Included within outstanding losses and loss expenses and outstanding losses and loss expenses recoverable in the consolidated balance sheets are amounts related to structured settlements. CatGen, through its Canadian branch, has assumed ownership of certain structured settlements and has purchased annuities from life insurance companies to provide fixed and recurring payments to the claimants. CatGen remains responsible to the claimant in the case of non-performance by the life insurance companies. The assets and liabilities for the structured settlement contracts are booked at the amounts reported by the life insurance companies as management believes this to be the best available estimate of the obligations under these contracts.

Cash and cash equivalents

Cash equivalents include highly liquid instruments such as liquidity funds, money market funds and other time deposits with commercial banks and financial institutions which have maturities of less than three months from the date of purchase. See Note 12(a) in relation to concentrations of credit risk. Restricted cash and cash equivalents are separately reported in the consolidated balance sheets at December 31, 2016 and 2015.

Investments and net investments income

Investments are recognized and measured at fair value with subsequent changes to the fair value recorded within net gains (losses) on investments in the consolidated statements of operations. The Company holds trading portfolios of fixed maturities, short-term investments and equities which are recorded at fair value.

Purchases and sales of investments are recorded on a trade date basis. Realized gains and losses on sales of investments are determined on a first-in, first-out basis and are shown within net gains (losses) on investments in the consolidated statements of operations. Net investment income is recognized when earned and includes interest and dividend income, together with amortization of market premiums and discounts using the effective yield method and is net of investment management fees.

Other investments are recognized and measured at fair value with subsequent changes to the fair value, income distributions and realized gains and losses reported within net investment income in the consolidated statements of operations.

Derivatives

The Company's derivative instruments are recorded in the consolidated balance sheets at fair value. Changes in fair value of derivatives are recognized in the consolidated statements of operations, apart from changes in fair value of derivatives designated as cash flow hedging instruments which are reflected in the consolidated statements of comprehensive income.

Fair Value Measurements

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. An asset or a liability's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The hierarchy is broken down into three levels as follows:

- Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

- Level 2 – Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

2. Significant accounting policies (continued)

- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These are generally company generated inputs and are not market based inputs.

The Company used the following valuation techniques and assumptions in estimating the fair value of financial instruments as well as the general classification of such financial instruments pursuant to the above fair value hierarchy:

Fixed maturities

At each valuation date, the Company uses a market approach technique to estimate the fair value of the fixed maturities portfolios, where possible. This market approach includes, but is not limited to, prices obtained from third party pricing services and broker-dealers for identical or comparable securities. The pricing services use market quotations for securities that have quoted prices in active markets.

When quoted market prices are unavailable, the pricing service prepares estimates of fair value measurements with its proprietary pricing applications, using observable market inputs such as yield curves, credit risks and spreads, measures of volatility, and expected cash flows including prepayment speeds.

The following describes the significant inputs generally used to determine the fair value of fixed maturities by asset class:

- U.S. government and agency securities consist of securities issued by the U.S. Treasury and mortgage passthrough agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. The significant inputs include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

- Non-U.S. government securities consist of bonds issued by non-U.S. governments and agencies along with supranational organizations. The significant inputs include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

- Corporate securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark yields, and industry and market indicators. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2. Private debt has been classified under Level 3 as the inputs used to determine the fair value of this are not considered to be observable.

- Municipal securities consist primarily of bonds issued by U.S.-domiciled state and municipal entities. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes and benchmark yields. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

- Asset-backed securities consist primarily of investment-grade bonds backed by pools of loans with a variety of underlying collateral. The significant inputs used to determine the fair value of these securities includes the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, expected cash flows including prepayment speeds, and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2. Student loans asset-backed securities have been classified under Level 3 as the inputs used to determine the fair value of these securities are not considered to be observable.

- Mortgage-backed securities include both agency and non-agency originated securities. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, expected cash flows including prepayment speeds, and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

2. Significant accounting policies (continued)

Equity securities

Equity securities include exchange traded funds, mutual funds, common stocks and preferred stocks. Exchange traded debt and equity funds, common stocks and preferred stocks are classified within Level 1 as the fair values are based on quoted market prices in active markets. Certain convertible bond and multi-asset funds with daily liquidity and redemption based on the net asset value of the fund are classified within Level 2. The policy for all equity securities classified under Level 3 has been described under alternative investments below.

Alternative Investments

Alternative Investments consist of non-traditional, not readily marketable investments, some of which may be structured as offshore limited partnerships, hedge funds, private equity, private equity funds, private debt funds, debt funds, commercial real estate funds, common trust funds and venture capital funds. The underlying investments of such funds, whether invested in stock or other securities, are generally not currently traded in a public market and typically are subject to restrictions on resale. Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical cost, appraisals, a review of the investees' financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment. The fair values of alternative investments have been estimated using the Net Asset Value ("NAV") of the funds reported by the management responsible for administering the funds, where possible. In the absence of such information the assets are valued based on management's review and judgement of such assets. Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material.

In May 2015, FASB issued an amendment to ASC 820, "Fair Value Measurements and Disclosures", for investments that use NAV as a practical expedient to measure fair value, removing the requirement to present such investments within the fair value hierarchy. Accordingly, all alternative investments measured at NAV have been excluded from the fair value hierarchy. This has been applied retrospectively to all years being reported.

Long term subordinated debt

Glacier Re:

Long term subordinated debt was issued by Glacier Re in 2005 (see Note 11). The Company classified its subordinated debt within Level 3 because similar debt trades infrequently and therefore there have been few observable inputs in terms of valuation benchmarks. Using judgement, the Company has therefore determined certain inputs in its valuation model which are not readily observable. Such inputs incorporate the counterparty risk of non-performance for Glacier Re's debt.

Accordingly, the fair value of the long-term subordinated debt reflects the risk of non-performance of Glacier Re, captured by incorporating Glacier Re's credit spread derived from the USD and Euro Composite yields to determine an appropriate discount rate which is applied to the nominal value of the debt at each measurement date. The discount rate is adjusted by an additional factor which reflects the implicit value, determined using judgement, of the value of Glacier Re's options for early repayment of the debt.

Alea Holdings US Company ("AHUSCO"):

AHUSCO issued $100 million of trust preferred securities ("TruPS") in December 2004 and an additional $20 million of TruPS in January 2005 which are classified within Level 3. The TruPS were issued by three Delaware trusts established by AHUSCO and provide for a preferred dividend at a rate of 3-month LIBOR plus 285 basis points. AGHBL gave a guarantee to the holders of the TruPS. The TruPS do not carry financial covenants or cross default covenants, have a fixed maturity of 30 years, and are callable. AHUSCO may optionally redeem the debentures and thereby retire the TruPS but the holders of the debentures may not call the debentures prior to their maturity dates.

2. Significant accounting policies (continued)

The fair value of the TruPS is calculated through an internal valuation model. Similar debt trades infrequently and therefore the Company has determined certain inputs in its valuation model which are not readily observable. Such inputs incorporate the counterparty risk of non-performance for AGHBL's debt. Accordingly, the fair value of the long-term subordinated debt reflects the risk of non-performance of the Company, captured by incorporating the Company's credit spread derived from the USD composite yields to determine an appropriate discount rate which is applied to the nominal value of the debt at each measurement date. The discount rate is further adjusted by an additional factor to reflect the assumption that the subdebt's credit risks are below BBB level. The Company classified this debt within Level 3.

Derivative instruments

Interest rate swaps are customized to the Company's risk management strategy. The Company estimates the fair value of these derivatives from significant observable inputs such as non-binding broker-dealer quotes and foreign exchange rates. Accordingly, the Company classified these derivatives within Level 2.

Investments in real estate

The Company invests in real estate to generate returns via rental income and capital appreciation. The income from the operating leases is recognized as rental income as per the terms of the leases.

The real estate acquired is recorded at cost less accumulated depreciation for the depreciable assets. The cost includes all acquisition costs directly identifiable with the purchase of the real estate. The Company splits the acquisition cost of each real estate asset between land and buildings based on management's judgement. The buildings comprise primarily of warehouses used to store goods. These buildings are depreciated over an estimated useful life of 40 years on a straight-line basis.

The Company will assess for impairment when circumstances indicate the carrying value of the property may not be recoverable. The review will be based on the estimate of future undiscounted cash flows excluding interest charges expected to result from the use and eventual disposal.

Property and equipment

Property and equipment, which consist of furniture, equipment, and leasehold improvements, are stated at cost less accumulated depreciation. Depreciation is computed using an accelerated method over the estimated useful lives of the related assets, ranging from three to seven years. Property and equipment are included in the other assets line item in the balance sheet.

Intangible assets

Intangible assets with indefinite useful lives are not amortized but are tested annually for impairment by a comparison to estimated realizable value. If the carrying amounts of intangible assets are greater than their fair values established during impairment testing, the carrying value is written-down to the fair value with a corresponding impairment loss recognized in the consolidated statements of operations.

Long term subordinated debt

CII issued Euro 23.8 million of floating rate unsecured subordinated notes in December 2016 that mature in January 2027 (see Note 11). Long term debt issued by the Company is carried at amortized cost.

Long term debt assumed through acquisitions is carried at estimated fair value.

2. Significant accounting policies (continued)

Foreign currency translation

The U.S. dollar is the functional currency of the Company and most of its subsidiaries. All foreign currency asset and liability amounts are translated into U.S. dollars at end-of-year exchange rates. Foreign currency income and expenses are translated at average exchange rates in effect during the year. Exchange gains and losses arising from the translation of foreign currency-denominated monetary assets and liabilities are included in the consolidated statements of operations. The effects of the currency translation adjustments for entities whose functional currency is not the U.S. dollar are included within foreign currency translation adjustments in the consolidated statements of comprehensive income.

Income taxes

Income taxes have been recognized in accordance with current standards, on those operations that are subject to income taxes. Deferred tax assets and liabilities result from net operating loss carryforwards and temporary differences between the carrying amounts of existing assets and liabilities recorded in the consolidated financial statements and their respective tax bases. A valuation allowance for a portion or all of deferred tax assets is recorded as a reduction to deferred tax assets if it is more likely than not that such portion or all of such deferred tax assets will not be realized.

Legal expenses

In the event of a dispute in the ordinary course of business, the Company expenses legal costs on an accrual basis. In the event of a specific litigation, when it is reasonably probable that the legal costs are going to be incurred, the Company accrues legal costs in line with the estimated incurred expenses.

Commutations

As the Company actively runs off its insurance and reinsurance subsidiaries it seeks to mitigate its exposures through early settlement of its obligations to policyholders or ceding companies by entering into commutations or other arrangements.

These negotiated commutation agreements eliminate the risk of adverse claim experience as they provide for full and final settlement of all current and future policy obligations with respect to the transaction to which they relate. Gains and losses on commutations are recorded as either a decrease or an increase in incurred claims.

Acquisitions

The Company accounts for acquisitions using the acquisition method of accounting, which requires that the acquirer recognize and measure the identifiable assets acquired and liabilities assumed at their acquisition-date fair values. The fair values of each of the acquired reinsurance assets and liabilities are derived from probability-weighted ranges of the associated projected cash flows, based on actuarially prepared information and management's run-off strategy.

The key assumptions used in the fair valuation of acquired companies are the projected payout, timing and amount of claims liabilities, the related projected timing and amount of reinsurance collections, a risk-free discount rate, which is applied to determine the present value of the future cash flows, the estimated unallocated loss adjustment expenses to be incurred over the life of the run-off, the impact of any accelerated run-off strategy, and an appropriate risk margin.

The difference between the original carrying value of assets acquired and liabilities assumed at the date of acquisition and their fair value is recorded as an intangible asset or liability, which we refer to as the fair value adjustment. The fair value adjustment is amortized over the estimated payout period of outstanding losses and loss expenses acquired. To the extent the actual payout experience after the acquisition is materially faster or slower than anticipated at the time of the acquisition or there is an adjustment to the estimated ultimate loss reserves, then the amortization of the fair value adjustment is adjusted to reflect such changes.

Any excess between the fair value of net assets acquired and the purchase price is recorded as a gain on bargain purchase in the consolidated statements of operations.

2. Significant accounting policies (continued)

Share-based compensation

The Company has issued Class C ordinary shares to management as share-based compensation. The fair value of the compensation cost is measured at the grant date and is expensed over the service period of the award.

New accounting standards adopted in 2016

Accounting Standards Update ("ASU") 2016-18, Statement of Cash Flows – Restricted Cash

In November 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-18, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We have early adopted this guidance and applied it retrospectively to all years being reported.

ASU 2015-16, Business Combinations, Simplifying the Accounting for Measurement-Period Adjustment

In September 2015, the FASB issued ASU 2015-16, which eliminates the requirement for an acquirer to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. Under the new guidance, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The adoption of this guidance had no impact on our consolidated financial statements and disclosures.

ASU 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value or its Equivalent

In May 2015, the FASB issued ASU 2015-07, which eliminates the requirement to categorize investments in the fair value hierarchy if their fair value is measured at the NAV per share (or its equivalent) using the practical expedient in the FASB's fair value measurement guidance. Instead, an entity is required to include those investments as a reconciling line item so that the total fair value amount of investments in the disclosure is consistent with the amount on the balance sheet. In addition, the scope of current disclosure requirements for investments eligible to be measured at NAV is limited to investments for which the practical expedient is applied. We have early adopted this guidance and applied it retrospectively to all years being reported. While the adoption of this guidance impacted our disclosures, it did not have an impact on our consolidated financial statements

ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, which changes the presentation of debt issuance costs in financial statements. Under the guidance, an entity would present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. The adoption of this guidance did not have an impact on our consolidated financial statements and disclosures.

Recently issued accounting standards not yet adopted

ASU 2015-09, Disclosures about Short-Duration Contracts

In May 2015, the FASB issued ASU 2015-09, which makes targeted improvements to disclosure requirements for insurance companies that issue short-duration contracts. The ASU requires enhanced disclosures, on an annual basis, related to the reserve for losses and loss expenses which include (1) net incurred and paid claims development information by accident year, (2) a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the reserve for losses and LAE, (3) for each accident year presented of incurred claims development, information about claim frequency (unless impracticable), and the amounts of IBNR liabilities, including expected development on reported claims, included in the reserve for losses and LAE, (4) a description of, and any significant changes to the methods for determining both IBNR and expected development on reported claims, and (5) for each accident year presented of incurred claims

2. Significant accounting policies (continued)

development, quantitative information about claims frequency, as well as a description of methodologies used for determining claim frequency information. The ASU is effective for annual periods beginning after December 15, 2016. The adoption of this guidance is expected to impact our disclosures, but it is not expected to have an impact on our consolidated financial statements.

ASU 2017-01, Clarifying the Definition of a Business

In January 2017, the FASB issued ASU 2017-01 to clarify the definition of a business in Accounting Standards Codification ("ASC") 805 Business Combinations with the intent of making the application of the guidance more consistent and cost-efficient. This clarification may result in fewer acquired sets of assets and liabilities being identified as businesses. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

3. Acquisitions

The Company accounts for acquisitions using the acquisition method of accounting, which requires that the acquirer recognize and measure the identifiable assets acquired and liabilities assumed at their acquisition-date fair values.

AGF Insurance Limited

On October 10, 2016, the Company, through its wholly-owned subsidiary, Catalina Holdings UK Limited ("CHUK"), completed the acquisition of AGF from AGF Holdings (UK) Limited, a subsidiary of Allianz SE. AGF is a UK regulated insurance company incorporated in 1960. It wrote predominantly direct Employer's and Public Liability insurance in the UK. AGF ceased to write new business and went into run-off in 1999.

The purchase price of £80.8 million ($99.7 million), and acquisition costs of $0.9 million were financed from an £83.0 million ($103.2 million) drawdown on the Revolving Credit Facility.

The acquisition resulted in no pre-tax gain or loss in 2016.

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition which is converted at the USD exchange rate of $1.234:

Assets		
Investments, at fair value	$	231,822
Cash and cash equivalents		75,208
Outstanding losses and loss expenses recoverable		19,479
Insurance and reinsurance balances receivable		1,486
Other assets		1,637
Total assets	$	329,632
Liabilities		
Outstanding losses and loss expenses	$	227,594
Insurance and reinsurance balances payable		934
Accounts payable and other liabilities		1,369
Total liabilities		229,897
Net assets acquired at fair value	$	99,735

3. Acquisitions (continued)

PXRE Reinsurance Company

On May 27, 2015, the Company, through its wholly-owned subsidiary, AHUSCO, completed the acquisition of PXRE. PXRE wrote reinsurance business, primarily commercial and catastrophe focused property and marine and aerospace risks plus some casualty and finite business. PXRE ceased to write new business in 2006.

The purchase price of $9.9 million, and acquisition costs were financed from cash on hand.

The acquisition resulted in a gain of $3.6 million included within gain on acquisition in the consolidated statement of operations. Management believes that the reason for the transaction gain related mainly to the seller's requirement to generate cash in a short timeframe.

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition:

Assets		
Investments, at fair value	$	18,238
Cash and cash equivalents		4,657
Outstanding losses and loss expenses recoverable		2,018
Insurance and reinsurance balances receivable		1,693
Other assets		520
Total assets	$	27,126
Liabilities		
Outstanding losses and loss expenses	$	13,069
Insurance and reinsurance balances payable		567
Accounts payable and other liabilities		5
Total liabilities		13,641
Net assets acquired at fair value	$	13,485

Quinn Insurance Limited ("QIL")

On June 30, 2015, the Company, through its wholly-owned subsidiary, CII, completed a portfolio transfer of £237 million of legacy insurance liabilities from QIL (under administration). The insurance liabilities are predominantly UK and Northern Ireland motor insurance and professional indemnity (UK solicitors) with some employer's liability and public liability business. The business has been in run-off since December 31, 2012. The portfolio transfer has been accounted for as a business combination as the Company has acquired control of the business of QIL. As a result of the portfolio transfer, the Company acquired all assets and liabilities of QIL. The business combination has been accounted for using the acquisition method of accounting.

As part of the transfer process the Company injected £103 million of capital into CII. The capital injection of £103 million was financed through a £60 million drawdown on the Revolving Credit Facility and the issuance of $63 million of preference shares.

The acquisition resulted in no pre-tax gain or loss in 2015.

3. Acquisitions (continued)

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition which is converted at the USD exchange rate of $1.5726:

Assets		
Cash and cash equivalents	$	373,025
Outstanding losses and loss expenses recoverable		6,369
Total assets	$	379,394
Liabilities		
Outstanding losses and loss expenses	$	378,358
Unearned premiums		1,036
Total liabilities		379,394
Net assets acquired at fair value	$	-

Papiro AG

On October 8, 2015, the Company, through its wholly-owned subsidiary, Glacier Re, completed the acquisition of Papiro. Papiro insured its former owner's environmental, transport and key man risks. The purchase price of Euro 53.0 million was financed from a loan note from the vendor and the Company's effective purchase price was therefore nil.

The acquisition resulted in a gain of $3.7 million included within gain on acquisition in the consolidated statement of operations. Management believes that the reason for the transaction gain related mainly to the transaction allowing the vendor to share the benefit of the tax savings arising from using Glacier Re's brought forward tax losses.

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition:

Assets		
Cash and cash equivalents	$	4,039
Total assets	$	4,039
Liabilities and Shareholder's Equity		
Accounts payable and other	$	329
Total liabilities		329
Net assets acquired at fair value	$	3,710

Allianz Suisse Ruckversicherungs-Gesselschaft AG

On December 11, 2015, the Company, through its wholly-owned subsidiary, Glacier Re, completed the acquisition of Allianz Suisse Re. Allianz Suisse Re has never written live business but received approximately CHF 400 million of run-off liabilities via a portfolio transfer from Allianz Suisse Versicherungs AG on January 1, 2008. At acquisition, Allianz Suisse Re had $29.1 million of loss reserves remaining including asbestos, health, non-proportional liability and proportional liability exposure.

3. Acquisitions (continued)

The purchase price of $55.7 million, and acquisition costs were financed from the issuance of $23 million of preference shares, the drawdown of $9 million from Catalina's Revolving Credit Facility and available cash on hand.

The acquisition resulted in no pre-tax gain or loss during 2015.

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition:

Assets		
Investments, at fair value	$	59,199
Cash and cash equivalents		17,057
Accrued investment income		747
Funds held by cedants and claims administrators		8,440
Insurance and reinsurance balances receivable		940
Other assets		346
Total assets	$	86,729
Liabilities		
Outstanding losses and loss expenses	$	29,145
Insurance and reinsurance balances payable		1,695
Accounts payable and other liabilities		196
Total liabilities		31,036
Net assets acquired at fair value	$	55,693

4. Significant new business

NationsBuilders Insurance Company ("NBIC")

On February 1, 2015, Catalina through its wholly owned subsidiary CatGen entered into a Reinsurance Novation Agreement with NBIC. This agreement resulted in CatGen replacing NBIC as reinsurer on 16 Quota-Share contracts and a Loss Portfolio Transfer. NBIC reinsures residential construction policies written over the period 2002 to 2010 issued by the Risk Retention Group, ProBuilders Specialty Insurance Company ("PBSIC"). PBSIC is an association captive insurance company domiciled in the District of Columbia. PBSIC provided construction liability coverages for contractors, subcontractors and artisans associated with the residential construction industry, mainly within the western United States. PBSIC ceded various portions of its business via quota share to NBIC. Following the downturn in the residential construction market, PBSIC went into run-off in 2009. Consequently, NBIC assumed the remaining net assets via a Loss Portfolio Transfer as at December 31, 2009. NBIC is a fully owned subsidiary of NationsBuilders Insurance Services, Inc. ("NBIS"), a privately owned specialty property and casualty insurance coverage and service provider. Catalina also took over the entire management of PBSIC from NBIS including management of all its claims.

As of February 1, 2015, CatGen assumed gross reserves of $63.6 million for a total consideration of $65.8 million, net of Federal Excise Tax of $0.6 million.

5. Investments

The fair value of fixed maturity, equity and other investments as of December 31, 2016 and 2015 are as follows:

	2016	2015
Fixed maturities:		
Corporate	$ 483,633	$ 531,744
Asset-backed securities	195,934	250,158
Mortgage-backed securities	123,507	117,026
U.S. government and agency	53,998	78,807
Non-U.S. government	64,839	104,171
Municipals	37,403	81,689
Total fixed maturities	959,314	1,163,595
Equities:		
Preferred and common stocks	54,131	73,594
Debt funds	-	67,888
Equity funds	5,384	957
Fund of funds	22,807	3,033
Total equities	82,322	145,472
Other investments:		
Interest rate swap	-	(185)
Hedge funds	134,754	104,052
Private equity	24,155	11,892
Private debt	72,597	50,277
Corporate debt	4,154	-
Debt funds	4,214	2,602
Commecial real estate funds	20,938	23,585
Mortgage loans	27,369	24,670
Total other investments	288,181	216,893
Total investments	$ 1,329,817	$ 1,525,960

Contractual maturities of the Company's fixed maturities as of December 31, 2016 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Fixed maturities:	
Due in one year or less	$ 91,984
Due after one year through five years	271,132
Due after five years through 10 years	215,213
Due after 10 years	61,544
Total fixed maturities	639,873
Mortgage and asset-backed securities	319,441
Total	$ 959,314

The components of net investment income for the years ended December 31, 2016 and 2015 were derived from the following sources:

	2016	2015
Fixed maturities, including mortgage and asset-backed securities	$ 34,992	$ 36,709
Equities	5,837	3,525
Other investments	1,102	1,312
Cash and cash equivalents	2,967	262
Gross investment income	44,898	41,808
Investment expenses	(5,860)	(4,376)
Net investment income	$ 39,038	$ 37,432

5. Investments (continued)

Net gains on investments within the consolidated statements of operations for the years ended December 31, 2016 and 2015 consisted of the following:

	2016	2015
Net realized gains on investments	$ 29,945	$ 5,813
Net change in fair market value of investments	37,137	(16,268)
Net change in fair market value of derivative instruments	(562)	8
Net gains (losses) on investments	$ 66,520	$ (10,447)

6. Fair Value Measurements

FASB amended its existing guidance ASC 820, "Fair Value Measurement and Disclosure" for investments where fair value is measured using NAV as a practical expedient, by removing the presentation of these investments within the fair value hierarchy. Although this is effective for fiscal periods starting December 15, 2016 and after, the Company decided to early-adopt. The amendment is applicable retrospectively to all financial years presented.

At December 31, 2016 and 2015, the Company's financial instruments measured at fair value were categorized between Levels 1, 2 and 3 with the exception of alternative investments that use NAV as a practical expedient. Alternative investments measured at NAV have been disclosed as a separate line item:

At December 31, 2016	Level 1	Level 2	Level 3	NAV	Total Fair Value
Assets					
Fixed maturities:					
Corporate	$ -	$ 483,633	$ -	$ -	$ 483,633
Asset-backed securities	-	191,841	4,093	-	195,934
Mortgage-backed securities	-	123,507	-	-	123,507
U.S. government and agency	-	53,998	-	-	53,998
Non U.S. government	-	64,839	-	-	64,839
Municipals	-	37,403	-	-	37,403
Total fixed maturities	-	955,221	4,093	-	959,314
Equity securities:					
Preferred and common stocks	51,403	2,728	-	-	54,131
Equity funds	5,384	-	-	-	5,384
Fund of funds	22,807	-	-	-	22,807
Total equity securities	79,594	2,728	-	-	82,322
Other investments:					
Hedge funds	8,339	99,098	-	27,317	134,754
Private equity	-	-	-	24,155	24,155
Private debt	-	-	72,597	-	72,597
Corporate debt	-	-	-	4,154	4,154
Debt funds	-	-	-	4,214	4,214
Commercial real estate debt funds	-	-	-	20,938	20,938
Mortgage loans	-	-	2,512	24,857	27,369
Total other investments	8,339	99,098	75,109	105,635	288,181
Total assets	$ 87,933	$ 1,057,047	$ 79,202	$ 105,635	$ 1,329,817
Liabilities					
Long term subordinated debt	$ -	$ -	$ 170,795		$ 170,795
Total liabilites	$ -	$ -	$ 170,795		$ 170,795

6. Fair Value Measurements (continued)

At December 31, 2015	Level 1	Level 2	Level 3	NAV	Total Fair Value
Assets					
Fixed maturities:					
Corporate	$ -	$ 531,744	$ -	$ -	$ 531,744
Asset-backed securities	-	246,249	3,909	-	250,158
Mortgage-backed securities	-	117,026	-	-	117,026
U.S. government and agency	-	78,807	-	-	78,807
Non U.S. government	-	104,171	-	-	104,171
Municipals	-	81,689	-	-	81,689
Total fixed maturities	-	1,159,686	3,909	-	1,163,595
Equity securities:					
Preferred and common stocks	71,596	1,998	-	-	73,594
Debt funds	43,384	24,504	-	-	67,888
Equity funds	957	-	-	-	957
Fund of funds	3,033	-	-	-	3,033
Total equity securities	118,970	26,502	-	-	145,472
Other investments:					
Interest rate swap	-	(185)	-	-	(185)
Hedge funds	17,395	63,737	-	22,920	104,052
Private equity	-	-	-	11,892	11,892
Private debt	-	-	50,277	-	50,277
Debt funds	-	-	-	2,602	2,602
Commecial real estate debt funds	-	-	-	23,585	23,585
Mortgage loans	-	-	2,512	22,158	24,670
Total other investments	17,395	63,552	52,789	83,157	216,893
Total assets	$ 136,365	$ 1,249,740	$ 56,698	$ 83,157	$ 1,525,960
Liabilities					
Long term subordinated debt	$ -	$ -	$ 170,725		$ 170,725
Total liabilites	$ -	$ -	$ 170,725		$ 170,725

The following table presents a reconciliation of the beginning and ending balances for all financial instruments measured at fair value on a recurring basis using the Level 3 inputs for the years ended December 31, 2016 and 2015:

	Fixed maturities and Other investments	Long term subordinated debt
Balance at beginning of year, January 1, 2015	$ 137,851	$ (182,125)
Transferred to other investments, at NAV	(119,652)	-
Purchases	38,499	-
Net gains(*)	-	8,271
Foreign exchange gains	-	3,129
Balance at end of year, December 31, 2015	$ 56,698	$ (170,725)
Purchases	22,320	-
Net gains (losses) (*)	184	(923)
Foreign exchange gains	-	853
Balance at end of year, December 31, 2016	$ 79,202	$ (170,795)
(*) Level 3 gains (losses) included in earnings attributable to the change in unrealized gains and losses relating to financial instruments held at the reporting date	$ 184	$ (923)

(*) Net gains (losses) on long term subordinated debt are included within change in subordinated debt fair value in the consolidated statements of operations.

6. Fair Value Measurements (continued)

Effective January 1, 2015, $119.7 million of Level 3 investments in the prior year were reclassified as other investments at NAV and removed from the fair value hierarchy.

The carrying amount of financial assets and liabilities presented on the consolidated balance sheet as at December 31, 2016 and 2015 approximate their fair values. Transfers into and out of level 3 are recorded as of the end of the reporting period consistent with the date of determination of fair value.

7. Derivative instruments

The following table summarizes information on the location and amounts of derivative fair values on the consolidated balance sheets:

	Nominal amount		Balance Sheet Location	Fair Value	
At December 31, 2016					
Futures	$	-	Other Liabilities	$	(553)
Interest rate swap		125,000	Other Assets		676
Total	$	125,000		$	123
At December 31, 2015					
Interest rate swap	$	2,125	Investments at fair value	$	(185)
Interest rate swap		125,000	Other Assets		489
Total	$	127,125		$	304

During 2016, the Company utilized exchange traded U.S. Treasury notes and UK GILT futures contracts to manage portfolio duration of its fixed maturity investments. The fair value of $0.6 million is included in accounts payable, accrued expenses and other liabilities in the consolidated balance sheet as at December 31, 2016.

On July 26, 2010, the Company entered into an interest rate swap to exchange fixed interest received on a Non U.S. government bond for floating interest rate. The interest rate swap was due to mature on July 20, 2020. The swap was terminated on May 17, 2016. The Company utilized this derivative instrument to manage investment risk on certain fixed maturity securities. This derivative was not designated as a hedging instrument for financial reporting purposes.

The following table provides the total gains recorded in earnings for the years ended December 31, 2016 and 2015:

	Gain		Statement of operations Location
Year ending December 31, 2016			
Futures	$	6,996	Net investment income
Total	$	6,996	
Year ending December 31, 2015			
Interest rate swap	$	8	Net investment income
Total	$	8	

On August 24, 2015, the Company entered into a $125 million interest rate swap with ING Bank N.V. to exchange floating rate interest paid on the Revolving Credit Facility for fixed interest of 1.38%. This interest rate swap matures on September 12, 2019. The Company utilizes this derivative instrument to manage the interest rate exposure associated with the Revolving Credit Facility. This has been designated as a hedging instrument for financial reporting purposes. The fair value of $0.7 million is included in accumulated other comprehensive income as at December 31, 2016.

7. Derivative instruments (continued)

During 2016, the Company entered into foreign exchange forward contracts to mitigate the foreign exchange rate risk of fluctuation in the U.S. Dollar against certain foreign currencies. These derivatives have not been designated as hedging investments. The fair value of the derivative instruments as at December 31, 2016 of $0.7 million is included in accounts payable, accrued expenses and other liabilities in the consolidated balance sheets. The gain on derivative instruments of $3.0 million for the year ended December 31, 2016 is included in net gains (losses) on investments in the consolidated statements of operations.

Foreign Exchange Forward Contracts		Contract Amount		Settlement Amount		Fair Value as at December 31, 2016		Net Foreign Exchange Gains (Losses)
U.S. dollars	$	31,521	£	25,299	$	(312)	$	(312)
Euro	€	24,767	£	20,726		(249)		(249)
British pound	£	33,758	$	41,479		(107)		3,392
Canadian dollars	C$	11,400	$	8,429		(69)		138
Total					**$**	**(737)**	**$**	**2,969**

8. Investments in real estate

The Company acquired four properties during 2016 and three properties during 2015 through its subsidiaries, Oxenwood Catalina Ltd. and Oxenwood Catalina II Ltd., both being Guernsey incorporated companies, to generate returns via rental income and capital appreciation. On May 13, 2016, a property was purchased in Runcorn, United Kingdom at a cost of $29.9 million including acquisition related expenses of $2.1 million and tenant incentive payment of $2.2 million. On July 5, 2016, a property was purchased in Stoke-on-Trent, United Kingdom at a cost of $17.4 million including $1.1 million of acquisition related expenses. On August 26, 2016, a property was purchased in Sheffield, United Kingdom at a cost of $20.4 million including acquisition related expenses of $0.9 million. On November 23, 2016, a property was purchased in Burton upon Trent, United Kingdom at a cost of $15.0 million including acquisition related expenses of $1.1 million.

On February 13, 2015, a property was purchased in Biggleswade, United Kingdom at a cost of $22.1 million including acquisition related expenses of $1.1 million. On September 25, 2015, a property was purchased in Immingham, United Kingdom, at a cost of $22.2 million including acquisition related expenses of $0.7 million. On December 21, 2015, a property was purchased in Newport Pagnell, United Kingdom at a cost of $30.2 million including acquisition related expenses of $1.4 million.

On November 28, 2016, a property in Runcorn, United Kingdom, acquired in 2014, was sold for $35.7 million. The carrying value of the property at the date of sale was $30.9 million. The gain on sale of $4.8 million is included in gain on sale of real estate and licenses in the consolidated statement of operations.

On March 16, 2017, the property in Immingham, United Kingdom was sold for $28.5 million. The carrying value of the property at the date of sale was $26.3 million. The gain on sale is $2.2 million.

The cost of each property is split between land and buildings. The cost of the buildings is depreciated over a period of 40 years on a straight-line basis. Income from these real estate investments is recognized as per the terms of the lease agreements.

		2016		2015
Land, at cost	$	81,992	$	67,743
Buildings, at cost		81,992		67,743
Accumulated depreciation		(1,868)		(1,034)
Buildings, net of accumulated depreciation		80,124		66,709
Total	$	162,116	$	134,452

The total estimated market value of the real estate properties as at December 31, 2016 is $179.6 million.

9. Intangible assets

On the acquisition of the Quanta Companies, the Company acquired 43 insurance licenses through its subsidiary Quanta Indemnity Company to operate in various states across the United States. On December 8, 2016, these licenses were sold for $5.0 million realizing a gain of $1.0 million over their book value. The gain is included under "gain on sale of real estate and licenses" in the consolidated statement of operations.

On the acquisition of AGHBL, the Company acquired U.S. insurance licenses on all 50 states plus a Washington D.C. admitted insurance license for ANAIC. These licenses were valued at $6.4 million as of the date of acquisition.

Through the acquisition of the SPARTA Companies, AHUSCO has acquired licenses to operate in various states. The Company determined the value of the SPARTA Companies licenses at $9.0 million as of the date of acquisition. On December 4, 2015, SIC sold Sparta Specialty Insurance Company. SIC received $2.9 million of cash, net of costs, for licenses with a book value of $2.7 million.

10. Outstanding losses and loss expenses

Outstanding losses and loss expenses as of December 31, 2016 and 2015 are as follows:

		2016		2015
Case reserves	$	652,925	$	680,136
Incurred but not reported		437,737		589,741
Structured settlements		273,151		258,119
Life reserves		29,508		33,494
Unamortized fair value adjustment		(15,310)		(20,668)
Deferred income		14,236		19,525
	$	1,392,247	$	1,560,347

Outstanding losses and loss expenses recoverable as of December 31, 2016 and 2015 are as follows:

		2016		2015
Case reserves	$	104,112	$	104,988
Incurred but not reported		62,252		123,984
Structured settlements		273,151		258,119
Unamortized fair value adjustment		(19,831)		(16,402)
	$	419,684	$	470,689

The fair value adjustments represent the unamortized difference between the carrying value of reserves of acquired companies at the date of acquisition and the fair value of the reserves. The fair value of the outstanding losses and loss expenses was based on the estimated timing of reserve settlements discounted at a risk free rate and a risk margin determined by management. The fair value of the outstanding losses and loss expenses recoverable was based on the estimated timing of reserve settlements discounted at a risk adjusted rate determined by management reflecting credit risk and duration. The fair value adjustments are amortized over the estimated payout period using the constant yield method.

The deferred income relates to the Reinsurance Novation Agreement of CatGen with NBIC in 2015, 100% Quota-Share Reinsurance Agreement assumed by CatGen from Glencoe Insurance Ltd., a subsidiary of Renaissance Re Holdings Ltd in 2012 and the loss portfolio transfer assumed by Glacier Re from the Delta Lloyd Group in 2014.

CatGen, through its Canadian branch, has assumed ownership of certain structured settlements and has purchased annuities from life insurance companies to provide fixed and recurring payments to the claimants. The gross liability for the structured settlements is fully recoverable from the life insurance companies resulting in no net liability to the Company. These annuities are fully funded and were purchased from Canadian life insurance companies with a Standard and Poor's Financial Strength Rating of A+ and higher. In the event of the life insurance companies being unable to meet their obligations under the structured settlements to the Company, 85% of the total exposure is recoverable from the Compensation Corporation of Canada leaving a net credit risk exposure of less than $41 million.

10. Outstanding losses and loss expenses (continued)

The following table represents the activity in outstanding losses and loss expenses for the years ended December 31, 2016 and 2015:

		2016		2015
Gross outstanding losses and loss expenses, beginning of year	$	1,560,347	$	1,556,525
Less reinsurance recoverable, beginning of year		(470,689)		(553,060)
Net losses and loss expenses, beginning of year		1,089,658		1,003,465
Net losses and loss expenses acquired		208,117		456,283
Net incurred losses related to:				
Current year		2,691		7,275
Prior years		(47,550)		(67,800)
		(44,859)		(60,525)
Net paid losses related to:				
Current year		(995)		(1,825)
Prior years		(231,138)		(298,747)
		(232,133)		(300,572)
Foreign exchange gains		(48,220)		(8,993)
Net losses and loss expenses, end of year		972,563		1,089,658
Reinsurance recoverable, end of year		419,684		470,689
Gross outstanding losses and loss expenses, end of year	$	1,392,247	$	1,560,347

During the year ended December 31, 2016, the Company experienced net favorable loss development of $47.6 million primarily due to a $62.4 million reduction in the estimates of ultimate incurred losses in the Company's liabilities that were acquired through the portfolio transfer from QIL. The Company also had favorable development of $14.7 million on the marine reinsurance run-off business, $8.1 million on the European non-life book and favorable development in several other lines of business. The favorable loss development was partially offset by $58.6 million of adverse development on the Company's auto liability and general liability lines of business.

During the year ended December 31, 2015, the Company experienced net favorable loss development of $67.8 million primarily due to a reduction in the estimates of ultimate incurred losses in the Company's UK motor insurance run-off business and the marine reinsurance run-off business, offset by adverse development of $19 million at SIC.

Net losses incurred of $44.9 million (2015: $(60.5) million) are net of $32.3 million (2015: $(21.1) million) of loss and loss expenses recovered from reinsurers. Included within net losses incurred is a positive effect from the net amortization of fair value adjustments of $0.8 million (2015: $5.6 million).

Management believes that the assumptions used represent a realistic and appropriate basis for estimating the outstanding losses and loss expenses as of December 31, 2016 and 2015. However, these assumptions are subject to change and the Company regularly reviews and adjusts its reserve estimates and reserving methodologies taking into account all currently known information and updated assumptions related to unknown information.

11. Loans payable

Catalina Revolving Credit Facility

On August 12, 2014, Catalina entered into a $225 million Revolving Credit Facility Agreement with Royal Bank of Scotland plc ("RBS") and other banks. The agreement was most recently amended on September 6, 2016 to increase the amount to $400 million. The entire facility is available to be utilized by Catalina, up to $80 million of the facility is available to be utilized by AHUSCO, and up to £130 million of the facility is available to be utilized by CHUK. The interest rate is based on LIBOR plus the applicable margin percentage based on gearing. Total outstanding loan as of December 31, 2016 was $200.5 million. During the year, the interest rates were between 3.60% to 4.07% which included a margin of between 2.75% and 3.25%. As at December 31, 2016, the Catalina loans were comprised of a loan of $31 million and a loan of

11. Loans payable (continued)

£85 million ($104.9 million).

Catalina	$ 135,856
AHUSCO	40,000
CHUK	24,672
Balance at December 31, 2016	$ 200,528

Catalina's Revolving Credit Facility Agreement has financial covenants in relation to maximum gearing ratios and minimum aggregate group regulatory capital. At December 31, 2016 and 2015, Catalina was in compliance with all covenants under the Revolving Credit Facility Agreement.

On March 16, 2017, AHUSCO repaid $20 million of the outstanding loan.

Oxenwood Loan Facilities

The Company's Oxenwood subsidiaries entered into Term Loan Facility Agreements with Royal Bank of Scotland ("RBS") and Wells Fargo Bank ("Wells Fargo") in order to partially fund its purchase of real estate investments. The loans are secured by a first ranking legal charge over the properties. The outstanding balance of these loans as of December 31, 2016 and 2015 are as follows:

Entity	Bank	Interest Rate	Maturity Date	December 31, 2016
OXW Catalina (Logistics) Limited	RBS	3M LIBOR plus 1.5% - 1.6% margin	May 10, 2018	£ 14,895
OXW Catalina (Immingham) Limited	RBS	3M LIBOR plus 1.6% margin	May 10, 2018	10,375
OXW Catalina (Logistics III) Limited	RBS	3M LIBOR plus 1.6% margin	May 10, 2018	6,250
OXW Catalina (NPP) Limited	Wells Fargo	3M LIBOR plus 1.75% margin	June 18, 2018	12,000
OXW Catalina (Logistics II) Limited	Wells Fargo	3M LIBOR plus 1.75% margin	June 18, 2018	10,450
OXW Catalina (Logistics IV) Limited	Wells Fargo	3M LIBOR plus 1.75% margin	June 18, 2018	7,300
OXW Catalina (Logistics V) Limited	Wells Fargo	3M LIBOR plus 1.75% margin	June 18, 2018	5,610
				£ 66,880

Entity	Bank	Interest Rate	Maturity Date	December 31, 2015
OXW Catalina (Logistics) Limited	RBS	3M LIBOR plus 1.6% margin	May 10, 2018	£ 24,885
OXW Catalina (Immingham) Limited	RBS	3M LIBOR plus 1.6% margin	May 10, 2018	7,573
OXW Catalina (NPP) Limited	Wells Fargo	3M LIBOR plus 1.7% margin	June 18, 2018	9,675
				£ 42,133

On November 25, 2016, OXW Catalina (Logistics) Limited repaid £10.5 million of the outstanding loans. On March 16, 2017, OXW Catalina (Immingham) Limited repaid in full its outstanding loan of £10.4m.

Each of Oxenwood's Term Loan Facility Agreement has financial covenants in relation to net rental income interest cover and loan to value. During 2016 and 2015, each of Oxenwood subsidiaries was in compliance with all covenants under their respective Term Loan Facility Agreements.

Long term subordinated debt

Prior to the acquisition by Catalina, Glacier Re issued a total of $68.0 million and Euro 26.0 million of floating rate unsecured subordinated notes to support its underwriting activities. The notes are due in 2035 and include options for Glacier Re for partial or full early repayment, respectively, and to defer interest for up to 20 consecutive quarters but not beyond the maturity date of the respective notes. The notes rank pari passu without any preference among themselves and do not contain any covenants concerning financial ratios or specified levels of net worth or liquidity.

11. Loans payable (continued)

Interest on the subordinated debt is based on LIBOR or EURIBOR plus a margin between 3.25% and 3.70%. Interest expense in connection with these notes was $3.8 million for the year ended December 31, 2016 (2015: $3.6 million) and is included within interest expense in the consolidated statements of operations.

Prior to acquisition by Catalina, AHUSCO issued a total of $120 million of TruPS. The TruPS were issued by three Delaware trusts established by AHUSCO and provide for a preferred dividend at a rate of 3-month LIBOR plus margin of 2.85%. These securities allow for the postponement of preferred dividends under certain circumstances for up to five years. The TruPS carry no financial covenants or cross default covenants, have a fixed maturity in 2034 / 2035 and are callable. The holders of the TruPS may not call the securities prior to their maturity dates. Interest expense on the TruPS in 2016 was $4.2 million and in 2015 was $3.8 million and is included within interest expense in the consolidated statement of operations.

On December 14, 2016, CII issued Euro 23.8 million of floating rate unsecured subordinated notes to increase its Tier 2 own funds regulatory capital in accordance with the provisions of Solvency II. The notes are due on January 5, 2027. The notes rank subordinated to all direct, unconditional, secured or unsecured and unsubordinated obligations, pari passu without any preference among themselves, and in priority to holders of any undated subordinated obligations. Interest on the subordinated notes is based on EURIBOR plus a margin of 7.2%. Interest expense on the notes was $0.1 million for the year ended December 31, 2016 and is included within interest expense in the consolidated statement of operations.

Debt facilities repaid in 2015

Catalina previously had term debt facilities at Catalina Bravo Ltd., Catalina Charlie Ltd. and Catalina Echo Ltd. During the year ended December 31, 2015 repayments of $23.1 million, $9.0 million and $50.0 million were made, respectively, in full satisfaction of the outstanding balances.

During 2015, Catalina was in compliance with all covenants under these facilities.

Interest expense in connection with the Company's debt facilities and long term subordinated debt was $23.1 million for the year ended December 31, 2016 (2015: $21.1 million) and is included within interest expense in the consolidated statements of operations.

12. Concentrations, commitments and contingencies

a) Concentrations of credit risk

As of December 31, 2016 and 2015, substantially all of the Company's cash and cash equivalents, and investments were held by eight custodians. Management monitors the credit ratings of these custodians and believes them to be of high credit quality. The Company's investment portfolio is primarily managed by external investment advisors in accordance with the Company's investment guidelines. The Company limits its exposure to any single issuer to 5% or less of the total portfolio's market value at the time of purchase, with the exception of U.S. government and agency securities. As of December 31, 2016, the largest single non-U.S. government and agency issuer accounted for 5.3% (2015: 3.4%) of the aggregate market value of the Company's invested assets. As of December 31, 2016, the Company's fixed maturity investments had a weighted average Standard & Poor's credit rating of A-.

The Company is exposed to credit risk on the $72.6 million of private debt held at December 31, 2016. The credit risk is mitigated as the Company holds security in excess of the value of the debt and is also the beneficiary of Non-Payment Insurance policies for 90% of the future receivables.

At December 31, 2016, the Company had a provision for uncollectible premiums receivable of $7.3 million (2015: $5.9 million).

12. Concentrations, commitments and contingencies (continued)

Reinsurance assets due from reinsurers include outstanding losses and loss expenses recoverable and deferred reinsurance premiums. The Company is subject to credit risk with respect to reinsurance ceded because the ceding of risk does not relieve the Company from its primary obligations to its policyholders. The concentration of credit risks relating to the structured settlements is explained in Note 10. Failure of the Company's reinsurers to honor their obligations could result in credit losses. As of December 31, 2016, the Company has recorded a provision for credit losses relating to outstanding losses and loss expenses recoverable of $16.9 million (2015: $24.4 million). During the year ended December 31, 2016, outstanding loss and loss expenses recoverable of $1.5 million were written off (2015: $0.5 million).

Two reinsurers each accounted for more than 20% of the outstanding losses and loss expenses recoverable balance as of December 31, 2016. These reinsurers were both rated AA- by S&P as at December 31, 2016. The Company's reinsurers had a weighted average credit rating of AA- as of December 31, 2016.

b) Restricted assets

The Company is required to maintain assets on deposit with various regulatory authorities to support its insurance and reinsurance operations. These requirements are generally promulgated by the regulations of the individual locations within which the Company operates. These funds on deposit are available to settle insurance and reinsurance liabilities.

The Company has also issued letters of credit ("LOC") under its credit agreements (for which cash and cash equivalents and investments are pledged as security) and in favor of certain ceding companies to collateralize its obligations under contracts of insurance and reinsurance (see Note 15).

The Company also utilizes trust funds where the trust funds are set up for the benefit of the ceding companies, and generally take the place of LOC requirements.

The fair values of these restricted assets by category at December 31, 2016 and 2015 are as follows:

	2016		2015	
	Cash and cash equivalents	Investments	Cash and cash equivalents	Investments
Deposits with U.S. insurance regulatory authorities	$ 209	$ 123,469	$ 3,480	$ 151,162
LOC pledged assets	39,263	75,125	30,245	116,674
Trust funds	81,316	334,359	50,254	332,361
Amounts held in trust funds related to deposit liabilities	306	-	578	-
Total	$ 121,094	$ 532,953	$ 84,557	$ 600,197

c) Fund commitments

As of December 31, 2016, the Company has unfunded capital commitments for fund investments of $78.1 million (2015: $16.8 million).

d) Lease commitments

The Company leases office space, and furniture and equipment under operating lease agreements. Rent expenses are being recognized on a straight-line basis over the respective lease terms. Future annual minimum payments under non-cancelable operating leases are as follows:

Year ending December 31,	
2017	$ 912
2018	794
2019	552
2020	295
2021	90
Total	$ 2,643

12. Concentrations, commitments and contingencies (continued)

Total rent expense under operating leases for the year ended December 31, 2016 was approximately $1.6 million (2015: $1.3 million).

e) Contingent liabilities

The Company and/or its subsidiaries, from time to time, are a party to litigation and/or arbitration that arises in the normal course of its business operations. The Company and/or its subsidiaries are also subject to other potential litigation, disputes and regulatory or governmental inquiries.

f) Guarantees

As at December 31, 2016, the Company had issued parental guarantees supporting subsidiaries' insurance obligations of $57.4 million (2015: $59.0 million).

13. Taxation

Under current Bermuda law, the Company and its Bermuda subsidiaries are not required to pay any taxes in Bermuda on income including realized capital gains. The Company has received an undertaking from the Minister of Finance of Bermuda that, in the event of any taxes being imposed, the Company will be exempt from taxation in Bermuda until March 2035.

The Company has operating subsidiaries in the United States, United Kingdom, Switzerland and Ireland and is subject to the relevant taxes in those jurisdictions. The Company is not subject to taxation other than as stated above. There can be no assurance that there will not be changes in applicable laws, regulations or treaties, which might require the Company to become subject to additional taxation.

During 2015, withholding tax of $42 thousand was paid by SIC. No U.S. Federal tax was paid during 2016 and 2015.

During 2016, non U.S. tax of $10.5 million was paid. During 2015, there was a non U.S. tax refund of $25 thousand.

Deferred income taxes reflect net operating loss carryforwards and the tax impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for income tax purposes. The significant components of the net deferred tax assets and liabilities as of December 31, 2016 and 2015 are as follows:

	2016	2015
Deferred tax assets:		
Investments	$ 1,281	$ 2,808
Outstanding losses and loss expenses	7,093	9,508
Unearned premiums	1,040	1,786
Net operating loss carry forwards	105,706	117,975
Capital loss carry forwards	2,053	3,220
Other	8,347	3,706
Total deferred tax assets	125,520	139,003
Valuation allowance	(104,337)	(112,565)
Total deferred tax assets net of valuation allowance	21,183	26,438
Deferred tax (liabilities):		
Investments	(6,790)	(5,194)
Goodwill	(2,227)	(2,898)
Outstanding losses and loss expenses	(1,033)	(6,312)
Subordinated debt	(1,445)	(1,341)
Underwriting results subject to timing differences for taxation	(3,453)	(1,303)
Other	(9,334)	(8,203)
Total deferred tax (liabilities)	(24,282)	(25,251)
Net deferred tax (liability) asset	$ (3,099)	$ 1,187

13. Taxation (continued)

The deferred tax asset and liability balances presented above represent the gross deferred tax asset and liability balances across each tax jurisdiction. The net deferred tax liability balance of $3.1 million (2015: $1.2 million deferred tax asset) includes deferred tax liability of $4.3 million within accounts payable, accrued expenses and other liabilities and $1.2 million deferred tax asset within other assets in the consolidated balance sheet as of December 31, 2016. The net deferred tax asset balance of $1.2 million included within other assets, includes netting of certain deferred tax assets and liabilities within a tax jurisdiction to the extent such netting is consistent with the regulations of the tax authorities in those jurisdictions.

As of December 31, 2016, the Company has a deferred tax asset of $105.7 million (2015: $118.0 million) generated by net operating loss carry forwards ("NOL") of approximately $376.6 million (2015: $492.8 million), of which $227.7 million (2015: $234.2 million) relates to NOL in the United States ("U.S. NOL"), $148.9 million (2015: $142.0 million) relates to NOL in the United Kingdom ("UK NOL"). As of December 31, 2015, NOL in Switzerland ("Swiss NOL") and NOL in Ireland ("Irish NOL"), amounted to $77.5 million and $39.1 million, respectively.

Income tax expense for the years ended December 31, 2016 and 2015 are as follows:

		2016		2015
Current income tax expense	$	11,097	$	5,690
Deferred income tax expense		4,286		1,839
Total income tax expense	$	15,383	$	7,529

In relation to the U.S. NOL and UK NOL, the Company believes that it is more likely than not that the deferred tax asset will not be recognized. Accordingly, the Company has recorded a full valuation allowance against these net deferred tax assets as of December 31, 2016 and 2015.

14. Shareholders' equity

a) Preference share capital

As at December 31, 2016, the Company has authorized preference share capital of 488,000,000 8% non-convertible, cumulative, redeemable, preference shares of $1.00 each.

During 2016, the Company issued 15,993,884 (2015: 97,667,349) preference shares at par. In accordance with the terms of the preference shares, a return of 8% per annum accrues on the subscription price.

The Company has the right to redeem all or any of the preference shares, at par, at any date. However, U.S. preference shareholders shall have the right to decline in whole or in part the redemption of the shares.

During the year ended December 31, 2016, dividends of $17.1 million (2015: $13.6 million) have been accrued and are included in preference shares. On June 30 each year the unpaid preference share dividends are converted to preference shares. For U.S. shareholders, $13.9 million has been accrued for the year ended December 31, 2016 (2015: $11.1 million) as an increase in the subscription value of preference shares held. This amount is included within additional paid-in capital in the consolidated statements of changes in shareholders' equity.

14. Shareholders' equity (continued)

b) Ordinary share capital

The authorized, issued and outstanding ordinary share capital of the Company, all with a par value of $1.00, consists of the following for the years ending December 31, 2016 and 2015:

	Class "A"	Class "B"	Class "C"
Authorized, issued and outstanding ordinary shares at January 1, 2015	6,692,308	600,000	400,000
Shares issued during the year ended December 31, 2015	-	-	18,100
Authorized, issued and outstanding ordinary shares at December 31, 2015	6,692,308	600,000	418,100
Shares repurchased during the year ended December 31, 2016	(648,252)	-	(60,000)
Shares authorized and issued during the year ended December 31, 2016	-	-	37,150
Issued and outstanding ordinary shares at December 31, 2016	6,044,056	600,000	395,250
Authorized ordinary shares at December 31, 2016	6,692,308	600,000	395,250

During the year ended December 31, 2016, 648,252 Class "A" Ordinary shares were repurchased for no consideration.

During the year ended December 31, 2016, 60,000 Class "C" Ordinary shares were repurchased for $1.1 million. During the year ended December 31, 2016, 37,150 (2015: 18,100) Class "C" Ordinary shares were issued to management for no consideration. The estimated value of the shares of $0.33 million (2015: $0.12 million) has been included in General and administrative expenses.

The holders of all classes of the Ordinary shares shall have one vote for every Ordinary share held.

Except with the consent or sanction of all of the Preference shareholders, no dividend shall be declared or paid by the Company on the Ordinary shares unless and until all arrears and accruals of the Preference shares have been satisfied.

During the year ended December 31, 2016, dividends of $2.8 million (2015: $2.6 million) were paid to the holders of the Class "B" and Class "C" shares. Class "B" and Class "C" shares are owned by management.

On November 28, 2016, the Company reduced its authorized share capital through the cancellation of 106,745 shares of par value $1 each. These shares were unissued and were not assigned to Class "A", "B" or "C". The Company also has 79,001 authorized but unissued ordinary shares. These shares are currently not assigned to Class "A", "B" or "C".

On March 20, 2017, the Company declared dividends of $4.3 million to the holders of the Class "B" and Class "C" shares.

15. Credit agreements

Two of Catalina's subsidiaries have a discretionary collateralized LOC agreement with Comerica Bank. The aggregate commitment under this agreement is currently up to $93 million. Availability for issuances of LOCs on account of any borrower is based on the amount of eligible investments pledged by the applicable borrower(s). The agreements contain financial and other covenants, among them a requirement to maintain a minimum statutory capital and surplus value. At December 31, 2016, the outstanding LOC issued under the facility were $51.6 million (2015: $60.9 million). During the year ended December 31, 2016, the Company was in compliance with the covenants under the facility. On July 24, 2015, Catalina Safety's Coutts Bank LOC facility was replaced through an uncommitted LOC facility agreement with ING Bank N.V. At December 31, 2016, the outstanding LOC issued under this facility was $2.1 million (2015: $7.4 million).

15. Credit agreements (continued)

Prior to the acquisition of AGHBL by the Company, AGHBL entered into discretionary collateralized LOC agreement with Citibank N.A. ("Citibank"). Availability for issuances of LOCs is based on the amount of eligible investments pledged. At December 31, 2016, the outstanding LOCs issued under the Citibank LOC agreement were $12.2 million (2015: $12.5 million). Catalina acquired a LOC agreement with Citibank Europe Plc following the acquisition of CHUK. At December 31, 2016, the outstanding LOCs issued under the facility were $18.5 million (2015: $20.8 million).

Prior to the acquisition of WestGen by Catalina, WestGen entered into a discretionary collateralized LOC agreement with Citibank. Availability for issuances of LOCs is based on the amount of eligible investments pledged. At December 31, 2016, the outstanding LOCs issued under the facility were $4.4 million (2015: $6.3 million).

Prior to the acquisition of Glacier Re by Catalina, Glacier Re entered into a collateralized LOC agreement with UBS AG. The aggregate commitment under this agreement is $30.0 million at December 31, 2016 and the outstanding LOCs issued under the facility were $12.4 million (2015: $19.1 million).

Prior to the acquisition of PXRE by Catalina, PXRE entered into a collateralized LOC agreement with Merrill Lynch. At December 31, 2015, the outstanding LOCs issued under the facility were $3.5 million. This LOC agreement was terminated during the year ended December 31, 2016.

16. Related party transactions

Apollo Rose L.P. ("Apollo") holds 45% of the Company's issued Class "A" Ordinary shares and Preference shares. The Company has investments in Apollo Offshore Credit Fund, which is managed by an affiliate of Apollo. The total fair value of the Company's investments in the fund as of December 31, 2016 is $99.1 million or 7.5% of investments at fair value.

17. Statutory financial information and dividend restrictions

The Company's insurance and reinsurance subsidiaries are subject to insurance laws and regulations in the jurisdictions in which they operate, which are Bermuda, the United States, the United Kingdom, Switzerland and Ireland. The regulations in these jurisdictions include restrictions that limit the amount of dividends or other distributions available to shareholders without prior approval of the insurance regulatory authorities. Typically, these restrictions relate to minimum levels of solvency, capital and liquidity as defined by the relevant insurance laws and regulations.

<u>Bermuda</u>

CatGen is registered under the Insurance Act of 1978 of Bermuda (the "Insurance Act"), and licensed as a Class 3A general business, and Class C long-term insurer. The Insurance Act grants the BMA powers to supervise the insurance companies. The Insurance Act requires CatGen to hold minimum statutory capital and surplus (Enhanced Capital Requirement or "ECR") at least equal to the greater of a minimum solvency margin or the Bermuda Solvency & Capital Requirement ("BSCR"). The BSCR is calculated using the standard risk-based capital model developed by the BMA. The BSCR model follows a standard formula framework and capital attributed to each risk is calculated by applying capital factors to the assets and liabilities. The BMA sets a Target Capital equivalent to 120% of the ECR. CatGen's licenses preclude it from effecting any new contracts without the permission of the BMA.

On March 24, 2016, Bermuda's enhanced commercial insurance regime has been approved as being fully equivalent to regulatory standards applied under Solvency II by the European Parliament. Solvency II sets out new capital adequacy and risk management requirements for insurers across the European Union with the aim to further enhance policyholder protection while instilling greater risk awareness. The equivalence was granted retroactive from January 1, 2016.

The BMA also acts as the Group Supervisor of Catalina. The Company, on an annual basis, is required to file the Group audited GAAP financial statements, the Group Capital and Solvency Return and the Group Solvency Self-Assessment with the BMA.

17. Statutory financial information and dividend restrictions (continued)

United Kingdom

The insurance subsidiaries based in the U.K. are regulated by the U.K. Prudential Regulatory Authority (the “PRA”). Commencing January 1, 2016, the UK companies are required to comply with the Solvency II Framework Directive adopted by the PRA. The Solvency Capital Requirement for the U.K. subsidiaries are assessed using the Solvency II standard formula model.

Ireland

The insurance subsidiary based in Ireland is regulated by the Central Bank of Ireland (the “CBI”). Commencing January 1, 2016, the Irish company is required to comply with the Solvency II Framework Directive adopted by the CBI. The Solvency Capital Requirement is assessed using the Solvency II standard formula model.

Switzerland

Glacier Re and Catalina Reinsurance (Switzerland) Ltd. are subject to the regulatory reporting requirements of the Swiss Financial Market Authority (“FINMA”). The Swiss insurance regulation regime has been approved by the EC to be fully equivalent to the regulatory standards applied under Solvency II.

Annually, Glacier Re calculates Risk Bearing Capital and Target Capital pursuant to the Swiss Solvency Test rules and regulations. Risk Bearing Capital is defined as the difference between the market consistent value of assets less the best estimate value of liabilities. The long term subordinated debt is considered to be supplementary capital and is therefore included in the Risk Bearing Capital. Glacier Re has significant excess capital as at December 31, 2016.

United States

The Company's U.S. subsidiaries required statutory capital and surplus is determined using various criteria, including risk based capital tests. If a company falls below certain levels of risk based capital, and dependent upon the degree to which the company falls below, the commissioner of insurance with jurisdiction of the company is authorized to take certain regulatory actions to protect policyholders and creditors.

The Company is subject to a 30% withholding tax on certain dividends received from its U.S. subsidiaries.

As at December 31, 2016 and 2015, there are statutory restrictions on the payment of dividends from retained earnings or the return of capital from some of the Company's subsidiaries. Most of the Company’s regulated reinsurance and insurance subsidiaries require regulatory approval before paying a dividend from retained earnings or returning capital.

At December 31, 2016 and 2015, the Company met the minimum levels of solvency and liquidity in all jurisdictions in which the Company operates.

18. Subsequent Events

In preparing the consolidated financial statements, the Company has evaluated subsequent events through March 30, 2017, which is the date that these financial statements were issued, and concluded that there are no other items requiring disclosure, other than those disclosed in Notes 1, 11 and 14.

CATALINA HOLDINGS (BERMUDA) LTD.

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT AUDITORS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

CATALINA HOLDINGS (BERMUDA) LTD.

FINANCIAL STATEMENTS

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Independent Auditor's Report

To the Board of Directors
Catalina Holdings (Bermuda) Ltd.

We have audited the accompanying consolidated financial statements of Catalina Holdings (Bermuda) Ltd. and its subsidiaries which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Catalina Holdings (Bermuda) Ltd. and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 13, 2016

CATALINA HOLDINGS (BERMUDA) LTD.
CONSOLIDATED BALANCE SHEETS
December 31, 2015 and 2014
(Expressed in thousands of U.S. dollars)

		2015		2014
Assets				
Investments at fair value (amortized cost December 31, 2015: $1,594,333; December 31, 2014: $1,508,282)	$	1,525,960	$	1,525,500
Cash and cash equivalents		324,541		170,139
Restricted cash and cash equivalents		84,557		92,982
Accrued investment income		13,131		9,352
Funds held by cedants and claims administrators		92,556		90,118
Outstanding losses and loss expenses recoverable		470,689		553,060
Insurance and reinsurance balances receivable		44,732		69,432
Deferred reinsurance premiums		11,429		20,989
Investments in real estate		134,452		60,348
Other assets		21,128		35,256
Intangible assets		16,750		19,450
Total assets	$	2,739,925	$	2,646,626
Liabilities				
Outstanding losses and loss expenses	$	1,560,347	$	1,556,525
Unearned premiums		26,031		49,935
Insurance and reinsurance balances payable		60,947		88,493
Accounts payable, accrued expenses and other liabilities		36,355		30,430
Long term subordinated debt		170,725		182,125
Loans payable		351,857		341,137
Total liabilities		2,206,262		2,248,645
Shareholders' equity				
Ordinary shares		7,711		7,693
Preference shares		358,403		258,761
Additional paid-in capital		26,477		15,508
Retained earnings		144,218		114,188
Accumulated other comprehensive (loss) income		(7,858)		184
Total Catalina Holdings (Bermuda) Ltd. shareholders' equity		528,951		396,334
Non-controlling interest		4,712		1,647
Total shareholders' equity		533,663		397,981
Total liabilities and shareholders' equity	$	2,739,925	$	2,646,626

The accompanying notes are an integral part of these consolidated financial statements

CATALINA HOLDINGS (BERMUDA) LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended December 31, 2015 and 2014
(Expressed in thousands of U.S. dollars)

		2015		2014
Revenues				
Gross premiums written	$	3,206	$	(4,128)
Premiums ceded		6,085		(3,276)
Net premiums written		9,291		(7,404)
Change in net unearned premiums		15,747		48,960
Net premiums earned		25,038		41,556
Net losses and loss expenses		60,525		15,892
Commissions		(2,251)		(6,025)
Net run-off income		83,312		51,423
Net investment income		37,432		31,998
Net (losses) gains on investments		(10,447)		17,166
Rental income		5,494		488
Net foreign exchange gains (losses)		6,489		(586)
Gain on acquisition		7,298		7,827
General and administrative expenses		(52,074)		(51,510)
Change in subordinated debt fair value		8,271		3,898
Interest expense		(21,076)		(16,774)
Income before income taxes		64,699		43,930
Income tax expense		(7,529)		(654)
Net income	$	57,170	$	43,276
Net (income) loss attributable to non-controlling interest		(121)		9
Net income attributable to Catalina Holdings (Bermuda) Ltd.	$	57,049	$	43,285

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2015 and 2014
(Expressed in thousands of U.S. dollars)

		2015		2014
Net income attributable to Catalina Holdings (Bermuda) Ltd.	$	57,049	$	43,285
Other comprehensive loss, before and net of tax:				
Foreign currency translation adjustments		(8,531)		(451)
Fair value of interest rate swap		489		-
Other comprehensive loss, before and net of tax		(8,042)		(451)
Comprehensive income	$	49,007	$	42,834

The accompanying notes are an integral part of these consolidated financial statements

CATALINA HOLDINGS (BERMUDA) LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2015 and 2014
(Expressed in thousands of U.S. dollars except for share and per share amounts)

	2015	2014
Share capital - "A" Ordinary shares of par value $1.00 each		
Balance at beginning and end of year	$ 6,693	$ 6,693
Share capital - "B" Ordinary shares of par value $1.00 each		
Balance at beginning and end of year	600	600
Share capital - "C" Ordinary shares of par value $1.00 each		
Balance at beginning of year	400	400
Issued during year	18	-
Balance at end of year	418	400
Preference share capital - Preference shares of par value $1.00 each		
Balance at beginning of year	258,761	247,560
Issued during year	97,667	10,767
Change in accrued dividends during year	1,975	434
Balance at end of year	358,403	258,761
Additional paid-in capital		
Balance at beginning of year	15,508	6,390
Dividends on "B" and "C" Ordinary shares	(120)	-
Increase in subscription value of preference shares	11,089	9,118
Balance at end of year	26,477	15,508
Retained earnings		
Balance at beginning of year	114,188	93,100
Preference shares dividends and subscription value increase	(24,731)	(20,319)
Dividends on "B" and "C" Ordinary shares	(2,437)	(1,869)
Issued "C" Ordinary shares as stock-based compensation	106	-
Dividend paid to non-controlling interest	(78)	-
Net income	57,170	43,276
Balance at end of year	144,218	114,188
Accumulated other comprehensive (loss) income		
Balance at beginning of year	184	635
Other comprehensive loss	(8,042)	(451)
Balance at end of year	(7,858)	184
Total shareholders' equity	$ 528,951	$ 396,334

The accompanying notes are an integral part of these consolidated financial statements

CATALINA HOLDINGS (BERMUDA) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2015 and 2014
(Expressed in thousands of U.S. dollars)

	2015	2014
Cash flows from operating activities		
Net income	$ 57,049	$ 43,285
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Gain on acquisitions	(7,298)	(7,827)
Gain on disposal of intangible assets	(256)	-
Depreciation of property and equipment	653	242
Amortization of net discounts on investments	4,139	(3,161)
Write-off of intangible asset	-	1,000
Net losses(gains) on investments	10,447	(17,166)
Net income (loss) attributable to non-controlling interest	121	(9)
Change in subordinated debt fair value	(8,271)	(3,898)
"C" shares issued as stock-based compensation	124	-
Changes in assets and liabilities:		
Restricted cash and cash equivalents	(15,699)	(9,774)
Accrued investment income	(3,685)	1,135
Funds held by cedants and claims administrators	24,245	44,588
Outstanding losses and loss expenses recoverable	84,389	56,201
Insurance and reinsurance balance receivable	26,393	12,917
Deferred reinsurance premiums	9,560	21,454
Other assets	18,192	(23,917)
Outstanding losses and loss expenses	(9,244)	(107,297)
Unearned premiums	(23,904)	(41,433)
Deposit liabilities	-	(30,180)
Accounts payable, accrued expenses and other liabilities	2,133	(10,951)
Insurance and reinsurance balances payable	(27,365)	(2,791)
Net cash provided by (used in) operating activities	141,723	(77,582)
Cash flows used in investing activities		
Payment for acquisitions, net of cash acquired	(53,771)	(105,520)
Proceeds from sale of intangible assets	2,956	-
Securities transferred from novation	(60,064)	-
Purchases of investments	(868,548)	(1,264,046)
Proceeds from sale or maturity of investments	975,865	1,377,587
Investment in real estate	(74,104)	(60,436)
Net cash used in investing activities	(77,666)	(52,415)
Cash flows provided by financing activities		
Proceeds from issuance of preference shares	86,000	-
Capital contributions for non-controlling interest	3,231	1,656
"B" and "C" Ordinary shares dividend	(2,557)	(1,869)
Proceeds from issuance of loans payable	107,820	332,037
Non-controlling interest dividend	(78)	-
Repayment of loans	(97,100)	(225,866)
Net cash provided by financing activities	97,316	105,958
Effect of exchange rate changes	(6,971)	3,734
Increase (decrease) in cash and cash equivalents	154,402	(20,304)
Cash and cash equivalents at beginning of year	170,139	190,443
Cash and cash equivalents at end of year	$ 324,541	$ 170,139
Supplemental information:		
Interest paid	$ 18,595	$ 17,503
Income taxes paid	$ 17	$ 766

The accompanying notes are an integral part of these consolidated financial statements

(Expressed in thousands of U.S dollars except for share amounts, or as otherwise stated)

1. Description of business

Catalina Holdings (Bermuda) Ltd. ("Catalina" or the "Company"), incorporated on June 25, 2007, is a holding company organized under the laws of Bermuda. Catalina, through its subsidiaries located in Bermuda, the United States, the United Kingdom, Ireland and Switzerland, was formed to acquire and manage non-life insurance and reinsurance companies and portfolios of insurance and reinsurance business in run-off. Since October 2008 Catalina has completed the acquisition of insurance and reinsurance companies and portfolios of insurance and reinsurance business. The acquisitions are:

• Quanta Capital Holdings Ltd. ("Quanta")	October 2008
• Alea Holdings UK Limited	October 2009
• Western General Insurance Ltd. ("WestGen")	July 2010
• Glacier Reinsurance AG ("Glacier Re")	April 2011
• Residential Loss Control Holdings, LLC ("RLCH")	October 2011
• HSBC Reinsurance Limited and HSBC Insurance (Ireland) Limited	October 2012
• KX Reinsurance Company Ltd.	April 2013
• American Safety Reinsurance Ltd. ("Catalina Safety")	October 2013
• Alea Group Holdings (Bermuda) Ltd. ("AGHBL")	March 2014
• SPARTA Insurance Holdings, Inc.,	September 2014
• Danielson Indemnity Company ("Danielson")	November 2014
• PXRE Reinsurance Company ("PXRE")	May 2015
• Papiro AG ("Papiro")	October 2015
• Allianz Suisse Ruckversicherungs-Gesselschaft AG ("Allianz Suisse Re")	December 2015

The portfolio transfers are:

• Contractors wrap-up policies from Renaissance Reinsurance Ltd.	November 2012
• Marine insurance liabilities from the Delta Lloyd Group	June 2014
• Residential construction liabilities from NationsBuilders Insurance Company	February 2015
• UK and EU insurance liabilities from Quinn Insurance Limited	June 2015

Catalina has renamed many of the entities acquired and simplified the group structure by merging and amalgamating entities where possible. As at December 31, 2015 Catalina had fourteen regulated entities of which the most significant are Catalina General Insurance Ltd. ("CatGen"), SPARTA Insurance Company ("SIC"), Catalina London Limited, Glacier Re and Catalina Insurance Ireland Limited ("CIIL").

2. Significant accounting policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities reported at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. While management believes the amounts included in the consolidated financial statements reflect management's best estimates and assumptions, the actual results could ultimately be materially different from the amounts currently provided for in the consolidated financial statements. The Company's principal estimates relate to the development or determination of the following:

- valuation of outstanding losses and loss expenses;
- valuation of investments and determination of hierarchical inputs used to measure fair value of investments;
- valuation of assets and liabilities under business combination accounting;
- valuation of long term subordinated debt;
- provisions for litigation and other contingent liabilities;
- provision for non-collectible reinsurance balances recoverable;

2. Significant accounting policies – (continued)

- recoverability of insurance and reinsurance balances receivable; and
- valuation of intangible assets.

The Company's consolidated financial statements include the financial statements of the Company and all of its subsidiaries in which it owns, directly or indirectly through subsidiaries, over fifty percent of the voting rights or is in a position to govern the financial and operating policies of the entity. All significant balances and transactions among related companies have been eliminated on consolidation. The results of subsidiaries acquired are included from the dates of their acquisition by the Company.

Premiums

The Company's insurance and reinsurance subsidiaries wrote insurance policies and reinsurance contracts prior to entering into run-off. These subsidiaries no longer write new policies or contracts but premiums continue to be earned over the terms of the associated insurance policies and reinsurance contracts in proportion to the amount of insurance protection provided. The term of the insurance or reinsurance coverage provided may be cancelled by the insured or ceding company resulting in a return of written premium.

Profit commission accruals are recorded as commission expenses and are adjusted at the end of each year based on the experience of the underlying contract. Such adjustments related to profit commissions may be significant.

Ceded reinsurance or retrocessional coverage was used to limit the Company's insurance and reinsurance subsidiaries' individual and aggregate exposures to risks of losses arising from contracts of insurance or reinsurance. Reinsurance premiums ceded to reinsurers are recorded and earned in a manner consistent with that of the original contracts or policies written and the terms of the reinsurance agreements.

Premiums written and ceded relating to the unexpired periods of coverage or policy terms are recorded on the consolidated balance sheet as unearned premiums and deferred reinsurance premiums, respectively. Unearned premiums and deferred reinsurance premiums are recorded at fair value at the date that they were acquired. The fair value of the unearned premiums reserve was based on the estimated timing of reserve settlements discounted at a risk free rate.

Assumed premiums on life insurance contracts are recognized as revenue when payable by the policyholder on underlying reinsurance policies. Premiums collected by intermediaries but not yet received are assessed based on estimates from underwriting or past experience and are included in premium revenue.

Retroactive reinsurance

Consideration received in excess of estimated liabilities assumed with respect to retroactive reinsurance contracts is recognized as deferred income at inception of such contracts. Deferred income is subsequently amortized using the interest method over the expected claims settlement periods. Changes to the estimated timing or amount of loss payments produce changes in periodic amortization. Changes in such estimates are applied retrospectively and are included within net income in the year in which such changes are made. Deferred income is reported within outstanding losses and loss expenses in the consolidated balance sheets and deferred income amortization is recognized within net losses and loss expenses in the consolidated statements of operations.

Outstanding losses and loss expenses

The Company establishes reserves for outstanding losses and loss expenses for estimates of future amounts to be paid in settlement of its ultimate liabilities for claims arising under its contracts of insurance and reinsurance that have occurred at or before the consolidated balance sheet date. The estimation of ultimate loss and loss expense liabilities is a significant judgment made by management and is inherently subject to significant uncertainties.

The Company's loss reserves fall into two categories; case reserves for reported losses and loss expenses ("case reserves") and reserves for losses and loss expenses incurred but not reported ("IBNR reserves"). Case reserves are based initially on claim reports received from insureds, brokers or ceding companies, and may be supplemented by the Company's claims professionals with estimates of additional ultimate settlement costs. IBNR reserves are estimated by management

2. Significant accounting policies – (continued)

using generally accepted statistical and actuarial techniques and are reviewed by independent actuaries. In applying these techniques, management uses estimates as to ultimate loss emergence, severity, frequency, settlement periods and settlement costs. In making these estimates, the Company relies on the most recent information available, including industry information, and on its own historical loss and loss expense experience.

On periodic payment order claims ("PPO's"), due to the long delay from when the claim was settled and when the final payment will be made, the outstanding claims are discounted to take account of investment income receivable to the final payment date. The Company discount its PPO's at a real discount rate of 0%, assuming a long term care index inflation rate of 2.5% per annum, offset by expected investment returns of 2.5%. For known PPO's, cash flows were projected in accordance with the claimants' life expectancy. Annual cash flows were increased in line with an assumed inflation rate of 2.5% per annum. These cash flows are then discounted to the valuation date at an assumed discount rate of 2.5% per annum. The Company has discounted the cash flows as it is of the opinion that estimating undiscounted reserve for PPO's is neither reliable nor representative of the underlying value of the losses. The unreliability stems from the significant uncertainty involved in estimating an absolute level of indexation. Discounting cash flows using a real yield assumption based on the relationship of investment returns relative to inflation indices is more reliable in the long term.

Management believes the Company's reserving techniques represent a reasonable basis for estimating ultimate claim costs and that the outstanding losses and loss expenses are sufficient to cover claims from losses occurring up to the consolidated balance sheet date; however, ultimate losses and loss expenses may be subject to significant volatility as a result of significant uncertainties. These uncertainties are driven by many variables that are difficult to quantify. These uncertainties include, for example, the period of time between the occurrence of an insured loss and actual settlement, fluctuations in inflation, prevailing economic, social and judicial trends, legislative changes, internal and third party claims handling procedures and the lack of complete historical data on which to base loss expectations. Accordingly, ultimate liabilities may differ materially from the amounts recorded in the consolidated financial statements.

The Company regularly reviews and adjusts its reserve estimates and reserving methodologies taking into account current information. Outstanding losses and loss expenses are adjusted as claim experience develops and new information becomes available. Any adjustments to previously established reserves may significantly impact net income.

Reinsurance recoverable

Reinsurance recoverables are recorded at fair value at the date that the subsidiary owning the assets is acquired. The fair value of the recoverable from reinsurers is based on the estimated timing of reserve settlements discounted at a risk adjusted rate determined by management.

The Company estimates outstanding loss and loss expenses recoverable using methodologies and assumptions consistent with those used in estimating reserves for losses and loss expenses. The estimation of outstanding loss and loss expenses recoverable is a significant judgment made by management and is inherently subject to significant uncertainties. The Company establishes allowances for amounts recoverable that are considered potentially uncollectible from its reinsurers. The valuation of this allowance for uncollectible reinsurance recoverable includes a review of the credit ratings of the reinsurance recoverables by reinsurer, an analysis of default probabilities as well as identifying whether or not coverage issues exist. These factors require management judgment and the impact of any adjustments to those factors is reflected in net income in the year that the adjustment is determined. The Company is subject to credit risk with respect to the reinsurance ceded because the ceding of risk does not relieve the Company from its original obligations to its insureds.

Life contracts

Life contracts comprise of traditional life savings business assumed through coinsurance and modified coinsurance reinsurance contracts. They have all been in run-off for several years although many have recurring premiums. Liabilities for life reinsurance contracts are booked at the amounts reported by the ceding companies. The Company estimates the policy benefits for the life and annuity contracts using standard actuarial techniques and cash flow models. Policy benefits are reviewed annually and the Company performs a liability adequacy test based on cash flow projections. Since estimating the policy benefits depends on cash flow projection, the Company makes assumptions based on experience and industry mortality tables, longevity, morbidity rates, lapse rates, expenses and investment experience including provision for adverse deviation. The assumptions used are determined at the acquisition of the Company that wrote the contract and

2. Significant accounting policies – (continued)

locked in throughout the life of the contact unless a premium deficiency develops. The assumptions are reviewed at acquisition and annually and unlocked if it results in material adverse development. The estimates are established based on information provided by the ceding companies, contract specific historical experience and industry experience.

The policy benefits are maintained at a level that, when taken together with future premium payments and investment income, are expected to be sufficient to cover policyholder obligations as they fall due. Provision is made where current best estimates of future contractual cash flows arising from the contracts are expected to exceed the policy obligations net of premiums receivable. Investment income from the assets backing the liabilities is taken into account when calculating such provision. The assessment of whether an additional provision needs to be booked is based on information available after offsetting the surpluses and deficits arising on contracts within the life portfolio. Any deficiency is charged to the statement of operations by establishing a provision for losses arising from the liability adequacy test for the unexpired risk portion. The amount of the provision depends on the risk adjusted returns available on assets designated to support life contract liabilities.

Structured settlements

Included within outstanding losses and loss expenses and outstanding losses and loss expenses recoverable in the consolidated balance sheets are amounts related to structured settlements. CatGen through its Canadian branch, has assumed ownership of certain structured settlements and has purchased annuities from life insurance companies to provide fixed and recurring payments to the claimants. CatGen remains responsible to the claimant in the case of non-performance by the life insurance companies. The assets and liabilities for the structured settlement contracts are booked at the amounts reported by the life insurance companies as management believes this to be the best available estimate of the obligations under these contracts.

Cash and cash equivalents

Cash equivalents include highly liquid instruments such as liquidity funds, money market funds and other time deposits with commercial banks and financial institutions which have maturities of less than three months from the date of purchase. See Note 12(a) in relation to concentrations of credit risk. Restricted cash and cash equivalents are separately reported in the consolidated balance sheets at December 31, 2015 and 2014. Changes in restricted cash and cash equivalents are reported as an operating activity in the statements of cash flows for the years ended December 31, 2015 and 2014.

Investments and net investment income

Investments are recognized and measured at fair value with subsequent changes to the fair value recorded within net gains (losses) on investments in the consolidated statements of operations. The Company holds trading portfolios of fixed maturities, short-term investments and equities which are recorded at fair value.

Purchases and sales of investments are recorded on a trade date basis. Realized gains and losses on sales of investments are determined on a first-in, first-out basis and are shown within net gains (losses) on investments in the consolidated statements of operations. Net investment income is recognized when earned and includes interest and dividend income, together with amortization of market premiums and discounts using the effective yield method and is net of investment management fees.

Other investments are recognized and measured at fair value with subsequent changes to the fair value, income distributions and realized gains and losses reported within net investment income in the consolidated statements of operations.

Derivatives

The Company's derivative instruments are recorded in the consolidated balance sheets at fair value, with changes in fair value recognized in the consolidated statements of operations.

2. Significant accounting policies – (continued)

Fair Value Measurements

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. An asset or a liability's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The hierarchy is broken down into three levels as follows:

- Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

- Level 2 – Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These are generally company generated inputs and are not market based inputs.

The Company used the following valuation techniques and assumptions in estimating the fair value of financial instruments as well as the general classification of such financial instruments pursuant to the above fair value hierarchy:

<u>Fixed maturities</u>

At each valuation date, the Company uses a market approach technique to estimate the fair value of the fixed maturities portfolios, where possible. This market approach includes, but is not limited to, prices obtained from third party pricing services and broker-dealers for identical or comparable securities. The pricing services use market quotations for securities that have quoted prices in active markets.

When quoted market prices are unavailable, the pricing service prepares estimates of fair value measurements with its proprietary pricing applications, using observable market inputs such as yield curves, credit risks and spreads, measures of volatility, and expected cash flows including prepayment speeds.

The following describes the significant inputs generally used to determine the fair value of fixed maturities by asset class:

- U.S. government and agency securities consist of securities issued by the U.S. Treasury and mortgage passthrough agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. The significant inputs include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

- Non-U.S. government securities consist of bonds issued by non-U.S. governments and agencies along with supranational organizations. The significant inputs include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

- Corporate securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark yields, and industry and market indicators. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2. Private debt has been classified under Level 3 as the inputs used to determine the fair value of this are not considered to be observable.

2. Significant accounting policies – (continued)

- Municipal securities consist primarily of bonds issued by U.S.-domiciled state and municipal entities. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes and benchmark yields. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

- Asset-backed securities consist primarily of investment-grade bonds backed by pools of loans with a variety of underlying collateral. The significant inputs used to determine the fair value of these securities includes the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, expected cash flows including prepayment speeds, and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2. Student loans asset-backed securities have been classified under Level 3 as the inputs used to determine the fair value of these securities are not considered to be observable.

- Mortgage-backed securities include both agency and non-agency originated securities. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, expected cash flows including prepayment speeds, and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

Equity securities

Equity securities include exchange traded funds, mutual funds, common stocks and preferred stocks. Exchange traded debt and equity funds, common stocks and preferred stocks are classified within Level 1 as the fair values are based on quoted market prices in active markets. Certain convertible bond and multi-asset funds with daily liquidity and redemption based on the net asset value of the fund are classified within Level 2. The policy for all equity securities classified under Level 3 has been described under alternative investments below.

Alternative Investments

Alternative Investments consist of non-traditional, not readily marketable investments, some of which may be structured as offshore limited partnerships, hedge funds, private equity, private equity funds, private debt funds, debt funds, commercial real estate funds, common trust funds and venture capital funds. The underlying investments of such funds, whether invested in stock or other securities, are generally not currently traded in a public market and typically are subject to restrictions on resale. Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical cost, appraisals, a review of the investees' financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment. Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material.

The fair values of alternative investments have been estimated using the Net Asset Value ("NAV") of the funds reported by the management responsible for administering the funds, where possible. In the absence of such information the assets are valued based on management's review and judgement of such assets. FASB guidance provides for the use of NAV as a 'Practical Expedient' for estimating fair value for alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the fund's interest therein and their classification within level 2 or 3 is based on the funds ability to redeem its interest in the near term as well as availability of observable inputs for similar assets.

Long term subordinated debt

Glacier Re:

Long term subordinated debt was issued by Glacier Re in 2005 (see note 11). The Company classified its subordinated debt within Level 3 because similar debt trades infrequently and therefore there have been few observable inputs in terms of valuation benchmarks. Using judgement, the Company has therefore determined certain inputs in its valuation model

2. Significant accounting policies – (continued)

which are not readily observable. Such inputs incorporate the counterparty risk of non-performance for Glacier Re's debt.

Accordingly, the fair value of the long-term subordinated debt reflects the risk of non-performance of Glacier Re, captured by incorporating Glacier Re's credit spread derived from the USD and Euro Composite yields to determine an appropriate discount rate which is applied to the nominal value of the debt at each measurement date. The discount rate is adjusted by an additional factor which reflects the implicit value, determined using judgement, of the value of Glacier Re's options for early repayment of the debt.

Alea Holdings US Company ("AHUSCO"):

AHUSCO issued $100 million of trust preferred securities ("TruPS") in December 2004 and an additional $20 million of TruPS in January 2005 which are classified within Level 3. The TruPS were issued by three Delaware trusts established by AHUSCO and provide for a preferred dividend at a rate of 3-month LIBOR plus 285 basis points. AGHBL gave a guarantee to the holders of the TruPS. The TruPS do not carry financial covenants or cross default covenants, have a fixed maturity of 30 years, and are callable. AHUSCO may optionally redeem the debentures and thereby retire the TruPS but the holders of the debentures may not call the debentures prior to their maturity dates.

The fair value of the TruPS is calculated through an internal valuation model. Similar debt trades infrequently and therefore the Company has determined certain inputs in its valuation model which are not readily observable. Such inputs incorporate the counterparty risk of non-performance for AGHBL's debt. Accordingly, the fair value of the long-term subordinated debt reflects the risk of non-performance of the Company, captured by incorporating the Company's credit spread derived from the USD composite yields to determine an appropriate discount rate which is applied to the nominal value of the debt at each measurement date. The discount rate is further adjusted by an additional factor to reflect the assumption that the subdebt's credit risks are below BBB level. The Company classified this debt within Level 3.

<u>Derivative instruments</u>

Interest rate swaps are customized to the Company's risk management strategy. The Company estimates the fair value of these derivatives from significant observable inputs such as non-binding broker-dealer quotes and foreign exchange rates. Accordingly, the Company classified these derivatives within Level 2.

Investments in real estate

The Company invests in real estate to generate returns via rental income and capital appreciation. The income from the operating leases is recognized as rental income as per the terms of the leases.

The real estate acquired is recorded at cost less accumulated depreciation for the depreciable assets. The cost includes all acquisition costs directly identifiable with the purchase of the real estate. The Company splits the acquisition cost of each real estate asset between land and buildings based on management's judgement. The buildings comprise primarily of warehouses used to store goods. These buildings are depreciated over an estimated useful life of 40 years on a straight-line basis.

The Company will assess for impairment when circumstances indicate the carrying value of the property may not be recoverable. The review will be based on the estimate of future undiscounted cash flows excluding interest charges expected to result from the use and eventual disposal.

Property and equipment

Property and equipment, which consist of furniture, equipment, and leasehold improvements, are stated at cost less accumulated depreciation. Depreciation is computed using an accelerated method over the estimated useful lives of the related assets, ranging from three to seven years. Property and equipment are included in the other assets line item in the balance sheet.

2. Significant accounting policies – (continued)

Intangible assets

Intangible assets with indefinite useful lives are not amortized but are tested annually for impairment by a comparison to estimated realizable value. If the carrying amounts of intangible assets are greater than their fair values established during impairment testing, the carrying value is written-down to the fair value with a corresponding impairment loss recognized in the consolidated statements of operations.

Foreign currency translation

The U.S. dollar is the functional currency of the Company and most of its subsidiaries. All foreign currency asset and liability amounts are translated into U.S. dollars at end-of-period exchange rates. Foreign currency income and expenses are translated at average exchange rates in effect during the period. Exchange gains and losses arising from the translation of foreign currency-denominated monetary assets and liabilities are included in the consolidated statements of operations. The effects of the currency translation adjustments for entities whose functional currency is not the U.S. dollar are included within foreign currency translation adjustments in the consolidated statements of comprehensive income.

Income taxes

Income taxes have been recognized in accordance with current standards, on those operations that are subject to income taxes. Deferred tax assets and liabilities result from net operating loss carryforwards and temporary differences between the carrying amounts of existing assets and liabilities recorded in the consolidated financial statements and their respective tax bases. A valuation allowance for a portion or all of deferred tax assets is recorded as a reduction to deferred tax assets if it is more likely than not that such portion or all of such deferred tax assets will not be realized.

Legal expenses

In the event of a dispute in the ordinary course of business, the Company expenses legal costs on an accrual basis. In the event of a specific litigation, when it is reasonably probable that the legal costs are going to be incurred, the Company accrues legal costs in line with the estimated incurred expenses.

Commutations

As the Company actively runs off its insurance and reinsurance subsidiaries it seeks to mitigate its exposures through early settlement of its obligations to policyholders or ceding companies by entering into commutations or other arrangements.

These negotiated commutation agreements eliminate the risk of adverse claim experience as they provide for full and final settlement of all current and future policy obligations with respect to the transaction to which they relate. Gains and losses on commutations are recorded as either a decrease or an increase in incurred claims.

Acquisitions

The Company accounts for acquisitions using the acquisition method of accounting, which requires that the acquirer recognize and measure the identifiable assets acquired and liabilities assumed at their acquisition-date fair values. The fair values of each of the acquired reinsurance assets and liabilities are derived from probability-weighted ranges of the associated projected cash flows, based on actuarially prepared information and management's run-off strategy.

The key assumptions used in the fair valuation of acquired companies are the projected payout, timing and amount of claims liabilities, the related projected timing and amount of reinsurance collections, a risk-free discount rate, which is applied to determine the present value of the future cash flows, the estimated unallocated loss adjustment expenses to be incurred over the life of the run-off, the impact of any accelerated run-off strategy, and an appropriate risk margin.

The difference between the original carrying value of assets acquired and liabilities assumed at the date of acquisition and their fair value is recorded as an intangible asset or liability, which we refer to as the fair value adjustment. The fair value adjustment is amortized over the estimated payout period of outstanding losses and loss expenses acquired. To the extent the actual payout experience after the acquisition is materially faster or slower than anticipated at the time of the

2. Significant accounting policies – (continued)

acquisition or there is an adjustment to the estimated ultimate loss reserves, then the amortization of the fair value adjustment is adjusted to reflect such changes.

Any excess between the fair value of net assets acquired and the purchase price is recorded as a gain on bargain purchase in the consolidated statements of operations.

Share-based compensation

The Company has issued Class C ordinary shares to management as share-based compensation. The fair value of the compensation cost is measured at the grant date and is expensed over the service period of the award.

3. Acquisitions

The Company accounts for acquisitions using the acquisition method of accounting, which requires that the acquirer recognize and measure the identifiable assets acquired and liabilities assumed at their acquisition-date fair values.

PXRE Reinsurance Company ("PXRE")

On May 27, 2015, the Company, through its wholly-owned subsidiary, AHUSCO, completed the acquisition of PXRE. PXRE wrote reinsurance business, primarily commercial and catastrophe focused property and marine and aerospace risks plus some casualty and finite business. PXRE ceased to write new business in 2006.

The purchase price of $9.9 million, and acquisition costs were financed from cash in hand.

The acquisition resulted in a gain of $3.6 million included within gain on acquisition in the consolidated statement of operations. Management believes that the reason for the transaction gain related mainly to the seller's requirement to generate cash in a short timeframe.

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition:

		2015
Assets		
Investments, at fair value	$	18,238
Cash and cash equivalents		4,657
Accrued investment income		93
Outstanding losses and loss expenses recoverable		2,018
Insurance and reinsurance balances receivable		1,693
Other assets		427
Total assets	$	27,126
Liabilities		
Outstanding losses and loss expenses	$	13,069
Insurance and reinsurance balances payable		567
Accounts payable and other liabilities		5
Total liabilities		13,641
Net assets acquired at fair value	$	13,485

3. Acquisitions (continued)

Quinn Insurance Limited ("QIL")

On June 30, 2015 the Company, through its wholly-owned subsidiary, CIIL, completed a portfolio transfer of £237 million of legacy insurance liabilities from QIL (under administration). The insurance liabilities are predominantly UK and Northern Ireland motor insurance and professional indemnity (UK solicitors) with some employer's liability and public liability business. The business has been in run-off since December 31, 2012. The portfolio transfer has been accounted for as a business combination as the Company has acquired control of the business of QIL. As a result of the portfolio transfer, the Company acquired all assets and liabilities of QIL. The business combination has been accounted for using the acquisition method of accounting.

As part of the transfer process the Company injected £103 million of capital into CIIL. The capital injection of £103 million was financed through a £60 million drawdown on the Revolving Credit Facility and the issuance of $63 million of preference shares.

The acquisition resulted in no pre-tax gain or loss in 2015.

The following summarises the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition which is converted at the USD exchange rate of $1.5726:

	2015
Assets	
Cash and cash equivalents	$ 373,025
Outstanding losses and loss expenses recoverable	6,369
Total assets	$ 379,394
Liabilities	
Outstanding losses and loss expenses	$ 378,358
Unearned premiums	1,036
Total liabilities	379,394
Net assets acquired at fair value	$ -

Papiro AG

On October 8, 2015, the Company, through its wholly-owned subsidiary, Glacier Re, completed the acquisition of Papiro. Papiro insured its former owner's environmental, transport and key man risks. The purchase price of Euro 53.0 million, was financed from a loan note from the vendor and the Company's effective purchase price was therefore nil.

The acquisition resulted in a gain of $3.7 million included within gain on acquisition in the consolidated statement of operations. Management believes that the reason for the transaction gain related mainly to the transaction allowing the vendor to share the benefit of the tax savings arising from using Glacier Re's brought forward tax losses.

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition:

	2015
Assets	
Cash and cash equivalents	$ 4,039
Total assets	$ 4,039
Liabilities and Shareholder's Equity	
Accounts payable and other	$ 329
Total liabilities	329
Net assets acquired at fair value	$ 3,710

3. Acquisitions (continued)

Allianz Suisse Ruckversicherungs-Gesselschaft AG ("Allianz Suisse Re")

On December 11, 2015, the Company, through its wholly-owned subsidiary, Glacier Re, completed the acquisition of Allianz Suisse Re. Allianz Suisse Re has never written live business but received approximately CHF 400 million of run-off liabilities via a portfolio transfer from Allianz Suisse Versicherungs AG on January 1, 2008. At acquisition Allianz Suisse Re had $29.1 million of loss reserves remaining including asbestos, health, non-proportional liability and proportional liability exposure.

The purchase price of $55.7 million, and acquisition costs were financed from the issuance of $23 million of preference shares, the drawdown of $9 million from Catalina's Revolving Credit Facility and available cash on hand.

The acquisition resulted in no pre-tax gain or loss during 2015.

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition:

		2015
Assets		
Investments, at fair value	$	59,199
Cash and cash equivalents		17,057
Accrued investment income		747
Funds held by cedants and claims administrators		8,440
Insurance and reinsurance balances receivable		940
Other assets		346
Total assets	$	86,729
Liabilities		
Outstanding losses and loss expenses	$	29,145
Insurance and reinsurance balances payable		1,695
Accounts payable and other liabilities		196
Total liabilities		31,036
Net assets acquired at fair value	$	55,693

Danielson Indemnity Company ("Danielson")

On November 14, 2014, the Company, through its wholly-owned subsidiary AHUSCO, completed the acquisition of Danielson, which included its wholly-owned subsidiaries, National American Insurance Company of California ("NAICC") and Danielson National Insurance Company ("DNIC"). NAICC and DNIC wrote private passenger auto, contract surety, bail bond, workers' compensation and general liability business. The reserves primarily consist of workers' compensation and asbestos and environmental business. Liability and workers' compensation business has been in run-off since 1995 and 2002, respectively. The rest of the business went into run-off in 2012.

The purchase price of $4.6 million was financed through cash on hand.

The acquisition resulted in a pre-tax gain of $7.8 million included in the consolidated statements of operations. Management believes the reason for the transaction gain related mainly to the seller's requirement to dispose of a non-core operation and to retain the ability to use the associated tax losses. As a result of the necessary filing of a Section 338 (h) (10) election under the Inland Revenue Code the Company recorded a deferred tax liability of $2.7 million.

3. Acquisitions (continued)

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition:

		2014
Assets		
Investments, at fair value	$	35,331
Cash and cash equivalents		6,684
Accrued investment income		309
Outstanding losses and loss expenses recoverable		13,413
Insurance and reinsurance balances receivable		291
Other assets		360
Total assets	$	56,388
Liabilities		
Outstanding losses and loss expenses	$	39,260
Unearned premiums		73
Insurance and reinsurance balances payable		4,102
Deferred tax liability		2,661
Accounts payable and other liabilities		526
Total liabilities		46,622
Net assets acquired at fair value	$	9,766

SPARTA Insurance Holdings, Inc.

On September 15, 2014, the Company, through its wholly-owned subsidiary, AHUSCO, completed the acquisition of the SPARTA Companies. The SPARTA Companies wrote commercial auto, general liability, workers' compensation and property business. The SPARTA Companies were put into run-off during 2014, with the last policies written effective September 30, 2014.

The purchase price of $156.5 million and acquisition costs of $0.6 million, were financed through cash on hand, as well as an $80 million loan obtained by AHUSCO as part of the Revolving Credit Facility (see note 11).

The acquisition resulted in no pre-tax gain or loss during 2014.

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition:

		2014
Assets		
Investments, at fair value	$	437,337
Cash and cash equivalents		16,832
Accrued investment income		2,003
Outstanding losses and loss expenses recoverable		170,017
Insurance and reinsurance balances receivable		21,681
Other assets		56,601
Total assets	$	704,471
Liabilities		
Outstanding losses and loss expenses	$	491,903
Unearned premiums		19,951
Insurance and reinsurance balances payable		14,725
Accounts payable and other liabilities		21,378
Total liabilities		547,957
Net assets acquired at fair value	$	156,514

3. Acquisitions (continued)

Alea Group Holdings (Bermuda) Ltd. ("AGHBL")

On March 27, 2014, Catalina completed the acquisition of AGHBL. AGHBL through its two regulated entities, Alea North America Insurance Company ("ANAIC") and Alea (Bermuda) Ltd. ("ABL") wrote life and non-life business in the US, Canada, Continental Europe, Singapore and Bermuda. AGHBL went into run-off in 2005.

The purchase price of $124.6 million and acquisition costs were financed through a loan facility of $38.0 million provided by Royal Bank of Scotland Plc. ("RBS"), and $86.6 million of cash on hand. Acquisition costs of $1.0 million were expensed and recognized within the general and administrative expenses in the consolidated statements of operations during the year ended December 31, 2014 and $1.2 million during the year ended December 31, 2013.

The acquisition resulted in no pre-tax gain or loss during 2014.

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition:

		2014
Assets		
Investments, at fair value	$	276,986
Cash and cash equivalents		161,763
Accrued investment income		3,043
Outstanding losses and loss expenses recoverable		303,763
Insurance and reinsurance balances receivable		3,834
Funds held by cedants and claims administrators		61,737
Other assets		8,495
Total assets	$	819,621
Liabilities		
Outstanding losses and loss expenses	$	566,435
Insurance and reinsurance balances payable		20,920
Accounts payable and other liabilities		8,307
Long-term subordinated debt		99,377
Total liabilities		695,039
Net assets acquired at fair value	$	124,582

4. Significant new business

NationsBuilders Insurance Company ("NBIC")

On February 1, 2015, Catalina through its wholly owned subsidiary CatGen entered into a Reinsurance Novation Agreement with NBIC. This agreement resulted in CatGen replacing NBIC as reinsurer on 16 Quota-Share contracts and a Loss Portfolio Transfer. NBIC reinsures residential construction policies written over the period 2002 to 2010 issued by the Risk Retention Group, ProBuilders Specialty Insurance Company ("PBSIC"). PBSIC is an association captive insurance company domiciled in the District of Columbia. PBSIC provided construction liability coverages for contractors, subcontractors and artisans associated with the residential construction industry, mainly within the western United States. PBSIC ceded various portions of its business via quota share to NBIC. Following the downturn in the residential construction market, PBSIC went into run-off in 2009. Consequently, NBIC assumed the remaining net assets via a Loss Portfolio Transfer as at December 31, 2009. NBIC is a fully owned subsidiary of NationsBuilders Insurance Services, Inc. ("NBIS"), a privately owned specialty property and casualty insurance coverage and service provider. Catalina also took over the entire management of PBSIC from NBIS including management of all its claims.

As of February 1, 2015, CatGen assumed gross reserves of $63.56 million for a total consideration of $65.77 million, net of Federal Excise Tax of $0.64 million.

5. Investments

The fair value of fixed maturity, equity and other investments as of December 31, 2015 and 2014 are as follows:

	2015	2014
Fixed maturities:		
Corporate	$ 606,691	$ 372,839
Asset-backed securities	250,158	352,248
Mortgage-backed securities	117,026	275,392
U.S. government and agency	78,807	102,795
Non-U.S. government	104,171	46,565
Municipals	81,689	103,639
Total fixed maturities	1,238,542	1,253,478
Equities:		
Debt funds	150,514	190,224
Preferred and common stocks	85,486	54,736
Equity funds	957	3,113
Fund of funds	50,646	24,142
Total equities	287,603	272,215
Other investments:		
Interest rate swap	(185)	(193)
Total other investments	(185)	(193)
Total investments	$ 1,525,960	$ 1,525,500

Contractual maturities of the Company's fixed maturities as of December 31, 2015 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Fixed maturities:	
Due in one year or less	$ 171,756
Due after one year through five years	476,070
Due after five years through 10 years	199,492
Due after 10 years	24,040
Total fixed maturities	871,358
Mortgage and asset-backed securities	367,184
Total	$ 1,238,542

The components of net investment income for the years ended December 31, 2015 and 2014 were derived from the following sources:

	2015	2014
Fixed maturities, including mortgage and asset-backed securities	$ 36,709	$ 33,821
Equities	3,525	1,199
Other investments	1,312	353
Cash and cash equivalents	262	56
Gross investment income	41,808	35,429
Investment expenses	(4,376)	(3,431)
Net investment income	$ 37,432	$ 31,998

5. Investments (continued)

Net (losses) gains on investments within the consolidated statements of operations for the years ended December 31, 2015 and 2014 consisted of the following:

	2015	2014
Net realized gains on investments	$ 5,813	$ 18,174
Net change in fair market value of investments	(16,268)	(971)
Net change in fair market value of derivative instruments	8	(37)
Net (losses) gains on investments	$ (10,447)	$ 17,166

6. Fair Value Measurements

At December 31, 2015 and 2014, the Company's financial instruments measured at fair value were categorized between Levels 1, 2 and 3 as follows:

At December 31, 2015	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Fixed maturities:				
Corporate	$ -	$ 531,744	$ 74,947	$ 606,691
Asset-backed securities	-	241,239	8,919	250,158
Mortgage-backed securities	-	117,026	-	117,026
U.S. government and agency	-	78,807	-	78,807
Non U.S. government	-	104,171	-	104,171
Municipals	-	81,689	-	81,689
Total fixed maturities	-	1,154,676	83,866	1,238,542
Equity securities:				
Debt funds	36,086	88,241	26,187	150,514
Preferred and common stocks	71,596	1,998	11,892	85,486
Equity funds	957	-	-	957
Fund of funds	14,351	13,375	22,920	50,646
Total equity securities	122,990	103,614	60,999	287,603
Other investments:				
Interest rate swap	-	(185)	-	(185)
Total assets	$ 122,990	$ 1,258,105	$ 144,865	$ 1,525,960
Liabilities				
Long term subordinated debt	$ -	$ -	$ 170,725	$ 170,725
Total liabilites	$ -	$ -	$ 170,725	$ 170,725

6. Fair Value Measurements (continued)

At December 31, 2014	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Fixed maturities:				
Corporate	$ -	$ 340,943	$ 31,896	$ 372,839
Asset-backed securities	-	346,143	6,105	352,248
Mortgage-backed securities	-	275,392	-	275,392
U.S. government and agency	-	102,795	-	102,795
Non U.S. government	-	46,565	-	46,565
Municipals	-	103,639	-	103,639
Total fixed maturities	-	1,215,477	38,001	1,253,478
Equity securities:				
Debt funds	61,401	41,586	87,237	190,224
Preferred and common stocks	42,123	-	12,613	54,736
Equity funds	1,445	1,668	-	3,113
Fund of funds	-	24,142	-	24,142
Total equity securities	104,969	67,396	99,850	272,215
Interest rate swap	-	(193)	-	(193)
Total assets	$ 104,969	$ 1,282,680	$ 137,851	$ 1,525,500
Liabilities				
Long term subordinated debt	$ -	$ -	$ 182,125	$ 182,125
Total liabilites	$ -	$ -	$ 182,125	$ 182,125

The following table presents a reconciliation of the beginning and ending balances for all financial instruments measured at fair value on a recurring basis using the Level 3 inputs for the years ended December 31, 2015 and 2014:

	Fixed maturities and Equity securities	Long term subordinated debt	Subordinated Loan Note
Balance at beginning of year, January 1, 2014	$ -	$ (90,507)	$ (110,000)
Amortization	-	-	(4,500)
Purchases	136,623	-	-
Debt acquired in acquisition	-	(99,377)	-
Repayment of loan	-	-	114,500
Net gains(*)	1,228	3,898	-
Foreign exchange gains	-	3,861	-
Balance at end of year, December 31, 2014	$ 137,851	$ (182,125)	$ -
Purchases	87,441	-	-
Transferred between levels	(81,209)	-	-
Net gains (*)	782	8,271	-
Foreign exchange gains	-	3,129	-
Balance at end of year, December 31, 2015	$ 144,865	$ (170,725)	$ -
(*) Level 3 gains (losses) included in earnings attributable to the change in unrealized gains and losses relating to financial instruments held at the reporting date	$ 782	$ 8,271	$ -

(*) Net gains (losses) on long term subordinated debt are included within change in subordinated debt fair value in the consolidated statements of operations.

During the year ended December 31, 2015, there was a transfer of $81.2 million from Level 3 to Level 2. This relates to Debt Fund securities of $63.6 million for which the underlying securities are valued using market observable information and the redemption notice period and frequency is considered to be in the near term and corporate bonds of $17.6 million where market pricing was available at December 31, 2015. During the year ended December 31, 2014 there were no transfers in or out of Levels 1, 2 or 3.

6. Fair Value Measurements (continued)

The carrying amount of financial assets and liabilities presented on the consolidated balance sheet as at December 31, 2015 and 2014 approximate their fair values. Transfers into and out of level 3 are recorded as of the end of the reporting period consistent with the date of determination of fair value.

7. Derivative instruments

The following table summarizes information on the location and amounts of derivative fair values on the consolidated balance sheets:

	Nominal amount		Balance Sheet Location	Fair Value	
At December 31, 2015					
Interest rate swap	$	2,125	Investments at fair value	$	(185)
Interest rate swap		125,000	Other Assets	$	489
Total	$	127,125		$	304
At December 31, 2014					
Interest rate swap	$	2,125	Investments at fair value	$	(193)
Total	$	2,125		$	(193)

On July 26, 2010, the Company entered into an interest rate swap to exchange fixed interest received on a Non U.S. government bond for floating interest rate. The interest rate swap matures on July 20, 2020.

This derivative has not been designated as a hedging instrument for financial reporting purposes.

The following table provides the total gains and losses recorded in earnings for the years ended December 31, 2015 and 2014:

	Gain (loss)		Statement of operations Location
Year ending December 31, 2015			
Interest rate swap	$	8	Net investment income
Total	$	8	
Year ending December 31, 2014			
Interest rate swap	$	(37)	Net investment income
Total	$	(37)	

On August 24, 2015, the Company entered into a $125 million interest rate swap with ING Bank N.V. to exchange floating rate interest paid on the Revolving Credit Facility for fixed interest of 1.38%. This interest rate swap matures on September 12, 2019.

This derivative has been designated as a hedging instrument for financial reporting purposes. The fair value of $489k is included in other comprehensive income for the year ended December 31, 2015.

8. Investments in real estate

The Company acquired three properties during 2015 and two properties during 2014 through its subsidiaries, Oxenwood Catalina Ltd. and Oxenwood Catalina II Ltd., both being Guernsey incorporated Companies, to generate returns via rental income and capital appreciation. On February 13, 2015, a property was purchased in Biggleswade, United Kingdom at a cost of $22.1 million including acquisition related expenses of $1.1 million. On September 25, 2015, a property was purchased in Immingham, United Kingdom, at a cost of $22.2 million including acquisition related expenses of $0.7 million. On December 21, 2015, a property was purchased in Newport Pagnell, United Kingdom at a cost of $30.2 million including acquisition related expenses of $1.4 million.

8. Investments in real estate (continued)

On October 7, 2014, a property was purchased in Rotherham, United Kingdom at a cost of $25.7 million including acquisition related expenses of $1.4 million. On December 19, 2014, a property was purchased in Runcorn, United Kingdom at a cost of $34.7 million including acquisition related expenses of $1.6 million. Company formation costs of $0.5 million were expensed and recognized within the general and administrative expenses in the consolidated statements of operations during the year ended December 31, 2014.

The cost of each property is split between land and buildings. The cost of the buildings is depreciated over a period of 40 years on a straight-line basis. Income from these real estate investments is recognized as per the terms of the lease agreements.

		2015		2014
Land, at cost	$	67,743	$	30,218
Buildings, at cost		67,743		30,218
Accumulated depreciation		(1,034)		(88)
Buildings, net of accumulated depreciation		66,709		30,130
Total	$	134,452	$	60,348

9. Intangible assets

On the acquisition of Quanta, the Company determined that the US insurance licenses held by Quanta Indemnity Company had an indefinite useful life. The Company determined that the value of the licenses acquired was their estimated net realizable value of $5.0 million. During 2014 the Company reviewed the carrying value of this asset and, based on a current offer for the licenses, assessed that the asset should be written down to $4.0 million.

On the acquisition of AGHBL, the Company acquired U.S. insurance licenses on all 50 states plus a Washington D.C. admitted insurance license for ANAIC. These licenses were valued at $6.4 million as of the date of acquisition.

Through the acquisition of the SPARTA Companies, AHUSCO has acquired licenses to operate in various states. The Company determined the value of the SPARTA Companies licenses at $9.0 million as of the date of acquisition.

On December 4, 2015, SIC sold Sparta Specialty Insurance Company. SIC received $2.9 million of cash, net of costs, for licenses with a book value of $2.7 million.

10. Outstanding losses and loss expenses

Outstanding losses and loss expenses as of December 31, 2015 and 2014 are as follows:

		2015		2014
Case reserves	$	680,136	$	662,113
Incurred but not reported		589,741		575,820
Structured settlements		258,119		291,899
Life reserves		33,494		40,779
Unamortized fair value adjustment		(20,668)		(29,207)
Deferred income		19,525		15,121
	$	1,560,347	$	1,556,525

Outstanding losses and loss expenses recoverable as of December 31, 2015 and 2014 are as follows:

Recoverables		2015		2014
Case reserves	$	104,988	$	142,242
Incurred but not reported		123,984		142,580
Structured settlements		258,119		291,899
Unamortized fair value adjustment		(16,402)		(23,661)
	$	470,689	$	553,060

10. Outstanding losses and loss expenses (continued)

The fair value adjustments represent the unamortized difference between the carrying value of reserves of acquired companies at the date of acquisition and the fair value of the reserves. The fair value of the outstanding losses and loss expenses was based on the estimated timing of reserve settlements discounted at a risk free rate and a risk margin determined by management. The fair value of the outstanding losses and loss expenses recoverable was based on the estimated timing of reserve settlements discounted at a risk adjusted rate determined by management reflecting credit risk and duration. The fair value adjustments are amortized over the estimated payout period using the constant yield method.

The deferred income relates to the Reinsurance Novation Agreement of CatGen with NBIC in 2015, 100% Quota-Share Reinsurance Agreement assumed by CatGen from Glencoe Insurance Ltd., a subsidiary of Renaissance Re Holdings Ltd in 2012 and the loss portfolio transfer assumed by Glacier Re from the Delta Lloyd Group in 2014.

CatGen, through its Canadian branch (formerly ABL Canadian branch), has assumed ownership of certain structured settlements and has purchased annuities from life insurance companies to provide fixed and recurring payments to the claimants. The gross liability for the structured settlements is fully recoverable from the life insurance companies resulting in no net liability to the Company. These annuities are fully funded and were purchased from Canadian life insurance companies with a Standard and Poor's Financial Strength Rating of A+ and higher. In the event of the life insurance companies being unable to meet their obligations under the structured settlements to the Company, 85% of the total exposure is recoverable from the Compensation Corporation of Canada leaving a net credit risk exposure of less than $40 million.

The following table represents the activity in outstanding losses and loss expenses for the years ended December 31, 2015 and 2014:

	2015	2014
Gross outstanding losses and loss expenses, beginning of year	$ 1,556,525	$ 578,652
Less reinsurance recoverable, beginning of year	(553,060)	(126,663)
Net losses and loss expenses, beginning of year	1,003,465	451,989
Net losses and loss expenses acquired	456,283	816,524
Net incurred losses related to:		
Current year	7,275	24,766
Prior years	(67,800)	(40,658)
	(60,525)	(15,892)
Net paid losses related to:		
Current year	(1,825)	(90,824)
Prior years	(298,747)	(136,355)
	(300,572)	(227,179)
Foreign exchange gains	(8,993)	(21,977)
Net losses and loss expenses, end of year	1,089,658	1,003,465
Reinsurance recoverable, end of year	470,689	553,060
Gross outstanding losses and loss expenses, end of year	$ 1,560,347	$ 1,556,525

During the year ended December 31, 2015 the Company experienced net favorable loss development of $67.8 million primarily due to a reduction in the estimates of ultimate incurred losses in the Company's UK motor insurance run-off business and the marine reinsurance run-off business, offset by adverse development of $19 million at SIC.

During the year ended December 31, 2014 the Company experienced favorable loss development of $40.7 million primarily due to a reduction in the estimates of ultimate incurred losses in the Company's Home Buyers' Warranty insurance run-off business and the marine, property and general liability reinsurance run-off business.

10. Outstanding losses and loss expenses (continued)

Net losses incurred of $(60.5) million (2014: $(15.9) million) are net of $21.1million (2014: $(4.1) million) of loss and loss expenses recovered from reinsurers. Included within net losses incurred is a positive effect from the net amortization of fair value adjustments of $5.6 million (2014: $3.2 million).

Management believes that the assumptions used represent a realistic and appropriate basis for estimating the outstanding losses and loss expenses as of December 31, 2015 and 2014. However, these assumptions are subject to change and the Company regularly reviews and adjusts its reserve estimates and reserving methodologies taking into account all currently known information and updated assumptions related to unknown information.

11. Loans payable

Catalina Revolving Credit Facility

On August 12, 2014, Catalina entered into a $225 million Revolving Credit Facility Agreement with Royal Bank of Scotland plc ("RBS") and other banks. The agreement was amended on October 28, 2014 to increase the amount to $250 million. The agreement was further amended on May 13, 2015 to increase the amount to $300 million. The facility is split between Catalina ($235 million) and AHUSCO ($65 million). The interest rate is based on LIBOR plus the applicable margin percentage based on gearing. Total outstanding loan as of December 31, 2015 was $289.4 million. During the year, the interest rates were between 3.40% to 3.84% which included a margin of 3.25%. As at December 31, 2015 the Catalina loans were comprised of a loan of $136 million and a loan of £60 million ($88.4 million).

Catalina	$ 224,401
AHUSCO	65,000
Balance at December 31, 2015	$ 289,401

Catalina's Revolving Credit Facility Agreement has financial covenants in relation to maximum gearing ratios and minimum aggregate group regulatory capital. At December 31, 2015 and 2014, Catalina was in compliance with all covenants under the Revolving Credit Facility Agreement.

Oxenwood Loan Facility

On November 10, 2014 OXW Catalina (Logistics) Limited ("OXW") entered into a £7.55 million Term Loan Facility Agreement with RBS in order to partially fund its purchase of a real estate investment in Rotherham, United Kingdom. Interest periods are of three months and the interest rate is based on LIBOR plus a margin of 1.5%. On December 18, 2014 the loan was increased by £10.49 million in order to partially fund the purchase of a real estate investment in Runcorn, United Kingdom. The interest rate for the additional £10.49 million is based on LIBOR plus a margin of 1.6%. The loan is secured by a first ranking legal charge over the properties. The loan expires on May 10, 2018. On February 13, 2015 the loan was increased by £6.845 million in order to partially fund the purchase of a real estate investment in Biggleswade, United Kingdom. On August 19, 2015 OXW Catalina (Immingham) Limited ("OXWCI") entered into a £10.375 million Term Loan Facility Agreement with RBS in order to partially fund its purchase of a real estate investment in Immingham, United Kingdom. As of December 31, 2015, £7.573 million of this Term Loan Facility had been drawn down. Interest periods are of three months and the interest rate is based on LIBOR plus a margin of 1.6%. The loan is secured by a first ranking legal charge over the property. The loan expires on May 10, 2018.

On December 18, 2015 OXW Catalina (NPP) Limited ("OXWCNPP") entered into a £9.675 million Term Loan Facility Agreement with Wells Fargo Bank International in order to partially fund its purchased of a real estate investment in Newport Pagnell, United Kingdom. Interest periods are of three months and the interest rate is based on LIBOR plus a margin of 1.7%. The loan is secured by a first ranking legal charge over the property. The loan expires on June 18, 2018.

Each of OXW, OXWCI and OXWCNPP's Term Loan Facility Agreement has financial covenants in relation to net rental income interest cover and loan to value. During 2015 and 2014 each of OXW, OXWCI and OXWCNPP was in compliance with all covenants under their respective Term Loan Facility Agreements.

11. Loans payable (continued)

Long term subordinated debt

Prior to the acquisition by Catalina, Glacier Re issued a total of $68.0 million and Euro 26.0 million of floating rate unsecured subordinated notes to support its underwriting activities. The notes are due in 2035 and include options for Glacier Re for partial or full early repayment, respectively, and to defer interest for up to 20 consecutive quarters but not beyond the maturity date of the respective notes. The notes rank pari passu without any preference among themselves and do not contain any covenants concerning financial ratios or specified levels of net worth or liquidity.

Interest on the subordinated debt is based on LIBOR or EURIBOR plus a margin between 3.25% and 3.70%. Interest expense in connection with these notes was $3.6 million for the year ended December 31, 2015 (2014: $3.9 million) and is included within interest expense in the consolidated statements of operations.

Prior to acquisition by Catalina, AHUSCO issued a total of $120 million of TruPS. The TruPS were issued by three Delaware trusts established by AHUSCO and provide for a preferred dividend at a rate of 3-month LIBOR plus margin of 2.85%. These securities allow for the postponement of preferred dividends under certain circumstances for up to five years. The TruPS carry no financial covenants or cross default covenants, have a fixed maturity in 2034 / 2035 and are callable. The holders of the TruPS may not call the securities prior to their maturity dates. Interest expense on the TruPS in 2015 is $3.8 million and in 2014 was $2.9 million and is included within interest expense in the consolidated statement of operations.

Catalina Bravo debt facility agreement

On April 17, 2013 Catalina Bravo Ltd. ("Catalina Bravo") borrowed $41.8 million under its Term Facility Agreement in order to fund the payment by the Company for the acquisition of KX Re. The interest rate reset at intervals of one, three or six months at the Company's pre-selection and is based on LIBOR plus a margin of 3.50%. During the year, the interest rates ranged from 3.65% to 3.67%. On April 17, 2014 Catalina Bravo repaid $18.7 million of the outstanding balance. On March 13, 2015 Catalina Bravo repaid $14.3 million. On April 9, 2015 another payment of $1.8 million was made and on December 21, 2015, final payment of $7.0 million was made.

Catalina Bravo's loan facility had financial covenants in relation to maximum gearing ratios and minimum capital requirements. During 2014 and 2015, Catalina Bravo was in compliance with all covenants under the loan facility.

Catalina Charlie debt facility agreement

On July 18, 2013 Catalina Charlie Ltd. ("Catalina Charlie") borrowed $15 million under its Term Facility Agreement in order to fund a distribution to the Company. The interest rate reset at intervals of any duration of up to three months at the Company's pre-selection and is based on LIBOR plus a margin of 3.50%. During the year, the interest rates ranged from 3.73% to 3.74%. On July 18, 2014 Catalina Charlie repaid $6.0 million of the outstanding balance. On February 10, 2015, the Company repaid the $9 million outstanding balance.

Catalina Charlie's loan facility had financial covenants in relation to maximum gearing ratios and minimum capital requirements. During 2014 and 2015, Catalina Charlie was in compliance with all covenants under the loan facility.

Catalina Echo debt facility agreement

On July 8, 2013 Catalina Echo Ltd. ("Catalina Echo") borrowed $90 million under its Term Facility Agreement in order to fund the payment to Catalina Delta Ltd. of the purchase price of Glacier Re. The loan had two Facilities under the agreement, i.e. Facility A and Facility B having total commitments of $40 million and $50 million respectively. The loan was secured by a stock pledge agreement in respect of 100% of the issued share capital of Glacier Re. Catalina Echo could select an interest period of one or three months or any other period agreed with the lending banks. The interest rate for Facility A was based on LIBOR plus a margin of 3.35%. Facility B was based on a margin of 3.9% per annum until Facility A was repaid in full and subsequently a margin of 3.5%. During the year, the interest rates were 3.67% to 3.68%.

11. Loans payable (continued)

Catalina Echo had the right, giving prior notice, to prepay the whole or any part of the loan prior to the termination date. During 2013 Catalina Echo repaid Facility A. Catalina Echo repaid $10 million of Facility B on January 21, 2015, $5 million on April 9, 2015, $10 million on June 8, 2015 and the final payment of $25 million on June 12, 2015.

Catalina Echo's loan facility had financial covenants in relation to maximum gearing ratios, the minimum net worth of Glacier Re and minimum debt service cover. During 2014 and 2015, Catalina Echo was in compliance with all covenants under the loan facility.

Catalina Foxtrot debt facility

On October 15, 2012, Catalina Foxtrot Holdings Limited ("Catalina Foxtrot") borrowed GBP 32.8 million from RBS under its Term Facility Agreement in order to partially fund its purchase of Catalina Reinsurance Ireland Limited ("CRIL") and CIIL. The loan was secured by a stock pledge agreement in respect of 100% of the issued share capital of Catalina Foxtrot Limited (a wholly-owned subsidiary of Catalina Foxtrot and the parent company of CRIL and CIIL). Catalina Foxtrot could select an interest period of one, three or six months or any other period agreed with RBS, and the interest rate was based on LIBOR plus a margin of 3.50%. Catalina Foxtrot repaid GBP 21.8 million on July 11, 2013. The remaining balance was repaid on June 19, 2014.

Catalina Foxtrot's Term Facility Agreement had financial covenants in relation to maximum gearing ratios and minimum debt service cover. During 2014, Catalina Foxtrot was in compliance with all covenants under the Term Facility Agreement.

CHBL subordinated loan notes

CHBL issued four senior zero coupon loan notes with an aggregate value of $114.5 million to NFF L.P Inc. in December 2013 as consideration for common and preference shares repurchased and extinguished. Terms of the loan note included that no interest shall accrue on the unpaid principal balance of the note and only a final payment shall be made at the end of the term, i.e. December 31, 2014.

The fair value of the loan note was calculated using an effective discount rate of 4.09%. The discount rate was calculated based on Catalina's current borrowing rate for existing debt facilities. Therefore at the date of issuance the fair value of the loan note was $110.0 million giving rise to a discount of $4.5 million to be amortized using the effective interest method over the life of the loan note. The note was fully paid on December 30, 2014.

Interest expense in connection with the Company's debt facilities, long term subordinated debt and subordinated loan notes was $21.1 million for the year ended December 31, 2015 (2014: $16.8 million) and is included within interest expense in the consolidated statements of operations.

12. Concentrations, commitments and contingencies

a) Concentrations of credit risk

As of December 31, 2015 and 2014 substantially all of the Company's cash and cash equivalents, and investments were held by eight custodians. Management monitors the credit ratings of these custodians and believes them to be of high credit quality. The Company's investment portfolio is primarily managed by external investment advisors in accordance with the Company's investment guidelines. The Company limits its exposure to any single issuer to 5% or less of the total portfolio's market value at the time of purchase, with the exception of U.S. government and agency securities. As of December 31, 2015 the largest single non-U.S. government and agency issuer accounted for 3.4% (2014: 3.7%) of the aggregate market value of the Company's invested assets. As of December 31, 2015, the Company's fixed maturity investments had a weighted average Standard & Poor's credit rating of BBB+.

At December 31, 2015 the Company had a provision for uncollectible premiums receivable of $5.9 million (2014: $2.4 million).

12. Concentrations, commitments and contingencies (continued)

Reinsurance assets due from reinsurers include outstanding losses and loss expenses recoverable and deferred reinsurance premiums. The Company is subject to credit risk with respect to reinsurance ceded because the ceding of risk does not relieve the Company from its primary obligations to its policyholders. The concentration of credit risks relating to the structured settlements is explained in Note 10. Failure of the Company's reinsurers to honor their obligations could result in credit losses. As of December 31, 2015 the Company has recorded a provision for credit losses relating to outstanding losses and loss expenses recoverable of $24.4 million (2014: $25.8 million). During the year ended December 31, 2015 outstanding loss and loss expenses recoverable of $0.5 million were written off (2014: $0.2 million).

Two reinsurers each accounted for more than 10% of the outstanding losses and loss expenses recoverable balance as of December 31, 2015. These reinsurers were rated A+ and AA- by S&P as at December 31, 2015. The Company's reinsurers had a weighted average credit rating of A+ as of December 31, 2015.

b) Restricted assets

The Company is required to maintain assets on deposit with various regulatory authorities to support its insurance and reinsurance operations. These requirements are generally promulgated by the regulations of the individual locations within which the Company operates. These funds on deposit are available to settle insurance and reinsurance liabilities.

The Company has also issued letters of credit ("LOC") under its credit agreements (for which cash and cash equivalents and investments are pledged as security) and in favor of certain ceding companies to collateralize its obligations under contracts of insurance and reinsurance (see Note 15).

The Company also utilizes trust funds where the trust funds are set up for the benefit of the ceding companies, and generally take the place of LOC requirements.

The fair values of these restricted assets by category at December 31, 2015 and 2014 are as follows:

	2015		2014	
	Cash and cash equivalents	Investments	Cash and cash equivalents	Investments
Deposits with U.S. insurance regulatory authorities	$ 3,480	$ 151,162	$ 1,600	$ 163,963
LOC pledged assets	30,245	116,674	39,164	104,232
Trust funds	50,254	332,361	52,218	189,602
Amounts held in trust funds related to deposit liabilities	578	-	-	-
Total	$ 84,557	$ 600,197	$ 92,982	$ 457,797

c) Fund commitments

As of December 31, 2015 the Company has unfunded capital commitments for fund investments of $16.8 million.

d) Lease commitments

The Company leases office space and furniture and equipment under operating lease agreements. Rent expenses are being recognized on a straight-line basis over the respective lease terms. Future annual minimum payments under non-cancelable operating leases are as follows:

Year ending December 31,	
2016	$ 374
2017	452
2018	175
2019	45
2020	11
Total	$ 1,057

12. Concentrations, commitments and contingencies (continued)

Total rent expense under operating leases for the year ended December 31, 2015 was approximately $1.3 million (2014: $1.4 million).

e) Contingent liabilities

The Company and/or its subsidiaries, from time to time, are a party to litigation and/or arbitration that arises in the normal course of its business operations. The Company and/or its subsidiaries are also subject to other potential litigation, disputes and regulatory or governmental inquiries.

13. Taxation

Under current Bermuda law, the Company and its Bermuda subsidiaries are not required to pay any taxes in Bermuda on income including realized capital gains. The Company has received an undertaking from the Minister of Finance of Bermuda that, in the event of any taxes being imposed, the Company will be exempt from taxation in Bermuda until March 2035.

The Company has operating subsidiaries in the United States, United Kingdom, Switzerland and Ireland and is subject to the relevant taxes in those jurisdictions. The Company is not subject to taxation other than as stated above. There can be no assurance that there will not be changes in applicable laws, regulations or treaties, which might require the Company to become subject to additional taxation.

During 2015 withholding tax of $41,884 was paid by SIC. During 2014 withholding tax of $17,000 was paid on a distribution from RLCH to Catalina Echo. No U.S. Federal tax was paid during 2015 and 2014.

During 2015, there was a non U.S. tax refund of $25,351. During 2014, non U.S. tax of $29,570 was paid.

Deferred income taxes reflect net operating loss carryforwards and the tax impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for income tax purposes. The significant components of the net deferred tax assets and liabilities as of December 31, 2015 and 2014 are as follows:

	2015	2014
Deferred tax assets:		
Investments	$ 2,808	$ 2,669
Outstanding losses and loss expenses	9,508	11,136
Unearned premiums	1,786	2,736
Net operating loss carry forwards	117,975	108,512
Capital loss carry forwards	3,220	2,165
Other	3,706	1,346
Total deferred tax assets	139,003	128,564
Valuation allowance	(112,565)	(99,713)
Total deferred tax assets net of valuation allowance	26,438	28,851
Deferred tax liabilities:		
Investments	(5,194)	(8,547)
Goodwill	(2,898)	(5,462)
Outstanding losses and loss expenses	(6,312)	(2,357)
Subordinated debt	(1,341)	(1,348)
Underwriting results subject to timing differences for taxation	(1,303)	(482)
Other	(8,203)	(7,655)
Total deferred tax liabilities	(25,251)	(25,851)
Net deferred tax asset	$ 1,187	$ 3,000

13. Taxation (continued)

The deferred tax asset and liability balances presented above represent the gross deferred tax asset and liability balances across each tax jurisdiction. The net deferred tax asset balance of $1.2 million (2014: $3.0 million) includes deferred tax assets of $2.0 million within other assets and $0.8 million deferred tax liability within accounts payable, accrued expenses and other liabilities in the consolidated balance sheet as of December 31, 2015. The net deferred tax asset balance of $2.0 million included within other assets, includes netting of certain deferred tax assets and liabilities within a tax jurisdiction to the extent such netting is consistent with the regulations of the tax authorities in those jurisdictions.

As of December 31, 2015, the Company has a deferred tax asset of $118.0 million (2014: $108.5 million) generated by net operating loss carry forwards ("NOL") of approximately $492.8 million (2014: $462.3 million), of which $234.2 million (2014: $192.1 million) relates to NOL in the United States ("U.S. NOL"), $142.0 million (2014: $146.0 million) relates to NOL in the United Kingdom ("UK NOL"), $77.5 million (2014: $79.8 million) relates to NOL in Switzerland ("Swiss NOL") and $39.1 million (2014: $44.3 million) relates to NOL in Ireland ("Irish NOL").

During 2015 the Company released the $3.4 million valuation allowance relating to the deferred tax asset for the net operating loss carry forwards of Glacier Re. This deferred tax asset was offset against the deferred tax liabilities of Papiro at acquisition and resulted, together with Papiro's assets, in a gain of $3.7 million included within gain on acquisition in the consolidated statement of operations.

In relation to the U.S. NOL, UK NOL and the Irish NOL the Company believes that it is more likely than not that the deferred tax asset will not be recognized. Accordingly, the Company has recorded a full valuation allowance against these net deferred tax assets as of December 31, 2015 and 2014.

14. Shareholders' equity

a) Preference share capital

As at December 31, 2015, the Company has authorized preference share capital of 488,000,000 8% non-convertible, cumulative, redeemable, preference shares of $1.00 each.

During 2015 the Company issued 97,667,349 (2014: 10,767,837) preference shares at par. In accordance with the terms of the preference shares, a return of 8% per annum accrues on the subscription price.

The Company has the right to redeem all or any of the preference shares, at par, at any date. However, U.S. preference shareholders shall have the right to decline in whole or in part the redemption of the shares.

During the year ended December 31, 2015, dividends of $13.6 million (2014: $11.2 million) have been accrued and are included in preference shares. On June 30 each year the unpaid preference share dividends are converted to preference shares. For U.S. shareholders, $11.1 million has been accrued for the year ended December 31, 2015 (2014: $9.1 million) as an increase in the subscription value of preference shares held. This amount is included within additional paid-in capital in the consolidated statements of changes in shareholders' equity.

b) Ordinary share capital

The authorized and issued and authorized ordinary share capital of the Company, all with a par value of $1.00, consists of the following for the years ending December 31, 2015 and 2014:

	Class "A"	Class "B"	Class "C"
Authorized, issued and outstanding ordinary shares at January 1, 2014 and December 31, 2014	6,692,308	600,000	400,000
Shares authorized and issued....	-	-	18,100
Authorized, issued and outstanding ordinary shares at December 31, 2015	6,692,308	600,000	418,100

14. Shareholders' equity (continued)

During the year ended December 31, 2015, 18,100 Class C ordinary shares were issued to management for no consideration. The estimated value of the shares of $0.12 million has been included in the General and administrative expenses.

The holders of all classes of the Ordinary shares shall have one vote for every Ordinary share held.

Except with the consent or sanction of all of the Preference shareholders, no dividend shall be declared or paid by the Company on the Ordinary shares unless and until all arrears and accruals of the Preference shares have been satisfied.

During the year ended December 31, 2015 dividends of $2.6 million (2014: $1.9 million) were paid to the holders of the Class "B" and Class "C" shares. Class "B" and Class "C" shares are owned by management.

The Company also has 162,896 authorized but unissued ordinary shares. These shares are currently not assigned to Class "A", "B" or "C".

On March 17, 2016 the Company declared dividends of $2.8 million to the holders of the Class "B" and Class "C" shares.

15. Credit agreements

Two of Catalina Alpha's subsidiaries have a discretionary collateralized LOC agreement with Comerica Bank. The aggregate commitment under this agreement is currently up to $93 million. Availability for issuances of LOCs on account of any borrower is based on the amount of eligible investments pledged by the applicable borrower(s). The agreements contain financial and other covenants, among them a requirement to maintain a minimum statutory capital and surplus value. At December 31, 2015, the outstanding LOC issued under the facility were $60.9 million (2014: $82.2 million). During the year ended December 31, 2015, the Company was in compliance with the covenants under the facility. As of December 31, 2014, Catalina Safety had $8.8 million of outstanding LOC with Coutts Bank. On July 24, 2015, the Coutts LOC was replaced through an uncommitted LOC facility agreement with ING Bank N.V. At December 31, 2015, the outstanding LOC issued under this facility was $7.4 million.

Prior to the acquisition of AGHBL by the Company, AGHBL entered into discretionary collateralized LOC agreement with Citibank N.A. ("Citibank"). Availability for issuances of LOCs is based on the amount of eligible investments pledged. At December 31, 2015, the outstanding LOCs issued under the Citibank LOC agreement were $12.5 million (2014: $16.5 million). Catalina acquired a LOC agreement with Citibank Europe Plc following the acquisition of Catalina UK. At December 31, 2015, the outstanding LOCs issued under the facility were $20.8 million (2014: $22.7 million).

Prior to the acquisition of WestGen by Catalina, WestGen entered into a discretionary collateralized LOC agreement with Citibank. Availability for issuances of LOCs is based on the amount of eligible investments pledged. At December 31, 2015, the outstanding LOCs issued under the facility were $6.3 million (2014: $7.0 million).

Prior to the acquisition of Glacier Re by Catalina, Glacier Re entered into a collateralized LOC agreement with UBS AG. The aggregate commitment under this agreement is $30.0 million at December 31, 2015 and the outstanding LOCs issued under the facility were $19.1 million (2014: $24.5 million).

Prior to the acquisition of PXRE by Catalina, PXRE entered into a collateralized LOC agreement with Merrill Lynch. At December 31, 2015, the outstanding LOCs issued under the facility were $3.5 million.

16. Statutory financial information and dividend restrictions

The Company is subject to a 30% withholding tax on certain dividends received from its U.S. subsidiaries.

The Company's insurance and reinsurance subsidiaries are subject to insurance laws and regulations in the jurisdictions in which they operate, which are Bermuda, the United States, the United Kingdom, Switzerland and Ireland. The regulations in these jurisdictions include restrictions that limit the amount of dividends or other distributions available to shareholders without prior approval of the insurance regulatory authorities. Typically, these restrictions relate to minimum levels of solvency, capital and liquidity as defined by the relevant insurance laws and regulations.

16. Statutory financial information and dividend restrictions (continued)

Statutory capital and surplus for the principal operating subsidiaries of the Company in these jurisdictions as of December 31, 2015 was:

	Required minimum	Actual
Bermuda	$ 46,332	$ 164,432
United States	60,565	259,727
UK	17,132	68,485
Switzerland (*)	77,800	184,700
Ireland	4,028	195,303

The statutory capital and surplus required by the relevant regulatory authorities in any jurisdiction may be significantly in excess of the minimum required statutory capital and surplus and, as a result, the maximum surplus available for distribution may be significantly lower than shown in the table above.

(*) Annually, Glacier Re calculates Risk Bearing Capital and Target Capital pursuant to the Swiss Solvency Test rules and regulations. Risk Bearing Capital is defined as the difference between the market consistent value of assets less the best estimate value of liabilities. The long term subordinated debt is considered to be supplementary capital and is therefore included in the Risk Bearing Capital. As at December 31, 2015 Glacier Re had Risk Bearing Capital of approximately $255 million. Target Capital as of December 31, 2015 was approximately $95 million. As such, Glacier Re has significant excess capital as at December 31, 2015.

The Company's U.S. subsidiaries required statutory capital and surplus is determined using various criteria, including risk based capital tests. If a company falls below certain levels of risk based capital, and dependent upon the degree to which the company falls below, the commissioner of insurance with jurisdiction of the company is authorized to take certain regulatory actions to protect policyholders and creditors.

As at December 31, 2015 and 2014, there are statutory restrictions on the payment of dividends from retained earnings or the return of capital from some of the Company's subsidiaries. All of the Company's regulated reinsurance and insurance subsidiaries require regulatory approval before paying a dividend from retained earnings or returning capital.

At December 31, 2015 and 2014, the Company met the minimum levels of solvency and liquidity in all jurisdictions in which the Company operates.

17. Subsequent Events

On March 29, 2016, the Company through its wholly owned subsidiary Catalina Holdings UK Limited signed a definitive agreement to acquire AGF Insurance Limited ("AGF") from AGF Holdings (UK) Limited, a subsidiary of Allianz SE.

AGF is a UK regulated insurance company incorporated in 1960. It wrote predominantly direct Employers and Public liability insurance in the UK. It ceased writing new business and went into run-off in 1999. At December 31, 2015, AGF had total assets of £270 million ($389 million), undiscounted gross reserves of £185 million ($266 million), and pro-forma shareholder's equity of £79 million ($113 million).

The transaction is subject to approval by the Prudential Regulation Authority, the UK insurance regulator and is expected to close in the 3rd quarter of 2016.

In preparing the consolidated financial statements, the Company has evaluated subsequent events through April 13, 2016, which is the date that these financial statements were issued, and concluded that there are no other items requiring disclosure, other than those disclosed in Note 14(b).

CATALINA HOLDINGS (BERMUDA) LTD.

CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT AUDITORS

FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013

CATALINA HOLDINGS (BERMUDA) LTD.

FINANCIAL STATEMENTS

KPMG Audit Limited
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Hamilton HM 08 Bermuda

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Independent Auditors' Report

To the Board of Directors
Catalina Holdings (Bermuda) Ltd.

We have audited the accompanying consolidated financial statements of Catalina Holdings (Bermuda) Ltd. and its subsidiaries which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Catalina Holdings (Bermuda) Ltd. and its subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 2, 2015

CATALINA HOLDINGS (BERMUDA) LTD.
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013
(Expressed in thousands of U.S. dollars)

		2014		2013
Assets				
Investments at fair value (amortized cost December 31, 2014: $1,508,282; December 31, 2013: $842,927)	$	1,525,500	$	869,179
Cash and cash equivalents		170,139		190,443
Restricted cash and cash equivalents		92,982		83,208
Accrued investment income		9,352		5,132
Funds held by cedants and claims administrators		90,118		42,556
Outstanding losses and loss expenses recoverable		553,060		126,663
Insurance and reinsurance balances receivable		69,432		61,424
Deferred reinsurance premiums		20,989		33,113
Investments in real estate		60,348		-
Other assets		35,256		8,302
Intangible assets		19,450		5,000
Total assets	$	2,646,626	$	1,425,020
Liabilities				
Outstanding losses and loss expenses	$	1,556,525	$	578,652
Unearned premiums		49,935		71,344
Deposit liabilities		-		31,738
Insurance and reinsurance balances payable		88,493		37,003
Accounts payable, accrued expenses and other liabilities		30,430		25,432
Long term subordinated debt		182,125		90,507
Loans payable		341,137		234,966
Total liabilities		2,248,645		1,069,642
Shareholders' equity				
Ordinary shares		7,693		7,693
Preference shares		258,761		247,560
Additional paid-in capital		15,508		6,390
Retained earnings		114,188		93,100
Accumulated other comprehensive income		184		635
Total Catalina Holdings (Bermuda) Ltd. shareholders' equity		396,334		355,378
Non-controlling interest		1,647		-
Total shareholders' equity		397,981		355,378
Total liabilities and shareholders' equity	$	2,646,626	$	1,425,020

The accompanying notes are an integral part of these consolidated financial statements

CATALINA HOLDINGS (BERMUDA) LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended December 31, 2014 and 2013
(Expressed in thousands of U.S. dollars)

	2014	2013
Revenues		
Gross premiums written	$ (4,128)	$ (6,544)
Premiums ceded	(3,276)	(598)
Net premiums written	(7,404)	(7,142)
Change in net unearned premiums	48,960	22,002
Net premiums earned	41,556	14,860
Net losses and loss expenses	15,892	36,884
Commissions	(6,025)	3,128
Net run-off income	51,423	54,872
Net investment income	31,998	21,410
Net gains on investments	17,166	6,016
Rental income	488	-
Net foreign exchange (losses) gains	(586)	3,381
Gain on acquisition	7,827	6,394
General and administrative expenses	(51,510)	(34,546)
Change in subordinated debt fair value	3,898	(6,278)
Interest expense	(16,774)	(8,675)
Income before income taxes	43,930	42,574
Income tax expense	(654)	(276)
Net income	$ 43,276	$ 42,298
Add: Net loss attributable to non-controlling interest	9	-
Net income attributable to Catalina Holdings (Bermuda) Ltd.	$ 43,285	$ 42,298

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2014 and 2013
(Expressed in thousands of U.S. dollars)

	2014	2013
Net income attributable to Catalina Holdings (Bermuda) Ltd.	$ 43,285	$ 42,298
Other comprehensive (loss) income, before and net of tax:		
Foreign currency translation adjustments	(451)	110
Other comprehensive (loss) income, before and net of tax	(451)	110
Comprehensive income	$ 42,834	$ 42,408

The accompanying notes are an integral part of these consolidated financial statements

CATALINA HOLDINGS (BERMUDA) LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2014 and 2013
(Expressed in thousands of U.S. dollars except for share and per share amounts)

		2014		2013
Share capital - "A" Ordinary shares of par value $1.00 each				
Balance at beginning and end of year	$	6,693	$	9,000
Repurchased during year		-		(2,307)
Balance at end of year		6,693		6,693
Share capital - "B" Ordinary shares of par value $1.00 each				
Balance at beginning and end of year		600		600
Share capital - "C" Ordinary shares of par value $1.00 each				
Balance at beginning and end of year		400		400
Preference share capital - Preference shares of par value $1.00 each				
Balance at beginning of year		247,560		314,544
Issued during year		10,767		23,679
Redeemed during year		-		(84,153)
Change in accrued dividends during year		434		(6,510)
Balance at end of year		258,761		247,560
Additional paid-in capital				
Balance at beginning of year		6,390		1,643
Increase in subscription value of preference shares		9,118		4,747
Balance at end of year		15,508		6,390
Retained earnings				
Balance at beginning of year		93,100		100,426
Preference shares dividends and subscription value increase		(20,319)		(24,740)
"A" ordinary shares repurchased		-		(20,716)
Dividends on "B" and "C" Ordinary shares		(1,869)		(4,168)
Net income		43,276		42,298
Balance at end of year		114,188		93,100
Accumulated other comprehensive income				
Balance at beginning of year		635		525
Other comprehensive (loss) income		(451)		110
Balance at end of year		184		635
Total shareholders' equity	$	396,334	$	355,378

The accompanying notes are an integral part of these consolidated financial statements

CATALINA HOLDINGS (BERMUDA) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2014 and 2013
(Expressed in thousands of U.S. dollars)

	2014	2013
Cash flows from operating activities		
Net income	$ 43,285	$ 42,298
Adjustments to reconcile net income to net cash used in operating activities		
Gain on acquisition	(7,827)	(6,394)
Depreciation of property and equipment	242	143
Amortization of net discounts on investments	(3,161)	(1,585)
Write-off of intangible asset	1,000	-
Net gains on investments	(17,166)	(6,016)
Net loss attributable to non-controlling interest	(9)	-
Change in subordinated debt fair value	(3,898)	6,278
Changes in assets and liabilities:		
Restricted cash and cash equivalents	(9,774)	47,803
Accrued investment income	1,135	1,667
Funds held by cedants and claims administrators	44,588	-
Outstanding losses and loss expenses recoverable	56,201	46,061
Insurance and reinsurance balance receivable	12,917	17,813
Deferred reinsurance premiums	21,454	21,015
Other assets	(23,917)	5,295
Outstanding losses and loss expenses	(107,297)	(148,603)
Unearned premiums	(41,433)	(39,434)
Deposit liabilities	(30,180)	(1,539)
Accounts payable, accrued expenses and other liabilities	(10,951)	(6,436)
Insurance and reinsurance balances payable	(2,791)	(19,449)
Net cash used in operating activities	(77,582)	(41,083)
Cash flows used in investing activities		
Payment for acquisitions, net of cash acquired	(105,520)	(43,116)
Purchases of investments	(1,264,046)	(750,274)
Proceeds from sale or maturity of investments	1,377,587	748,990
Investment in real estate	(60,436)	-
Net cash used in investing activities	(52,415)	(44,400)
Cash flows provided by financing activities		
Capital contributions for non-controlling interest	1,656	-
"B" and "C" Ordinary shares dividend	(1,869)	(4,168)
Proceeds from issuance of loans payable	332,037	106,774
Repayment of loans	(225,866)	(81,339)
Net cash provided by financing activities	105,958	21,267
Effect of exchange rate changes	3,734	(80)
Decrease in cash and cash equivalents	(20,304)	(64,296)
Cash and cash equivalents at beginning of year	190,443	254,739
Cash and cash equivalents at end of year	$ 170,139	$ 190,443
Supplemental information:		
Interest paid	$ 17,503	$ 5,845
Income taxes paid	$ 766	$ 831

The accompanying notes are an integral part of these consolidated financial statements

1. Description of business

Catalina Holdings (Bermuda) Ltd. ("Catalina" or the "Company"), incorporated on June 25, 2007, is a holding company organized under the laws of Bermuda. Catalina, through its subsidiaries located in Bermuda, the United States, the United Kingdom, Ireland and Switzerland, was formed to acquire and manage non-life insurance and reinsurance companies and portfolios of insurance and reinsurance business in run-off. Since its formation it has completed the acquisition of sixteen insurance and reinsurance companies and portfolios of insurance and reinsurance business. These acquisitions are outlined below.

On October 10, 2008, the Company completed the acquisition of Quanta Capital Holdings Ltd. ("Quanta") and its wholly owned subsidiaries. Quanta, through its subsidiaries, wrote specialty lines insurance and reinsurance in the United States, Europe and Bermuda. Quanta has been in active run-off since 2006.

On October 29, 2009 the Company completed the acquisition of Alea Holdings UK Limited and its subsidiaries. Alea Holdings UK Limited was subsequently renamed Catalina Holdings UK Limited ("Catalina UK"). Catalina UK owns Catalina London Limited, an insurance and reinsurance company that has been in run-off since 2005.

On July 19, 2010, the Company completed the acquisition of Western General Insurance Ltd. ("WestGen"), a Bermuda based company that had been in run-off since 2006. WestGen was subsequently renamed Catalina General Insurance Ltd. ("Catalina General") and wrote worldwide property and casualty business.

On April 21, 2011, the Company completed the acquisition of Glacier Reinsurance AG ("Glacier Re"). Glacier Re is a Swiss-based company that wrote reinsurance coverages on property & casualty, aerospace, marine & energy and catastrophe lines of business until it was placed into run-off in August 2010.

On October 12, 2011 the Company completed the acquisition of Residential Loss Control Holdings, LLC ("RLCH"). RLCH is a US-based company that, through two owned risk retention groups, underwrote new home warranty business until they were placed into run-off in August 2010.

On October 15, 2012, the Company completed the acquisition of HSBC Reinsurance Limited and HSBC Insurance (Ireland) Limited, subsequently renamed Catalina Reinsurance Ireland Limited ("CRIL") and Catalina Insurance Ireland Limited ("CIIL"), respectively. CRIL primarily wrote quota-share reinsurance on UK Creditor, Household and Travel business that was sold to HSBC customers. CRIL also wrote excess of loss and catastrophe protections. CIIL wrote direct business in the Irish and UK retail, home and motor markets. It also wrote school fees business and non-life Italian Creditor business. CRIL and CIIL have been in run-off since 2010 and 2009, respectively.

On November 15, 2012, the Company, through its subsidiary Catalina General, assumed a loss portfolio transfer from Renaissance Reinsurance Ltd. The portfolio comprised of contractors wrap-up policies which cover the developer, contractor and subcontractors on construction projects. These were mainly condominium projects in the state of California. There is a 50% quota share reinsurance in place for all policies with effective dates of July 1st 2004 and subsequent.

On April 16, 2013, Catalina UK acquired KX Reinsurance Company Ltd. ("KX Re") and its subsidiary OX Reinsurance Company Ltd. KX Re wrote direct reinsurance business principally in the London insurance market between 1951 and 1992 when it was closed to new business.

On October 8, 2013, Catalina completed the acquisition of American Safety Reinsurance Ltd. ("ASRE") based in Bermuda. ASRE was subsequently renamed Catalina Safety Reinsurance Ltd. ("Catalina Safety"). Catalina Safety wrote related and third party casualty business, primarily in the US General Liability, Professional Liability and Medical Malpractice markets. It also wrote Italian Medical Malpractice business. Catalina Safety had been writing third party business since 2007.

1. Description of business – (continued)

On March 27, 2014, Catalina completed the acquisition of Alea Group Holdings (Bermuda) Ltd. ("AGHBL"). AGHBL through its two regulated subsidiaries, Alea North America Insurance Company ("ANAIC") and Alea (Bermuda) Ltd. ("ABL") wrote life and non-life business in the US, Canada, Continental Europe, Singapore and Bermuda. AGHBL went into run-off in 2005.

On June 30, 2014 Glacier Re assumed a loss portfolio transfer from the Delta Lloyd Group for a portfolio of approximately $180 million of marine insurance liabilities.

On September 15, 2014, the Company, through its wholly-owned subsidiary, Alea Holdings US Company ("AHUSCO"), completed the acquisition of SPARTA Insurance Holdings, Inc., and its wholly-owned subsidiaries, SPARTA Insurance Company, SPARTA Specialty Insurance Company and SPARTA American Insurance Company (together the "SPARTA Companies"). The SPARTA Companies wrote commercial auto, general liability, workers' compensation and property business. The SPARTA Companies were put into run-off during 2014, with the last policies written effective September 30, 2014.

On November 14, 2014, the Company, through its wholly-owned subsidiary AHUSCO, completed the acquisition of Danielson Indemnity Company, which included its wholly-owned subsidiaries, National American Insurance Company of California ("NAICC") and Danielson Insurance Company ("Danielson"). NAICC and Danielson wrote private passenger auto, contract surety, bail bond, workers' compensation and general liability business. The reserves primarily consist of workers' compensation and asbestos and environmental business. The liability and workers' compensation business has been in run-off since 1995 and 2002, respectively. The rest of the business went into run-off in 2012.

On November 3, 2014 Catalina signed a definitive Share Purchase Agreement to acquire PXRE Reinsurance Company ("PXRE") from Tawa Associates Ltd. for $11.5 million. PXRE primarily underwrote commercial and catastrophe focussed property, marine and aerospace risks plus some casualty and finite business. PXRE was put into run-off in 2006. The transaction is subject to regulatory approval by the Connecticut Department of Insurance and is expected to close in Q2 2015. The acquisition consideration will be financed from Catalina's cash in hand.

On December 23, 2014 Catalina, through its wholly owned subsidiary CIIL, signed a definitive agreement with Quinn Insurance Limited (under administration), under which a portfolio of UK and EU insurance liabilities in run-off will be transferred to CIIL. The subject portfolio had gross and net insurance liabilities of Euro 463 million and Euro 461 million, respectively, as at September 30, 2014. The portfolio transfer is subject to regulatory approval in Ireland and the approval of the High Court of Ireland. As part of the transfer process, Catalina will inject required capital into CIIL. The portfolio transfer process is expected to complete in the second half of 2015.

2. Significant accounting policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities reported at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. While management believes the amounts included in the consolidated financial statements reflect management's best estimates and assumptions, the actual results could ultimately be materially different from the amounts currently provided for in the consolidated financial statements. The Company's principal estimates relate to the development or determination of the following:

- outstanding losses and loss expenses;
- valuation of investments and determination of hierarchical inputs used to measure fair value of investments;
- valuation of assets and liabilities under business combination accounting;
- valuation of long term subordinated debt;
- provisions for litigation and other contingent liabilities;

2. Significant accounting policies – (continued)

- provision for non-collectible reinsurance balances recoverable;
- recoverability of insurance and reinsurance balances receivable; and
- valuation of intangible assets.

The Company's consolidated financial statements include the financial statements of the Company and all of its subsidiaries in which it owns, directly or indirectly through subsidiaries, over fifty percent of the voting rights or is in a position to govern the financial and operating policies of the entity. All significant balances and transactions among related companies have been eliminated on consolidation. The results of subsidiaries acquired are included from the dates of their acquisition by the Company.

Premiums

The Company's insurance and reinsurance subsidiaries wrote insurance policies and reinsurance contracts prior to entering into run-off. These subsidiaries no longer write new policies or contracts but premiums continue to be earned over the terms of the associated insurance policies and reinsurance contracts in proportion to the amount of insurance protection provided. The term of the insurance or reinsurance coverage provided may be cancelled by the insured or ceding company resulting in a return of written premium.

Profit commission accruals are recorded as commission expenses and are adjusted at the end of each reporting period based on the experience of the underlying contract. Such adjustments related to profit commissions may be significant.

Ceded reinsurance or retrocessional coverage was used to limit the Company's insurance and reinsurance subsidiaries' individual and aggregate exposures to risks of losses arising from contracts of insurance or reinsurance. Reinsurance premiums ceded to reinsurers are recorded and earned in a manner consistent with that of the original contracts or policies written and the terms of the reinsurance agreements.

Premiums written and ceded relating to the unexpired periods of coverage or policy terms are recorded on the consolidated balance sheet as unearned premiums and deferred reinsurance premiums, respectively. Unearned premiums and deferred reinsurance premiums are recorded at fair value at the date that they were acquired. The fair value of the unearned premiums reserve was based on the estimated timing of reserve settlements discounted at a risk free rate.

Assumed premiums on life insurance contracts are recognized as revenue when payable by the policyholder on underlying reinsurance policies. Premiums collected by intermediaries but not yet received are assessed based on estimates from underwriting or past experience and are included in premium revenue.

Retroactive reinsurance

Consideration received in excess of estimated liabilities assumed with respect to retroactive reinsurance contracts is recognized as deferred income at inception of such contracts. Deferred income is subsequently amortized using the interest method over the expected claims settlement periods. Changes to the estimated timing or amount of loss payments produce changes in periodic amortization. Changes in such estimates are applied retrospectively and are included within net income in the period in which such changes are made. Deferred income is reported within outstanding losses and loss expenses in the consolidated balance sheets and deferred income amortization is recognized within net losses and loss expenses in the consolidated statements of operations.

Outstanding losses and loss expenses

The Company establishes reserves for outstanding losses and loss expenses for estimates of future amounts to be paid in settlement of its ultimate liabilities for claims arising under its contracts of insurance and reinsurance that have occurred at or before the consolidated balance sheet date. The estimation of ultimate loss and loss expense liabilities is a significant judgment made by management and is inherently subject to significant uncertainties.

2. Significant accounting policies – (continued)

The Company's loss reserves fall into two categories; case reserves for reported losses and loss expenses ("case reserves") and reserves for losses and loss expenses incurred but not reported ("IBNR reserves"). Case reserves are based initially on claim reports received from insureds, brokers or ceding companies, and may be supplemented by the Company's claims professionals with estimates of additional ultimate settlement costs. IBNR reserves are estimated by management using generally accepted statistical and actuarial techniques and are reviewed by independent actuaries. In applying these techniques, management uses estimates as to ultimate loss emergence, severity, frequency, settlement periods and settlement costs. In making these estimates, the Company relies on the most recent information available, including industry information, and on its own historical loss and loss expense experience.

Management believes the Company's reserving techniques represent a reasonable basis for estimating ultimate claim costs and that the outstanding losses and loss expenses are sufficient to cover claims from losses occurring up to the consolidated balance sheet date; however, ultimate losses and loss expenses may be subject to significant volatility as a result of significant uncertainties. These uncertainties are driven by many variables that are difficult to quantify. These uncertainties include, for example, the period of time between the occurrence of an insured loss and actual settlement, fluctuations in inflation, prevailing economic, social and judicial trends, legislative changes, internal and third party claims handling procedures and the lack of complete historical data on which to base loss expectations. Accordingly, ultimate liabilities may differ materially from the amounts recorded in the consolidated financial statements.

The Company regularly reviews and adjusts its reserve estimates and reserving methodologies taking into account current information. Outstanding losses and loss expenses are adjusted as claim experience develops and new information becomes available. Any adjustments to previously established reserves may significantly impact net income.

Reinsurance recoverable

Reinsurance recoverables are recorded at fair value at the date that the subsidiary owning the assets is acquired. The fair value of the recoverable from reinsurers is based on the estimated timing of reserve settlements discounted at a risk adjusted rate determined by management.

The Company estimates outstanding loss and loss expenses recoverable using methodologies and assumptions consistent with those used in estimating reserves for losses and loss expenses. The estimation of outstanding loss and loss expenses recoverable is a significant judgment made by management and is inherently subject to significant uncertainties. The Company establishes allowances for amounts recoverable that are considered potentially uncollectible from its reinsurers. The valuation of this allowance for uncollectible reinsurance recoverable includes a review of the credit ratings of the reinsurance recoverables by reinsurer, an analysis of default probabilities as well as identifying whether or not coverage issues exist. These factors require management judgment and the impact of any adjustments to those factors is reflected in net income in the period that the adjustment is determined. The Company is subject to credit risk with respect to the reinsurance ceded because the ceding of risk does not relieve the Company from its original obligations to its insureds.

Non-traditional contracts

One of the Company's reinsurance subsidiaries wrote non-traditional contracts of reinsurance that were deemed not to meet risk transfer criteria under U.S. GAAP and accordingly the Company accounted for these transactions as deposits.

In respect of life reinsurance arrangements written on a coinsurance basis, where investment assets have been transferred to the Company, such assets were recorded within the Company's trading investment portfolio. A deposit liability was recorded in the consolidated balance sheet for non-risk investment contracts as an interest bearing instrument.

The investments related to the deposit liability were held in trust funds and were pledged to the ceding company.

The last of these contracts was recaptured during 2014 which resulted in the return of investments held in the trust account and the reversal of the deposit liability of equivalent value.

2. Significant accounting policies – (continued)

Life contracts

Life contracts comprise of traditional life savings business assumed through coinsurance and modified coinsurance reinsurance contracts. They have all been in run-off for several years although many have recurring premiums. Liabilities for life reinsurance contracts are booked at the amounts reported by the ceding companies. The Company estimates the policy benefits for the life and annuity contracts using standard actuarial techniques and cash flow models. Policy benefits are reviewed annually and the Company performs a liability adequacy test based on cash flow projections. Since estimating the policy benefits depends on cash flow projection, the Company makes assumptions based on experience and industry mortality tables, longevity, morbidity rates, lapse rates, expenses and investment experience including provision for adverse deviation. The assumptions used are determined at the acquisition of the Company that wrote the contract and locked in throughout the life of the contact unless a premium deficiency develops. The assumptions are reviewed at acquisition and annually and unlocked if it results in material adverse development. The estimates are established based on information provided by the ceding companies, contract specific historical experience and industry experience.

The policy benefits are maintained at a level that, when taken together with future premium payments and investment income, are expected to be sufficient to cover policyholder obligations as they fall due. Provision is made where current best estimates of future contractual cash flows arising from the contracts are expected to exceed the policy obligations net of premiums receivable. Investment income from the assets backing the liabilities is taken into account when calculating such provision. The assessment of whether an additional provision needs to be booked is based on information available after offsetting the surpluses and deficits arising on contracts within the life portfolio. Any deficiency is charged to the statement of operations by establishing a provision for losses arising from the liability adequacy test for the unexpired risk portion. The amount of the provision depends on the risk adjusted returns available on assets designated to support life contract liabilities.

Structured settlements

Included within outstanding losses and loss expenses and outstanding losses and loss expenses recoverable in the consolidated balance sheets are amounts related to structured settlements. ABL, through its Canadian branch, has assumed ownership of certain structured settlements and has purchased annuities from life insurance companies to provide fixed and recurring payments to the claimants. ABL remains responsible to the claimant in the case of non-performance by the life insurance companies. The assets and liabilities for the structured settlement contracts are booked at the amounts reported by the life insurance companies as management believes this to be the best available estimate of the obligations under these contracts.

Cash and cash equivalents

Cash equivalents include highly liquid instruments such as liquidity funds, money market funds and other time deposits with commercial banks and financial institutions which have maturities of less than three months from the date of purchase. See Note 11(a) in relation to concentrations of credit risk. Restricted cash and cash equivalents are separately reported in the consolidated balance sheets at December 31, 2014 and 2013. Changes in restricted cash and cash equivalents are reported as an operating activity in the statements of cash flows for the years ended December 31, 2014 and 2013.

Investments and net investment income

Investments are recognized and measured at fair value with subsequent changes to the fair value recorded within net gains (losses) on investments in the consolidated statements of operations. The company holds trading portfolios of fixed maturities, short-term investments and equities which are recorded at fair value.

Purchases and sales of investments are recorded on a trade date basis. Realized gains and losses on sales of investments are determined on a first-in, first-out basis and are shown within net gains (losses) on investments in the consolidated statements of operations. Net investment income is recognized when earned and includes interest and dividend income, together with amortization of market premiums and discounts using the effective yield method and is net of investment management fees.

2. Significant accounting policies – (continued)

Other investments are recognized and measured at fair value with subsequent changes to the fair value, income distributions and realized gains and losses reported within net investment income in the consolidated statements of operations.

Derivatives

The Company's derivative instruments are recorded in the consolidated balance sheets at fair value, with changes in fair value recognized in the consolidated statements of operations.

Fair Value Measurements

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. An asset or a liability's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The hierarchy is broken down into three levels as follows:

- Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

- Level 2 – Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These are generally company generated inputs and are not market based inputs.

The Company used the following valuation techniques and assumptions in estimating the fair value of financial instruments as well as the general classification of such financial instruments pursuant to the above fair value hierarchy:

<u>Fixed maturities</u>

At each valuation date, the Company uses a market approach technique to estimate the fair value of the fixed maturities portfolios, where possible. This market approach includes, but is not limited to, prices obtained from third party pricing services and broker-dealers for identical or comparable securities. The pricing services use market quotations for securities that have quoted prices in active markets.

When quoted market prices are unavailable, the pricing service prepares estimates of fair value measurements with its proprietary pricing applications, using observable market inputs such as yield curves, credit risks and spreads, measures of volatility, and expected cash flows including prepayment speeds.

The following describes the significant inputs generally used to determine the fair value of fixed maturities by asset class:

- U.S. government and agency securities consist of securities issued by the U.S. Treasury and mortgage passthrough agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. The significant inputs include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

- Non-U.S. government securities consist of bonds issued by non-U.S. governments and agencies along with supranational organizations. The significant inputs include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

2. Significant accounting policies – (continued)

- Corporate securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark yields, and industry and market indicators. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2. Private debt has been classified under Level 3 as the inputs used to determine the fair value of this are not considered to be observable.

- Municipal securities consist primarily of bonds issued by U.S.-domiciled state and municipal entities. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes and benchmark yields. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

- Asset-backed securities consist primarily of investment-grade bonds backed by pools of loans with a variety of underlying collateral. The significant inputs used to determine the fair value of these securities includes the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, expected cash flows including prepayment speeds, and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2. Student loans asset-backed securities have been classified under Level 3 as the inputs used to determine the fair value of these securities are not considered to be observable.

- Mortgage-backed securities include both agency and non-agency originated securities. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, expected cash flows including prepayment speeds, and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

Equity securities

Equity securities include exchange traded funds, mutual funds, common stocks and preferred stocks. Exchange traded debt and equity funds, common stocks and preferred stocks are classified within Level 1 as the fair values are based on quoted market prices in active markets. Certain convertible bond and multi-asset funds with daily liquidity and redemption based on the net asset value of the fund are classified within Level 2. The policy for all equity securities classified under Level 3 has been described under alternative investments below.

Alternative Investments

Alternative Investments consist of non-traditional, not readily marketable investments, some of which may be structured as offshore limited partnerships, hedge funds, private equity, private equity funds, private debt funds, debt funds, commercial real estate funds, common trust funds and venture capital funds. The underlying investments of such funds, whether invested in stock or other securities, are generally not currently traded in a public market and typically are subject to restrictions on resale. Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical cost, appraisals, a review of the investees' financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment. Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material.

The fair values of alternative investments have been estimated using the Net Asset Value ("NAV") of the funds reported by the management responsible for administering the funds, where possible. In the absence of such information the assets are valued based on management's review and judgement of such assets. FASB guidance provides for the use of NAV as a 'Practical Expedient' for estimating fair value for alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the fund's interest therein and their classification within level 2 or 3 is based on the funds ability to redeem its interest in the near term as well as availability of observable inputs for similar assets.

2. Significant accounting policies – (continued)

Long term subordinated debt

Glacier Re:

Long term subordinated debt was issued by Glacier Re in 2005 (see note 10). The Company classified its subordinated debt within Level 3 because similar debt trades infrequently and therefore there have been few observable inputs in terms of valuation benchmarks. Using judgement, the Company has therefore determined certain inputs in its valuation model which are not readily observable. Such inputs incorporate the counterparty risk of non-performance for Glacier Re's debt.

Accordingly, the fair value of the long-term subordinated debt reflects the risk of non-performance of Glacier Re, captured by incorporating Glacier Re's credit spread derived from the USD and Euro Composite yields to determine an appropriate discount rate which is applied to the nominal value of the debt at each measurement date. The discount rate is adjusted by an additional factor which reflects the implicit value, determined using judgement, of the value of Glacier Re's options for early repayment of the debt.

Alea Group Holdings (Bermuda) Ltd:

AGHBL issued $100 million of trust preferred securities ("TruPS") in December 2004 and an additional $20 million of TruPS in January 2005 which are classified within Level 3. The TruPS were issued by three Delaware trusts established by AHUSCO and provide for a preferred dividend at a rate of 3-month LIBOR plus 285 basis points. AGHBL gave a guarantee to the holders of the TruPS. The TruPS do not carry financial covenants or cross default covenants, have a fixed maturity of 30 years, and are callable. AHUSCO may optionally redeem the debentures and thereby retire the TruPS but the holders of the debentures may not call the debentures prior to their maturity dates.

The fair value of the TruPS is calculated through an internal valuation model. Similar debt trades infrequently and therefore the Company has determined certain inputs in its valuation model which are not readily observable. Such inputs incorporate the counterparty risk of non-performance for AGHBL's debt. Accordingly, the fair value of the long-term subordinated debt reflects the risk of non-performance of the Company, captured by incorporating the Company's credit spread derived from the USD composite yields to determine an appropriate discount rate which is applied to the nominal value of the debt at each measurement date. The discount rate is further adjusted by an additional factor to reflect the assumption that the subdebt's credit risks are below BBB level. The Company classified this debt within Level 3.

Derivative instruments

Interest rate swaps are customized to the Company's risk management strategy. The Company estimates the fair value of these derivatives from significant observable inputs such as non-binding broker-dealer quotes and foreign exchange rates. Accordingly, the Company classified these derivatives within Level 2.

Investments in real estate

The Company invests in real estate to generate returns via rental income and capital appreciation. The income from the operating leases is recognized as rental income as per the terms of the leases.

The real estate acquired is recorded at cost less accumulated depreciation for the depreciable assets. The cost includes all acquisition costs directly identifiable with the purchase of the real estate. The Company splits the acquisition cost of each real estate asset between land and buildings based on management's judgement. The buildings comprise primarily of warehouses used to store goods. These buildings are depreciated over an estimated useful life of 40 years on a straight-line basis.

The Company will assess for impairment when circumstances indicate the carrying value of the property may not be recoverable. The review will be based on the estimate of future undiscounted cash flows excluding interest charges expected to result from the use and eventual disposal.

2. Significant accounting policies – (continued)

Property and equipment

Property and equipment, which consist of furniture, equipment, and leasehold improvements, are stated at cost less accumulated depreciation. Depreciation is computed using an accelerated method over the estimated useful lives of the related assets, ranging from three to seven years. Property and equipment are included in the other assets line item in the balance sheet.

Intangible assets

Intangible assets with indefinite useful lives are not amortized but are tested annually for impairment by a comparison to estimated realizable value. If the carrying amounts of intangible assets are greater than their fair values established during impairment testing, the carrying value is written-down to the fair value with a corresponding impairment loss recognized in the consolidated statements of operations.

Foreign currency translation

The U.S. dollar is the functional currency of the Company and most of its subsidiaries. All foreign currency asset and liability amounts are translated into U.S. dollars at end-of-period exchange rates. Foreign currency income and expenses are translated at average exchange rates in effect during the period. Exchange gains and losses arising from the translation of foreign currency-denominated monetary assets and liabilities are included in the consolidated statements of operations. The effects of the currency translation adjustments for entities whose functional currency is not the U.S. dollar are included within foreign currency translation adjustments in the consolidated statements of comprehensive income.

Income taxes

Income taxes have been recognized in accordance with current standards, on those operations that are subject to income taxes. Deferred tax assets and liabilities result from net operating loss carryforwards and temporary differences between the carrying amounts of existing assets and liabilities recorded in the consolidated financial statements and their respective tax bases. A valuation allowance for a portion or all of deferred tax assets is recorded as a reduction to deferred tax assets if it is more likely than not that such portion or all of such deferred tax assets will not be realized.

Legal expenses

In the event of a dispute in the ordinary course of business, the Company expenses legal costs on an accrual basis. In the event of a specific litigation, when it is reasonably probable that the legal costs are going to be incurred, the Company accrues legal costs in line with the estimated incurred expenses.

Commutations

As the Company actively runs off its insurance and reinsurance subsidiaries it seeks to mitigate its exposures through early settlement of its obligations to policyholders or ceding companies by entering into commutations or other arrangements.

These negotiated commutation agreements eliminate the risk of adverse claim experience as they provide for full and final settlement of all current and future policy obligations with respect to the transaction to which they relate. Gains and losses on commutations are recorded as either a decrease or an increase in incurred claims.

2. Significant accounting policies – (continued)

New Accounting Standards

In November 2014, the FASB issued ASU No. 2014-17, which provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The amendments in ASU apply to the separate financial statements of an acquired entity and its subsidiaries that are a business. An acquired entity may elect the option to apply pushdown accounting in the period in which the change of control event occurs. If pushdown accounting is applied to a change-in-control event, that election is irrevocable. If the acquired entity elects to apply the option it should disclose information in the current reporting period that enables users of the financial statements to evaluate the effect of the pushdown accounting. The ASU applies to all pushdown accounting occurring after November 18, 2014.

In November 2014, the FASB issued ASU No. 2014-16, which is based on the final consensus reached by the Emerging Issues Task Force on Issue 13-G. The ASU is intended to reduce the diversity in practice related to how entities determine the nature of the host contract of a hybrid instrument issued in the form of a share (e.g., convertible preferred stock) as part of the analysis for determining whether the hybrid instrument contains any embedded derivatives that must be bifurcated under ASC 815-15. Currently, reporting entities use one of two acceptable methods (as long as the accounting policy is applied consistently) for determining the nature of a host contract: the chameleon approach and the whole-instrument approach. Under the ASU, entities with instruments within the scope of the ASU would be required to apply the whole-instrument approach when determining the nature of the host contract in a hybrid financial instrument issued in the form of a share. The chameleon approach would no longer be permitted. ASU 2014-16 is effective for public business entities for fiscal years beginning after December 15, 2015. Early adoption is permitted.

In May 2014, the FASB issued ASU No. 2014-09, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB ASC including ASC 944 — *Insurance*. However, while contracts within the scope of ASC 944 are excluded from the scope of the ASU, certain insurance-related contracts should be accounted for under the ASU, for example contracts under which service providers charge their customers fixed fees in exchange for an agreement to provide services for an uncertain future event. Certain of the ASU's provisions also apply to transfers of non-financial assets, including in-substance non-financial assets that are not an output of an entity's ordinary activities (e.g., sales of (1) property, plant, and equipment; (2) real estate; or (3) intangible assets). Such provisions include guidance on recognition (including determining the existence of a contract and control principles) and measurement. The ASU is effective for annual reporting periods beginning after December 15, 2016, for public entities and early application is not permitted.

3. Acquisitions

The Company accounts for acquisitions using the acquisition method of accounting, which requires that the acquirer recognize and measure the identifiable assets acquired and liabilities assumed at their acquisition-date fair values.

<u>Alea Group Holdings (Bermuda) Ltd. ("AGHBL")</u>

On March 27, 2014, Catalina completed the acquisition of AGHBL. AGHBL through its two regulated entities, ANAIC and ABL wrote life and non-life business in the US, Canada, Continental Europe, Singapore and Bermuda. AGHBL went into run-off in 2005.

The purchase price of $124.6 million and acquisition costs were financed through a loan facility of $38.0 million provided by Royal Bank of Scotland Plc. ("RBS"), and $86.6 million of cash on hand. Acquisition costs of $1.0 million were expensed and recognized within the general and administrative expenses in the consolidated statements of operations during the year ended December 31, 2014 and $1.2 million during the year ended December 31, 2013.

The acquisition resulted in no pre-tax gain or loss during 2014.

3. Acquisitions (continued)

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition:

Assets		**2014**
Investments, at fair value	$	276,986
Cash and cash equivalents		161,763
Accrued investment income		3,043
Outstanding losses and loss expenses recoverable		303,763
Insurance and reinsurance balances receivable		3,834
Funds held by cedants and claims administrators		61,737
Other assets		8,495
Total assets	$	819,621
Liabilities		
Outstanding losses and loss expenses	$	566,435
Insurance and reinsurance balances payable		20,920
Accounts payable and other liabilities		8,307
Long-term subordinated debt		99,377
Total liabilities		695,039
Net assets acquired at fair value	$	124,582

<u>SPARTA Insurance Holdings, Inc.</u>

On September 15, 2014, the Company, through its wholly-owned subsidiary, AHUSCO, completed the acquisition of the SPARTA Companies. The SPARTA Companies wrote commercial auto, general liability, workers' compensation and property business. The SPARTA Companies were put into run-off during 2014, with the last policies written effective September 30, 2014.

The purchase price of $156.5 million and acquisition costs of $0.6 million, were financed through cash on hand, as well as an $80 million loan obtained by AHUSCO as part of the Revolving Credit Facility (see note 10).

The acquisition resulted in no pre-tax gain or loss during 2014.

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition:

Assets		**2014**
Investments, at fair value	$	437,337
Cash and cash equivalents		16,832
Accrued investment income		2,003
Outstanding losses and loss expenses recoverable		170,017
Insurance and reinsurance balances receivable		21,681
Other assets		56,601
Total assets	$	704,471
Liabilities		
Outstanding losses and loss expenses	$	491,903
Unearned premiums		19,951
Insurance and reinsurance balances payable		14,725
Accounts payable and other liabilities		21,378
Total liabilities		547,957
Net assets acquired at fair value	$	156,514

3. Acquisitions (continued)

Danielson Indemnity Company

On November 14, 2014, the Company, through its wholly-owned subsidiary AHUSCO, completed the acquisition of Danielson Indemnity Company, which included its wholly-owned subsidiaries, NAICC and Danielson. NAICC and Danielson wrote private passenger auto, contract surety, bail bond, workers' compensation and general liability business. The reserves primarily consist of workers' compensation and asbestos and environmental business. Liability and workers' compensation business has been in run-off since 1995 and 2002, respectively. The rest of the business went into run-off in 2012.

The purchase price of $4.6 million was financed through cash on hand.

The acquisition resulted in a pre-tax gain of $7.8 million included in the consolidated statements of operations. Management believes the reason for the transaction gain related mainly to the seller's requirement to dispose of a non-core operation and to retain the ability to use the associated tax losses. As a result of the necessary filing of a Section 338 (h) (10) election under the Inland Revenue Code the Company recorded a deferred tax liability of $2.7 million.

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition:

		2014
Assets		
Investments, at fair value	$	35,331
Cash and cash equivalents		6,684
Accrued investment income		309
Outstanding losses and loss expenses recoverable		13,413
Insurance and reinsurance balances receivable		291
Other assets		360
Total assets	$	56,388
Liabilities		
Outstanding losses and loss expenses	$	39,260
Unearned premiums		73
Insurance and reinsurance balances payable		4,102
Deferred tax liability		2,661
Accounts payable and other liabilities		526
Total liabilities		46,622
Net assets acquired at fair value	$	9,766

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4. Investments

The fair value of fixed maturity, equity and other investments as of December 31, 2014 and 2013 are as follows:

	2014	2013
Fixed maturities:		
Corporate	$ 372,839	$ 217,237
Asset-backed securities	352,248	222,075
Mortgage-backed securities	275,392	153,253
U.S. government and agency	102,795	83,053
Non-U.S. government	46,565	17,369
Municipals	103,639	19,529
Total fixed maturities	1,253,478	712,516
Equities:		
Debt funds	190,224	93,965
Preferred and common stocks	54,736	35,729
Equity funds	3,113	3,340
Fund of funds	24,142	23,785
Total equities	272,215	156,819
Other investments:		
Interest rate swap	(193)	(156)
Total other investments	(193)	(156)
Total investments	$ 1,525,500	$ 869,179

Contractual maturities of the Company's fixed maturities as of December 31, 2014 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Fixed maturities:	
Due in one year or less	$ 88,476
Due after one year through five years	314,806
Due after five years through 10 years	201,220
Due after 10 years	21,336
Total fixed maturities	625,838
Mortgage and asset-backed securities	627,640
Total	$ 1,253,478

The components of net investment income for the years ended December 31, 2014 and 2013 were derived from the following sources:

	2014	2013
Fixed maturities, including mortgage and asset-backed securities	$ 33,821	$ 23,165
Equities	1,199	674
Other investments	353	-
Cash and cash equivalents	56	211
Gross investment income	35,429	24,050
Investment expenses	(3,431)	(2,640)
Net investment income	$ 31,998	$ 21,410

4. Investments (continued)

Net gains on investments within the consolidated statements of operations for the years ended December 31, 2014 and 2013 consisted of the following:

	2014	2013
Net realized gains on investments	$ 18,174	$ 18,731
Net change in fair market value of investments	(971)	(12,559)
Net change in fair market value of derivative instruments	(37)	(156)
Net gains on investments	$ 17,166	$ 6,016

5. Fair Value Measurements

At December 31, 2014 and 2013, the Company's financial instruments measured at fair value were categorized between Levels 1, 2 and 3 as follows:

At December 31, 2014	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Fixed maturities:				
Corporate	$ -	$ 340,943	$ 31,896	$ 372,839
Asset-backed securities	-	346,143	6,105	352,248
Mortgage-backed securities	-	275,392	-	275,392
U.S. government and agency	-	102,795	-	102,795
Non U.S. government	-	46,565	-	46,565
Municipals	-	103,639	-	103,639
Total fixed maturities	-	1,215,477	38,001	1,253,478
Equity securities:				
Debt funds	61,401	41,586	87,237	190,224
Preferred and common stocks	42,123	-	12,613	54,736
Equity funds	1,445	1,668	-	3,113
Fund of funds	-	24,142	-	24,142
Total equity securities	104,969	67,396	99,850	272,215
Other investments:				
Interest rate swap	-	(193)	-	(193)
Total assets	$ 104,969	$ 1,282,680	$ 137,851	$ 1,525,500
Liabilities				
Long term subordinated debt	$ -	$ -	$ 182,125	$ 182,125
Total liabilites	$ -	$ -	$ 182,125	$ 182,125

5. Fair Value Measurements (continued)

At December 31, 2013	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Fixed maturities:				
Corporate	$ -	$ 217,237	$ -	$ 217,237
Asset-backed securities	-	222,075	-	222,075
Mortgage-backed securities	-	153,253	-	153,253
U.S. government and agency	-	83,053	-	83,053
Non U.S. government	-	17,369	-	17,369
Municipals	-	19,529	-	19,529
Total fixed maturities	-	712,516	-	712,516
Equity securities:				
Debt funds	42,621	51,344	-	93,965
Preferred and common stocks	35,729	-	-	35,729
Equity funds	1,399	1,941	-	3,340
Fund of funds	-	23,785	-	23,785
Total equity securities	79,749	77,070	-	156,819
Interest rate swap	-	(156)	-	(156)
Total assets	$ 79,749	$ 789,430	$ -	$ 869,179
Liabilities				
Long term subordinated debt	$ -	$ -	$ 90,507	$ 90,507
Subordinated Loan Note	-	-	110,000	110,000
Total liabilites	$ -	$ -	$ 200,507	$ 200,507

The following table presents a reconciliation of the beginning and ending balances for all financial instruments measured at fair value on a recurring basis using the Level 3 inputs for the years ended December 31, 2014 and 2013:

	Fixed maturities and Equity securities	Long term subordinated debt	Subordinated Loan Note
Balance at beginning of year, January 1, 2013	$ -	$ (82,900)	$ -
Net losses (*)	-	(6,278)	-
Loan issuance	-	-	(110,000)
Foreign exchange losses	-	(1,329)	-
Balance at end of year, December 31, 2013	$ -	$ (90,507)	$ (110,000)
Amortization	-	-	(4,500)
Purchases	136,623	-	-
Debt acquired in acquisition	-	(99,377)	-
Repayment of loan	-	-	114,500
Net gains (*)	1,228	3,898	-
Foreign exchange gains	-	3,861	-
Balance at end of year, December 31, 2014	$ 137,851	$ (182,125)	$ -
Level 3 gains (losses) included in earnings attributable to the change in unrealized gains and losses relating to financial instruments held at the reporting date	$ 1,228	$ 3,898	$ -

(*) Net gains (losses) on long term subordinated debt are included within change in subordinated debt fair value in the consolidated statements of operations.

During the years ended December 31, 2014 and 2013 there were no transfers in or out of Levels 1, 2 or 3.

The carrying amount of financial assets and liabilities presented on the consolidated balance sheet as at December 31, 2014 and 2013 approximate their fair values.

6. Derivative instruments

The following table summarizes information on the location and amounts of derivative fair values on the consolidated balance sheets:

	Nominal amount		Balance Sheet Location	Fair Value	
At December 31, 2014					
Interest rate swap	$	2,125	Investments at fair value	$	(193)
Total				$	(193)
At December 31, 2013					
Interest rate swap	$	2,125	Investments at fair value	$	(156)
Total				$	(156)

The Company entered into an interest rate swap to exchange fixed interest received on a Non U.S. government bond for floating interest rate. The interest rate swap matures on July 20, 2020.

This derivative has not been designated as a hedging instrument for financial reporting purposes.

The following table provides the total gains and losses recorded in earnings for the years ended December 31, 2014 and 2013:

	Gain (loss)		Statement of operations Location
Year ending December 31, 2014			
Interest rate swap		(37)	Net investment income
Total	$	(37)	
Year ending December 31, 2013			
Interest rate swap	$	(156)	Net investment income
Total	$	(156)	

7. Investments in real estate

The Company acquired two properties during the year through its subsidiary, Oxenwood Catalina Ltd., a Guernsey Company, to generate returns via rental income and capital appreciation. On October 7, 2014, a property was purchased in Rotherham, United Kingdom at a cost of $25.7 million including acquisition related expenses of $1.4 million. On December 19, 2014, a property was purchased in Runcorn, United Kingdom at a cost of $34.7 million including acquisition related expenses of $1.6 million. Acquisition costs of $0.5 million were expensed and recognized within the general and administrative expenses in the consolidated statements of operations during the year 2014.

The cost of each property is split between land and buildings. The cost of the buildings are depreciated over a period of 40 years on a straight-line basis. Income from these real estate investments is recognized as per the terms of the lease agreement.

		2014
Land, at cost	$	30,218
Buildings, at cost		30,218
Accumulated depreciation		(88)
Buildings, net of accumulated depreciation		30,130
Total	$	60,348

8. Intangible assets

On the acquisition of Quanta, the Company determined that the US insurance licenses held by Quanta Indemnity Company had an indefinite useful life. The Company determined that the value of the licenses acquired was their estimated net realizable value of $5.0 million. During 2014 the Company reviewed the carrying value of this asset and, based on a current offer for the licenses, assessed that the asset should be written down to $4.0 million.

On the acquisition of AGHBL, the Company acquired U.S. insurance licenses on all 50 states plus a Washington D.C. admitted insurance for ANAIC. These licenses were valued at $6.4 million as of the date of acquisition.

Through the acquisition of the SPARTA Companies, AHUSCO has acquired licenses to operate in various states. The Company determined the value of the SPARTA Companies licenses at $9.0 million as of the date of acquisition.

9. Outstanding losses and loss expenses

Outstanding losses and loss expenses as of December 31, 2014 and 2013 are as follows:

	2014	2013
Case reserves	$ 662,113	$ 262,608
Incurred but not reported	575,820	328,841
Structured settlements	291,899	-
Life reserves	40,779	-
Unamortized fair value adjustment	(29,207)	(15,652)
Deferred income	15,121	2,855
	$ 1,556,525	$ 578,652

Outstanding losses and loss expenses recoverable as of December 31, 2014 and 2013 are as follows:

Recoverables	2014	2013
Case reserves	$ 142,242	$ 60,166
Incurred but not reported	142,580	83,757
Structured settlements	291,899	-
Unamortized fair value adjustment	(23,661)	(17,261)
	$ 553,060	$ 126,662

The fair value adjustments represent the unamortized difference between the carrying value of reserves of acquired companies at the date of acquisition and the fair value of the reserves. The fair value of the outstanding losses and loss expenses was based on the estimated timing of reserve settlements discounted at a risk free rate and a risk margin determined by management. The fair value of the outstanding losses and loss expenses recoverable was based on the estimated timing of reserve settlements discounted at a risk adjusted rate determined by management reflecting credit risk and duration. The fair value adjustments are amortized over the estimated payout period using the constant yield method.

The deferred income relates to the 100% Quota-Share Reinsurance Agreement assumed by Catalina General from Glencoe Insurance Ltd., a subsidiary of Renaissance Re Holdings Ltd in 2012 and the loss portfolio transfer assumed by Glacier Re from the Delta Lloyd Group in 2014.

ABL, through its Canadian branch, has assumed ownership of certain structured settlements and has purchased annuities from life insurance companies to provide fixed and recurring payments to the claimants. The gross liability for the structured settlements is fully recoverable from the life insurance companies resulting in no net liability to the Company.

9. Outstanding losses and loss expenses (continued)

These annuities are fully funded and were purchased from Canadian life insurance companies with a Standard and Poor's Financial Strength Rating of A+ and higher. In the event of the life insurance companies being unable to meet their obligations under the structured settlements to the Company, 85% of the total exposure is recoverable from the Compensation Corporation of Canada leaving a net credit risk exposure of less than $50 million.

The following table represents the activity in outstanding losses and loss expenses for the years ended December 31, 2014 and 2013:

	2014	2013
Gross outstanding losses and loss expenses, beginning of year	$ 578,652	$ 516,394
Less reinsurance recoverable, beginning of year	(126,663)	(160,187)
Net losses and loss expenses, beginning of year	451,989	356,207
Net losses and loss expenses acquired	816,524	198,789
Net incurred losses related to:		
Current year	24,766	11,385
Prior years	(40,658)	(48,269)
	(15,892)	(36,884)
Net paid losses related to:		
Current year	(90,824)	(1,220)
Prior years	(136,355)	(71,241)
	(227,179)	(72,461)
Foreign exchange (gains) losses	(21,977)	6,338
Net losses and loss expenses, end of year	1,003,465	451,989
Reinsurance recoverable, end of year	553,060	126,663
Gross outstanding losses and loss expenses, end of year	$ 1,556,525	$ 578,652

During the year ended December 31, 2014 the Company experienced favorable loss development of $40.7 million primarily due to a reduction in the estimates of ultimate incurred losses in the Company's Home Buyers' Warranty insurance run-off business and the marine and general liability reinsurance run-off business. During the year ended December 31, 2013 the Company experienced favorable loss development of $48.3 million primarily due to a reduction in the estimates of ultimate incurred losses in the Company's Home Buyers' Warranty insurance run-off business and the property, motor and casualty reinsurance run-off business.

Net losses incurred of $(15.9) million (2013: $(36.9) million) are net of $(4.1) million (2013: $(18.0) million) of loss and loss expenses recovered from reinsurers. Included within net losses incurred is a positive effect from the net amortization of fair value adjustments of $3.2 million (2013: $6.0 million).

Management believes that the assumptions used represent a realistic and appropriate basis for estimating the outstanding losses and loss expenses as of December 31, 2014 and 2013. However, these assumptions are subject to change and the Company regularly reviews and adjusts its reserve estimates and reserving methodologies taking into account all currently known information and updated assumptions related to unknown information.

10. Loans payable

Catalina Alpha debt facility agreement

In October 2008 Catalina Alpha Ltd. ("Catalina Alpha") borrowed $141.0 million under its Term Facility Agreement in order to partially fund its purchase of Quanta. During August 2011, Catalina Alpha entered into an amendment agreement to its loan facility and the outstanding balance at that time was $36.5 million. Under the amended agreement the interest rate was based on LIBOR plus a margin of 3.35%. The loan was due to expire in August 2014. On July 13, 2012 Catalina Alpha repaid $30 million of the outstanding balance. The remaining $6.5 million balance was paid in February 2013.

Catalina Alpha's Term Facility Agreement had financial covenants in relation to maximum gearing ratios and minimum debt service cover. During 2013, Catalina Alpha was in compliance with all covenants under the Term Facility Agreement.

Catalina Bravo debt facility agreement

On April 17, 2013 Catalina Bravo Ltd. ("Catalina Bravo") borrowed $41.8 million under its Term Facility Agreement in order to fund the payment by the Company for the acquisition of KX Re. The interest rate resets at intervals of one, three or six months at the Company's pre-selection and is based on LIBOR plus a margin of 3.50%. During the year, the interest rates ranged from 3.65% to 3.67%. On April 17, 2014 Catalina Bravo repaid $18.7 million of the outstanding balance.

Future repayment installments under the Term Facility Agreement are as follows:

Year ending December 31,	
2015	$13,850
2016	9,250
Total	$23,100

Catalina Bravo's loan facility has financial covenants in relation to maximum gearing ratios and minimum capital requirements. At December 31, 2014 Catalina Bravo was in compliance with all covenants under the loan facility.

Catalina Bravo repaid $14.3 million on March 13, 2015.

Catalina Charlie debt facility agreement

On July 18, 2013 Catalina Charlie Ltd. ("Catalina Charlie") borrowed $15 million under its Term Facility Agreement in order to fund a distribution to the Company. The interest rate resets at intervals of any duration of up to three months at the Company's pre-selection and is based on LIBOR plus a margin of 3.50%. During the year, the interest rates ranged from 3.73% to 3.74%. On July 18, 2014 Catalina Charlie repaid $6.0 million of the outstanding balance.

Future repayment installments under the Term Facility Agreement were as follows:

Year ending December 31,	
2015	$ 6,000
2016	3,000
Total	$ 9,000

Catalina Charlie's loan facility has financial covenants in relation to maximum gearing ratios and minimum capital requirements. At December 31, 2014 Catalina Charlie was in compliance with all covenants under the loan facility.

On February 10, 2015, the Company repaid the $9 million outstanding balance.

10. Loans payable – (continued)

Catalina Echo debt facility agreement

On July 8, 2013 Catalina Echo Ltd. ("Catalina Echo") borrowed $90 million under its Term Facility Agreement in order to fund the payment to Catalina Delta Ltd. of the purchase price of Glacier Re. The loan had two Facilities under the agreement, i.e. Facility A and Facility B having total commitments of $40 million and $50 million respectively. The loan is secured by a stock pledge agreement in respect of 100% of the issued share capital of Glacier Re. Catalina Echo may select an interest period of one or three months or any other period agreed with the lending banks. The interest rate for Facility A was based on LIBOR plus a margin of 3.35%. Facility B was based on a margin of 3.9% per annum until Facility A was repaid in full and subsequently a margin of 3.5%. During the year, the interest rates were 3.65% to 3.67%.

Catalina Echo has the right, giving prior notice, to prepay the whole or any part of the loan prior to the termination date. On September 24, 2013 Catalina Echo repaid $30.0 million of the loan in Facility A and $10 million on October 11, 2013. No portion of Facility B had been repaid as at 31 December 2014.

Future repayment installments under the Term Facility Agreement are as follows:

Year ending December 31,	
2015	$ 50,000
Total	$ 50,000

Catalina Echo's loan facility has financial covenants in relation to maximum gearing ratios, the minimum net worth of Glacier Re and minimum debt service cover. At December 31, 2014 Catalina Echo was in compliance with all covenants under the loan facility.

Catalina Echo repaid $10 million of Facility B on January 21, 2015.

Catalina Foxtrot debt facility

On October 15, 2012, Catalina Foxtrot Holdings Limited ("Catalina Foxtrot") borrowed GBP 32.8 million from RBS under its Term Facility Agreement in order to partially fund its purchase of CRIL and CIIL. The loan was secured by a stock pledge agreement in respect of 100% of the issued share capital of Catalina Foxtrot Limited (a wholly-owned subsidiary of Catalina Foxtrot and the parent company of CRIL and CIIL). Catalina Foxtrot could select an interest period of one, three or six months or any other period agreed with RBS, and the interest rate was based on LIBOR plus a margin of 3.50%. Catalina Foxtrot repaid GBP 21.8 million on July 11, 2013. The remaining balance was repaid on June 19, 2014.

Catalina Foxtrot's Term Facility Agreement had financial covenants in relation to maximum gearing ratios and minimum debt service cover. During 2014 and 2013, Catalina Foxtrot was in compliance with all covenants under the Term Facility Agreement.

Long term subordinated debt

Prior to the acquisition by Catalina, Glacier Re issued a total of $68.0 million and Euro 26.0 million of floating rate unsecured subordinated notes to support its underwriting activities. The notes are due in 2035 and include options for Glacier Re for partial or full early repayment, respectively, and to defer interest for up to 20 consecutive quarters but not beyond the maturity date of the respective notes. The notes rank pari passu without any preference among themselves and do not contain any covenants concerning financial ratios or specified levels of net worth or liquidity.

Interest on the subordinated debt is based on LIBOR or EURIBOR plus a margin between 3.25% and 3.70%. Interest expense in connection with these notes was $3.9 million for the year ended December 31, 2014 (2013: $3.9 million) and is included within interest expense in the consolidated statements of operations.

10. Loans payable – (continued)

Prior to acquisition by Catalina, AGHBL issued a total of $120 million of TruPS. The TruPS were issued by three Delaware trusts established by AHUSCO and provide for a preferred dividend at a rate of 3-month LIBOR plus margin of 2.85%. These securities allow for the postponement of preferred dividends under certain circumstances for up to five years. The TruPS carry no financial covenants or cross default covenants, have a fixed maturity in 2034 / 2035 and are callable. The holders of the TruPS may not call the securities prior to their maturity dates. Interest expense on the TruPS since acquisition is $2.9 million and is included within interest expense in the consolidated statement of operations.

CHBL subordinated loan notes

CHBL issued four senior zero coupon loan notes with an aggregate value of $114.5 million to NFF L.P Inc. in December 2013 as consideration for the common and preference shares repurchased and extinguished. Terms of the loan note include that no interest shall accrue on the unpaid principal balance of the note and only a final payment shall be made at the end of the term, i.e. December 31, 2014.

The fair value of the loan note was calculated using an effective discount rate of 4.09%. The discount rate was calculated based on Catalina's current borrowing rate for existing debt facilities. Therefore at the date of issuance the fair value of the loan note was $110.0 million giving rise to a discount of $4.5 million to be amortized using the effective interest method over the life of the loan note. The note was fully paid on December 30, 2014.

Catalina Revolving Credit Facility

On August 12, 2014, Catalina entered into a $225 million Revolving Credit Facility Agreement with RBS and other banks. The agreement was amended on October 28, 2014 to increase the amount to $250 million. The facility is split between Catalina ($170 million) and AHUSCO ($80 million). The interest rate is based on LIBOR plus the applicable margin percentage based on gearing. Total outstanding loan as of December 31, 2014 was $224.5 million. During the year, the interest rates were between 3.48% to 3.51%, which included a margin of 3.25%.

Catalina	$ 144,500
AHUSCO	80,000
Balance at December 31, 2014	$ 224,500

During the first quarter of 2015, an additional loan of $19 million was made out of the facility to Catalina making the total balance $243.5 million.

Catalina's Revolving Credit Facility Agreement has financial covenants in relation to maximum gearing ratios and minimum aggregate group regulatory capital. At December 31, 2014, Catalina was in compliance with all covenants under the Revolving Credit Facility Agreement.

Oxenwood Loan Facility

On November 10, 2014 OXW Catalina (Logistics) Limited ("OXW") entered into a £7.55 million Term Loan Facility Agreement with RBS in order to partially fund its purchase of a real estate investment in Rotherham, United Kingdom. Interest periods are of three months and the interest rate is based on LIBOR plus a margin of 1.5%. On December 18, 2014 the loan was increased by £10.49 million in order to partially fund the purchase of a real estate investment in Runcorn, United Kingdom. The interest rate for the additional £10.49 million is based on LIBOR plus a margin of 1.6%. The loan is secured by a first ranking legal charge over the properties. The loan expires on May 10, 2018. On February 13, 2015 the loan was increased by £6.85 million in order to partially fund the purchase of a real estate investment in Biggleswade, United Kingdom.

OXW's Term Loan Facility Agreement has financial covenants in relation to net rental income interest cover and loan to value. During 2014 OXW was in compliance with all covenants under the Term Loan Facility Agreement.

10. Loans payable – (continued)

Interest expense in connection with the Company's debt facilities, long term subordinated debt and subordinated loan notes was $16.8 million for the year ended December 31, 2014 (2013: $8.7 million) and is included within interest expense in the consolidated statements of operations.

11. Concentrations, commitments and contingencies

a) Concentrations of credit risk

As of December 31, 2014 and 2013 substantially all of the Company's cash and cash equivalents, and investments were held by eight custodians. Management monitors the credit ratings of these custodians and believes them to be of high credit quality. The Company's investment portfolio is primarily managed by external investment advisors in accordance with the Company's investment guidelines. The Company limits its exposure to any single issuer to 5% or less of the total portfolio's market value at the time of purchase, with the exception of U.S. government and agency securities. As of December 31, 2014 the largest single non-U.S. government and agency issuer accounted for 3.7% (2013: 4.2%) of the aggregate market value of the Company's invested assets. As of December 31, 2014, the Company's fixed maturity investments had a weighted average Standard & Poor's credit rating of AA+.

At December 31, 2014 the Company had a provision for uncollectible premiums receivable of $2.4 million (2013: $0.1 million).

Reinsurance assets due from reinsurers include outstanding losses and loss expenses recoverable and deferred reinsurance premiums. The Company is subject to credit risk with respect to reinsurance ceded because the ceding of risk does not relieve the Company from its primary obligations to its policyholders. The concentration of credit risks relating to the structured settlements is explained in Note 9. Failure of the Company's reinsurers to honor their obligations could result in credit losses. As of December 31, 2014 the Company has recorded a provision for credit losses relating to outstanding losses and loss expenses recoverable of $25.8 million (2013: $1.9 million). During the year ended December 31, 2014 outstanding loss and loss expenses recoverable of $0.2 million were written off (2013: $0.6 million).

Two reinsurers each accounted for more than 10% of the outstanding losses and loss expenses recoverable balance as of December 31, 2014. These reinsurers accounted for 29.1% and 11.2%, and both were rated A+ by A.M. Best & Co. as at December 31, 2014. The Company's reinsurers had a weighted average credit rating of A+ as of December 31, 2014.

b) Restricted assets

The Company is required to maintain assets on deposit with various regulatory authorities to support its insurance and reinsurance operations. These requirements are generally promulgated by the regulations of the individual locations within which the Company operates. These funds on deposit are available to settle insurance and reinsurance liabilities.

The Company has also issued letters of credit ("LOC") under its credit agreements (for which cash and cash equivalents and investments are pledged as security) and in favor of certain ceding companies to collateralize its obligations under contracts of insurance and reinsurance (see Note 14).

The Company also utilizes trust funds where the trust funds are set up for the benefit of the ceding companies, and generally take the place of LOC requirements.

11. Concentrations, commitments and contingencies (continued)

The fair values of these restricted assets by category at December 31, 2014 and 2013 are as follows:

	2014		2013	
	Cash and cash equivalents	Investments	Cash and cash equivalents	Investments
Deposits with U.S. insurance regulatory authorities	$ 1,600	$ 163,963	$ 109	$ 11,867
LOC pledged assets	39,164	104,232	28,914	98,355
Trust funds	52,218	189,602	50,603	73,923
Amounts held in trust funds related to deposit liabilities	-	-	3,582	27,924
Total	$ 92,982	$ 457,797	$ 83,208	$ 212,069

c) Lease commitments

The Company leases office space and furniture and equipment under operating lease agreements. Rent expenses are being recognized on a straight-line basis over the respective lease terms. Future annual minimum payments under non-cancelable operating leases are as follows:

Year ending December 31,	
2015	$ 1,576
2016	1,261
2017	370
2018	-
2019	-
Total	$ 3,207

Total rent expense under operating leases for the year ended December 31, 2014 was approximately $1.4 million (2013: $1.1 million).

d) Contingent liabilities

The Company and/or its subsidiaries, from time to time, are a party to litigation and/or arbitration that arises in the normal course of its business operations. The Company and/or its subsidiaries are also subject to other potential litigation, disputes and regulatory or governmental inquiries.

A settlement has been finalized of certain class action litigation against an entity that has been insured by Catalina London Limited and of a claim by the Insured's counsel that Catalina London Limited is liable for amounts in excess of the $1 million policy limit. A detailed memorandum of understanding memorializing all the terms of that agreed settlement was signed by all parties on March 14, 2014. The terms of the settlement were approved by the trial court on January 27, 2015 and the final settlement was paid in March 2015.

12. Taxation

Under current Bermuda law, the Company and its Bermuda subsidiaries are not required to pay any taxes in Bermuda on income including realized capital gains. The Company has received an undertaking from the Minister of Finance of Bermuda that, in the event of any taxes being imposed, the Company will be exempt from taxation in Bermuda until March 2035.

The Company has operating subsidiaries in the United States, UK, Switzerland and Ireland and is subject to the relevant taxes in those jurisdictions. The Company is not subject to taxation other than as stated above. There can be no assurance that there will not be changes in applicable laws, regulations or treaties, which might require the Company to become subject to additional taxation.

12. Taxation (continued)

During 2014 withholding tax of $17,000 (2013: $325,000) was paid on a distribution from RLCH to Catalina Echo. U.S. Federal tax of $Nil was paid during 2014 (2013: $585,000). Non-U.S. income tax of $Nil was paid for the year ended December 31, 2014 (2013: $36,029).

Deferred income taxes reflect net operating loss carryforwards and the tax impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for income tax purposes. The significant components of the net deferred tax assets and liabilities as of December 31, 2014 and 2013 are as follows:

	2014	2013
Deferred tax assets:		
Investments	$ 2,669	$ 371
Outstanding losses and loss expenses	11,136	876
Unearned premiums	2,736	2,600
Net operating loss carry forwards	108,512	68,927
Capital loss carry forwards	2,165	583
Other	1,346	1,387
Total deferred tax assets	128,564	74,744
Valuation allowance	(99,713)	(63,082)
Total deferred tax assets net of valuation allowance	28,851	11,662
Deferred tax liabilities:		
Investments	(8,547)	(4,491)
Goodwill	(5,462)	(698)
Outstanding losses and loss expenses	(2,357)	(1,542)
Subordinated debt	(1,348)	(1,465)
Underwriting results subject to timing differences for taxation	(482)	-
Other	(7,655)	-
Total deferred tax liabilities	(25,851)	(8,196)
Net deferred tax asset	$ 3,000	$ 3,466

The deferred tax asset and liability balances presented above represent the gross deferred tax asset and liability balances across each tax jurisdiction. The net deferred tax asset balance of $3.0 million (2013: $3.5 million) included within other assets in the consolidated balance sheet as of December 31, 2014, includes netting of certain deferred tax assets and liabilities within a tax jurisdiction to the extent such netting is consistent with the regulations of the tax authorities in those jurisdictions.

As of December 31, 2014, the Company has a net deferred tax asset of $108.5 million (2013: $68.9 million) generated by net operating loss carry forwards ("NOL") of approximately $462.3 million (2013: $363.1 million), of which $192.1 million (2013: $73.1 million) relates to NOL in the United States ("U.S. NOL"), $146.0 million (2013: $145.1 million) relates to NOL in UK ("UK NOL"), $79.8 million (2013: $92.5 million) relates to NOL in Switzerland ("Swiss NOL") and $44.3 million (2013: $52.4 million) relates to NOL in Ireland ("Irish NOL").

In relation to the U.S. NOL, UK NOL and the Irish NOL the Company believes that it is more likely than not that the deferred tax asset will not be recognized. Accordingly, the Company has recorded a full valuation allowance against these net deferred tax assets as of December 31, 2014 and 2013. In relation to the Swiss NOL the Company believes that it is more likely than not that the excess of deferred tax assets over the deferred tax liabilities will not be realized. Accordingly, the Company has recorded a valuation allowance against these net deferred tax assets as of December 31, 2014 and 2013.

13. Shareholders' equity

a) Preference share capital

As at December 31, 2014, the Company has authorized preference share capital of 488,000,000 8% non-convertible, cumulative, redeemable, preference shares of $1.00 each.

During 2014 the Company issued $10,767,837 (2013: 23,680,089) preference shares at par. In accordance with the terms of the preference shares, a return of 8% per annum accrues on the subscription price.

The Company has the right to redeem all or any of the preference shares, at par, at any date. However, U.S. preference shareholders shall have the right to decline in whole or in part the redemption of the shares. During 2013 the Company redeemed 84,153,405 preference shares at par.

During the year ended December 31, 2014, dividends of $11.2 million (2013: $17.1 million) have been accrued and are included in preference shares. On June 30 each year the unpaid preference share dividends are converted to preference shares. For U.S. shareholders, $9.1 million has been accrued for the year ended December 31, 2014 (2013: $4.8 million) as an increase in the subscription value of preference shares held. This amount is included within additional paid-in capital in the consolidated statements of changes in shareholders' equity.

b) Ordinary share capital

The authorized and issued and authorized ordinary share capital of the Company, all with a par value of $1.00, consists of the following for the years ending December 31, 2014 and 2013:

	Class "A"	Class "B"	Class "C"
Authorized ordinary shares at December 31, 2013 and 2014......	6,692,308	600,000	400,000
Issued and outstanding ordinary shares at January 1, 2013.........	9,000,000	600,000	400,000
Shares redeemed during the year ended December 31, 2013	2,307,692	–	–
Issued and outstanding ordinary shares at December 31, 2013 and 2014	6,692,308	600,000	400,000

During the year ended December 31, 2013, 2,307,692 Class "A" Ordinary shares were redeemed.

The holders of all classes of the Ordinary shares shall have one vote for every Ordinary share held.

Except with the consent or sanction of all of the Preference shareholders, no dividend shall be declared or paid by the Company on the Ordinary shares unless and until all arrears and accruals of the Preference shares have been satisfied.

During the year ended December 31, 2014 dividends of $1.9 million (2013: $4.2 million) were paid to the holders of the Class "B" and Class "C" shares. Class "B" and Class "C" shares are owned by management.

The Company also has $180,996 authorized but unissued ordinary shares. These shares are currently not assigned to Class "A", "B" or "C".

On March 17, 2015 the Company declared dividends of $1.9 million to the holders of the Class "A", Class "B" and Class "C" shares.

14. Credit agreements

Three of Catalina Alpha's subsidiaries have a discretionary collateralized LOC agreement with Comerica Bank. The aggregate commitment under this agreement is currently up to $93 million. Availability for issuances of LOCs on account of any borrower is based on the amount of eligible investments pledged by the applicable borrower(s). The agreements contain financial and other covenants, among them a requirement to maintain a minimum statutory capital and surplus value. At December 31, 2014, the outstanding LOC issued under the facility were $82.2 million (2013: $75.4 million). During the year ended December 31, 2014, the Company was in compliance with the covenants under the facility. Catalina Safety also has a LOC agreement with Coutts Bank. The outstanding LOC with Coutts Bank were $8.8 million at December 31, 2014 (2013: $10.8 million).

Prior to the acquisition of AGHBL by the Company, AGHBL entered into discretionary collateralized LOC agreement with Citibank N.A. ("Citibank"). Availability for issuances of LOCs is based on the amount of eligible investments pledged. At December 31, 2014, the outstanding LOCs issued under the Citibank LOC agreement were $16.5 million (2013: $16.4 million). Catalina acquired a LOC agreement with Citibank Europe Plc following the acquisition of Catalina UK. At December 31, 2014, the outstanding LOCs issued under the facility were $22.7 million (2013: $6.5 million).

Prior to the acquisition of WestGen by Catalina, WestGen entered into a discretionary collateralized LOC agreement with Citibank. Availability for issuances of LOCs is based on the amount of eligible investments pledged. At December 31, 2014, the outstanding LOCs issued under the facility were $7.0 million (2013: $10.7 million).

Prior to the acquisition of Glacier Re by Catalina, Glacier Re entered into a collateralized LOC agreement with UBS AG. The aggregate commitment under this agreement is $30.0 million at December 31, 2014 and the outstanding LOCs issued under the facility were $24.5 million (2013: $32.0 million).

15. Statutory financial information and dividend restrictions

The Company is subject to a 30% withholding tax on certain dividends received from its U.S. subsidiaries.

The Company's insurance and reinsurance subsidiaries are subject to insurance laws and regulations in the jurisdictions in which they operate, which are Bermuda, the United States, the UK, Switzerland and Ireland. The regulations in these jurisdictions include restrictions that limit the amount of dividends or other distributions available to shareholders without prior approval of the insurance regulatory authorities. Typically, these restrictions relate to minimum levels of solvency, capital and liquidity as defined by the relevant insurance laws and regulations.

Statutory capital and surplus for the principal operating subsidiaries of the Company in these jurisdictions as of December 31, 2014 was:

	Required minimum	Actual
Bermuda	$ 49,913	$ 234,233
United States	83,534	323,334
UK	18,248	64,990
Switzerland (*)	65,300	133,903
Ireland	8,882	29,022

The statutory capital and surplus required by the relevant regulatory authorities in any jurisdiction may be significantly in excess of the minimum required statutory capital and surplus and, as a result, the maximum surplus available for distribution may be significantly lower than shown in the table above.

15. Statutory financial information and dividend restrictions (continued)

(*) Annually, Glacier Re calculates Risk Bearing Capital and Target Capital pursuant to the Swiss Solvency Test rules and regulations. Risk Bearing Capital is defined as the difference between the market consistent value of assets less the best estimate value of liabilities. The long term subordinated debt is considered to be supplementary capital and is therefore included in the Risk Bearing Capital. As at December 31, 2014 Glacier Re had Risk Bearing Capital of approximately $200 million. Target Capital as of December 31, 2013 was $65.3 million and is not expected to have changed significantly as at December 31, 2014. As such, Glacier Re is expected to have significant excess capital as at December 31, 2014.

The Company's U.S. subsidiaries required statutory capital and surplus is determined using various criteria, including risk based capital tests. If a company falls below certain levels of risk based capital, and dependent upon the degree to which the company falls below, the commissioner of insurance with jurisdiction of the company is authorized to take certain regulatory actions to protect policyholders and creditors.

As at December 31, 2014 and 2013, there are statutory restrictions on the payment of dividends from retained earnings or the return of capital from some of the Company's subsidiaries. All of the Company's regulated reinsurance and insurance subsidiaries require regulatory approval before paying a dividend from retained earnings or returning capital.

At December 31, 2014 and 2013, the Company met the minimum levels of solvency and liquidity in all jurisdictions in which the Company operates.

16. Subsequent Events

In preparing the consolidated financial statements, the Company has evaluated subsequent events through April 2, 2015, which is the date that these financial statements were issued, and concluded that there are no items requiring disclosure, other than those disclosed in Note 11(d).