ODYSSEY GROUP®

A FAIRFAX Company

THE ***POWER*** OF **3**

2017 ANNUAL REPORT

CONTENTS

This is an exciting time for us, as part of the Fairfax family, to introduce the Odyssey Group as our new corporate identity and to highlight the power of our three franchises: OdysseyRe, Hudson and Newline.

While we will continue to convey the unique qualities and capabilities of each of our three businesses separately, we think it is important for our clients and business partners to appreciate that the value of the Odyssey Group is greater than the sum of its parts.

Around the world we have the right people in the right places, with immeasurable expertise and an unwavering commitment to service excellence. When all parts of the Group work collaboratively as one, we unleash the ***Power of 3*** for the benefit of all of our key stakeholders.

ODYSSEY GROUP.
THE POWER OF 3.

LETTER FROM THE CEO

Dear Friends, Business Partners and Colleagues,

After years of relative calm, it is easy to become complacent about risk, especially when things are going well. 2017 provided a sobering reminder of just how volatile (re)insurance can be and how quickly capital can dissipate. Imagine how much worse it could have been had Irma struck Miami, or if Maria, after devastating Puerto Rico, had made landfall along the East Coast of the U.S. Last year was a serious wake up call for our industry to get back to the basics of sound underwriting and pricing.

When it's all said and done, the Odyssey Group expects to pay out nearly $600 million in gross Cat claims related to 2017 events, and with more than $4 billion of cash on our balance sheet, we have ample liquidity to meet our obligations at any time. Our number one focus right now is to pay out our clients' claims quickly; there is no greater priority. We want to see our clients and the communities in which they live get back to normal as soon as possible. It is our duty to do all we can to make that happen.

"We want to see our clients and the communities in which they live get back to normal as soon as possible. It is our duty to do all we can to make that happen."

Last year we entered our third decade as a Fairfax Company. In all that time, we would be hard pressed to identify a year more rewarding than 2017. The reason I say that is because we managed to do what few of our peers have: we made an underwriting profit in 2017 under very challenging circumstances. Our market-beating performance is a testament to the *power* of our business and the core values that have guided us throughout our history.

For the full year, the Odyssey Group ran to a combined ratio of 97.6%, generating $55 million of underwriting profit. Higher than expected Cat activity added an extra 10 points to our combined ratio, but this was more than offset by 12 points of prior year favorable development. Strong reserving has been a hallmark of our operation, with favorable reserve development contributing to earnings in each of the last 10 years.

During 2017, gross premiums written expanded 17% to $2.8 billion, with solid growth recorded across each of our three platforms and in 21 of our 34 business units around the world. Total assets increased more than $1 billion to $11.2 billion, driven by strong investment returns and growth in our float of nearly $430 million.

Odyssey Group's pre-tax profits for the full year grew to $620 million, while net profits nearly doubled year on year to $325 million. As a U.S. taxpayer, Odyssey will derive considerable benefit from the reduction in the corporate tax rate from 35% to 21%, but the immediate impact of the tax change resulted in a one-time charge of nearly $90 million in 2017 related to the write-down of our deferred tax asset.

Our underwriting results in 2017 were *powered* by our insurance operations. Hudson, our U.S. specialty insurance franchise, ran to a combined ratio of 91.8%, while surpassing $1 billion in gross premiums written for the first time in 2017. Hudson, which celebrates its 100th anniversary in 2018, has been consistently profitable since it was re-activated 20 years ago. It has been the primary engine of Odyssey's new business development over the last decade. During 2017, Hudson's premium volume increased 18%, driven by organic growth in Crop, Liability, Surety and Commercial Auto. For more information about Hudson's office network, products and capabilities, please visit **hudsoninsgroup.com.**

Newline, our London-based insurance operation, delivered a 92.4% combined ratio, while increasing gross premiums written 21% in 2017. As an international casualty specialist with operating hubs in London, Cologne, Singapore and Melbourne, Newline has outperformed its peers in recent years by consistently adhering to a disciplined underwriting philosophy. In the last few years, Newline has expanded its business offering to complement its casualty franchise by adding Cargo and Specie, and more recently, Affinity & Special Risks (predominantly extended warranty business) to its product suite. For more information about Newline's office network, products and capabilities, please visit **newlinegroup.com**.

OdysseyRe, our global reinsurance business, ran to a very respectable combined ratio of 101.9% in 2017, as strong underwriting profits in AsiaPacific, Canada, EMEA and London nearly offset the substantial Cat losses suffered in our U.S. and Latin American operations. OdysseyRe has been the primary source of our Group earnings the previous five years (2012-2016), generating nearly $1.5 billion of underwriting profit at an average combined ratio of 80% over the period. The fact that we were able to come close to a break-even underwriting result in one of the worst Cat years on record highlights our underwriting discipline and the value of our portfolio diversification. OdysseyRe's premium volume increased 15% in 2017, driven by growth in specialty lines (e.g. Accident & Health, Crop, Credit, Motor and Cyber) as well as in select property and casualty programs. For more information about OdysseyRe's office network, products and capabilities, please visit **odysseyre.com**.

"Our market-beating performance is a testament to the power of our business and the core values that have guided us throughout our history."

In the pages that follow you will find an operational and financial review of the Odyssey Group, as well as separate narratives for each of our three businesses. We hope you find this information helpful.

As a proud member of the Fairfax family, Odyssey is one Group with three complementary businesses faithfully adhering to its three core values: discipline, diversification and service. Each of our three businesses… OdysseyRe, Hudson and Newline… have enjoyed success on their own, but collectively, through our shared culture and values, we have harnessed the ***Power of 3*** to create a truly global and diversified enterprise of enduring strength and stability.

"…collectively, through our shared culture and values, we have harnessed the Power of 3 to create a truly global and diversified enterprise of enduring strength and stability."

We have been blessed as a Group in so many ways and we think it is important to share our good fortune with the communities in which we live and work. Each year we donate a portion of our profits to charity and are pleased to announce that we have earmarked an additional $6 million for the Odyssey Group Foundation and its business affiliates this year. Since it was formed in 2007, we have pledged more than $43 million and donated to more than 300 charities around the world.

It has been a memorable year, gratifying in so many respects, despite numerous challenges. There are so many people we need to thank. First and foremost, we want to express our sincere gratitude to our valued clients and business partners. We would not be here today without your loyalty and support. Thank you for your business and for the trust you place in us every day.

To Prem Watsa, Andy Barnard and Paul Rivett, thank you for your leadership, guidance and patience. (Re)insurance is a cyclical business and results can be volatile, as we have witnessed in 2017. It's an honor to be part of Fairfax, a group that values underwriting discipline and measures performance not by quarter, not by year, but by decades. Your unwavering commitment to us, and by extension to our clients and business partners, has been key to our long-term success.

To my 987 colleagues around the world, congratulations on another fantastic year. I can't thank you enough for your hard work, loyalty and quality service. When we work collaboratively as one, we unleash the ***Power of 3***. Our future is bright and I look forward to continuing our onward journey together for many years to come.

Brian D. Young
President & Chief Executive Officer

OUR MISSION

We are an underwriting company that aspires to be a world-class reinsurer and specialty insurer, providing excellent security and high-quality service to our clients.

We seek to maintain a global business focus that emphasizes patient, profitable growth and ultimately supports Fairfax Financial Holdings' goal to achieve a 15% annual return over the long term.

We aim to meet this financial objective by:

- Maximizing underwriting profitability and growing invested assets
- Responding to clients' needs with local resources
- Delivering exceptional service to clients and colleagues alike
- Expanding our global reach through product and territorial diversification
- Possessing superior underwriting, claims and actuarial expertise
- Adapting to changing market conditions while maintaining a consistent, disciplined underwriting approach
- Investing in our employees and providing opportunities for growth within the organization to preserve our culture for the long term
- Embracing Fairfax Financial Holdings' values and guiding principles

We recognize that our prosperity and good fortune are dependent on our underwriting prowess and our clients' success; and when we succeed, those in the communities in which our employees live and work will benefit too.

AT A GLANCE

Odyssey Re Holdings Corp. and its subsidiaries, collectively referred to as Odyssey Group, is one of the world's leading providers of reinsurance and specialty insurance, with total assets of $11.2 billion and $4 billion in shareholders' equity as of December 31, 2017.

Reinsurance is available around the world through OdysseyRe, while specialty insurance is offered by Hudson Insurance Group in the U.S. and by Newline Group internationally.

Odyssey Re Holdings Corp. is wholly-owned by Fairfax Financial Holdings Limited, a financial services holding company with total assets of $64.1 billion and $18.4 billion in total equity. Fairfax is traded on the Toronto Stock Exchange under the symbol FFH.

Odyssey Group is rated 'A' (Excellent) by A.M. Best Company and 'A-' (Strong) by Standard & Poor's.

A
(EXCELLENT)
A.M. BEST

A-
(STRONG)
STANDARD & POOR'S

(U.S. $ in millions)

GROSS PREMIUMS WRITTEN:
$2,783.1

COMBINED RATIO:
97.6%

NET INCOME:
$325.3

SHAREHOLDERS' EQUITY:
$4,012.5

STATUTORY SURPLUS:
$3,248.8

FINANCIAL HIGHLIGHTS

ODYSSEY RE HOLDINGS CORP.

(U.S. $ in millions)

	2017	2016	2015
Gross premiums written	$ 2,783.1	$ 2,380.7	$ 2,404.0
Net premiums written	2,495.9	2,100.2	2,095.0
Net premiums earned	2,333.4	2,074.1	2,204.1
Net investment income	191.8	215.1	217.2
Operating income before income taxes[a]	240.2	367.2	535.5
Net realized investment gains (losses)	378.1	(201.9)	(116.5)
Income before income taxes	618.3	165.3	419.0
Net income	325.3	160.9	299.3
Total assets	11,207.6	10,182.5	10,396.4
Shareholders' equity	4,012.5	3,833.2	3,958.2
Underwriting income	55.2	229.5	331.9
Combined ratio	97.6%	88.9%	84.9%

[a] Represents income before income taxes excluding net realized investment gains and losses.

GROSS PREMIUMS WRITTEN BY DIVISION

(U.S. $ in millions)

	2017	2016	2015
North America	$ 774.6	$ 654.6	$ 624.2
Latin America	102.5	104.8	145.3
EuroAsia	533.6	460.2	464.3
London Market	288.0	244.3	262.0
U.S. Insurance	1,084.4	916.8	908.2
Total gross premiums written	$ 2,783.1	$ 2,380.7	$ 2,404.0

OPERATIONS OVERVIEW

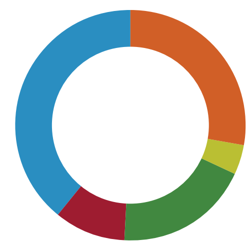
Odyssey Group is a globally diversified underwriter of property and casualty reinsurance and specialty insurance that operates through five Divisions: North America, Latin America, EuroAsia, London Market and U.S. Insurance.

2017
GROSS PREMIUMS WRITTEN

"WRITING BUSINESS IN MORE THAN 100 TERRITORIES THROUGH A NETWORK OF 36 OFFICES LOCATED IN 13 COUNTRIES"

DIVERSIFICATION

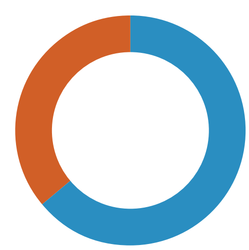
Diversification is a critical focus of our business strategy as it provides portfolio stability and with our global network, we are able to rapidly respond to business opportunities as they emerge around the world. We have 34 discrete business units organized along different product, territorial and distribution lines, with 18 of these focused on reinsurance and 16 dedicated to insurance markets.



NORTH AMERICA	28%
LATIN AMERICA	4%
EUROASIA	19%
LONDON MARKET	10%
U.S. INSURANCE	39%

PROPERTY

Property accounted for 31% of gross premiums written compared to 33% in 2016. Our property portfolio is heavily weighted to reinsurance where margins remain more attractive, tail risk is more limited and we can respond to changing market conditions more rapidly. Catastrophe business, which represents 35% of our property book, was significantly impacted in 2017 by near-record industry losses from a number of events, including Hurricanes Harvey, Irma and Maria ("HIM") and the California Wildfires. While we have started to see some improvement in rates and terms, especially in loss-affected areas following the Cat events of 2017, we will need to see further price rises globally before we consider deploying significantly more capacity.



U.S.	64%
NON-U.S.	36%

CASUALTY

Casualty represented 34% of our gross premiums written compared to 36% in 2016. Casualty insurance currently represents 69% of our total casualty portfolio. The book of business is very diverse in terms of product mix and geographic scope. We have more appetite for casualty insurance today because we have not only greater control over pricing and risk selection, but we can use reinsurance to reduce volatility. While the casualty reinsurance market remains difficult we are fortunate to have a core base of quality clients with whom we have partnered for many years. We remain attuned to new opportunities, and are an attractive partner for willing buyers due to our expertise and lead market capabilities, particularly in specialty casualty.

PROPERTY	31%
CASUALTY	34%
SPECIALTY	35%

SPECIALTY

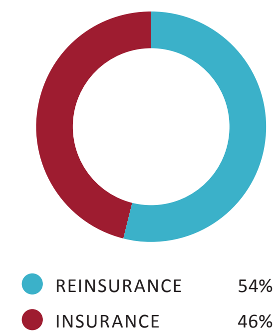
Other specialty lines, including Crop, Surety, Credit, Marine, Aerospace, Motor and Accident & Health represented 35% of gross premiums written compared to 31% in 2016. This segment has been a growth area for us in recent years and we expect that to continue. The pricing environment in many specialty lines tend to be more local and with our global reach we have been able to take advantage of opportunities as they have arisen. Specialty lines are generally less volatile and capital-intensive, making further expansion attractive, especially in the face of tougher trading conditions in standard property and casualty lines.

REINSURANCE

Underwritten primarily through our flagship company, Odyssey Reinsurance Company, we write a global reinsurance portfolio of $1.5 billion through a branch and representative office network of 14 offices in 10 countries. 2017 reinsurance results were adversely affected by the near-record industry losses from catastrophes, equating to a combined ratio of 101.9%, a decent result under the circumstances, compared to 85.5% in 2016.

INSURANCE

Specialty insurance is underwritten in the U.S. through Hudson Insurance Group and internationally through Newline Group. Global gross premiums written generated by our insurance operations were $1.3 billion, and the net combined ratio was 91.9%, compared to 93.7% in 2016. We expect our insurance portfolio to continue to drive Odyssey Group's growth and be a major contributor to our profitability.



2017 UNDERWRITING RESULT

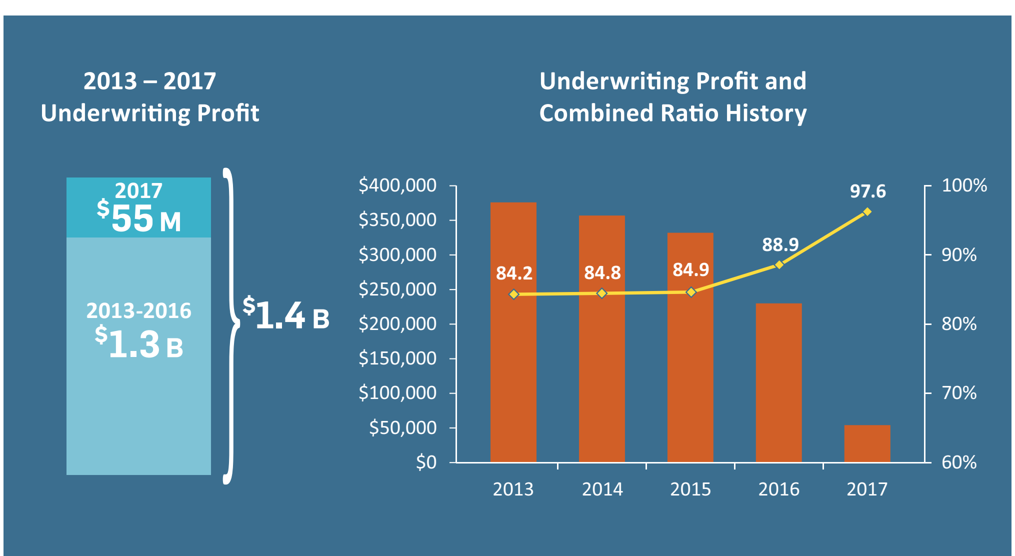
Odyssey Group reported a net combined ratio of 97.6% for 2017 in spite of net Cat losses for the year of $392 million. This result was based on disciplined underwriting throughout the Group and significant contributions from U.S. Insurance, which continued to grow while delivering strong underwriting results.

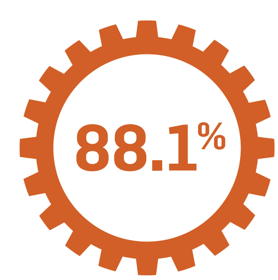
Reserve releases in 2017 were $288 million, which reduced the combined ratio by 12.4 points, compared to 12.8 points the previous year. Favorable development was recorded in all operating Divisions. Decreases in non-Cat loss reserves represented 64% of the releases in 2017, compared to 62% in 2016.

Property Cat losses for 2017 were $228 million greater than expectations and impacted the combined ratio by 9.8 points, compared to 2016 when property Cat losses were $13 million greater than expectations, impacting the combined ratio by 0.6 points.

COMBINED RATIO

UNDERWRITING PROFITS





FIVE-YEAR AVERAGE COMBINED RATIO

REINSURANCE

ODYSSEYRE®

PRODUCT OFFERING

TREATY

Property (Assumed & Retro)
Casualty
Surety & Trade Credit
Marine
Aviation
Motor/Auto
Accident & Health
Agriculture
Terrorism
Cyber Liability

FACULTATIVE

Casualty (U.S. and Latin America only)
Property (Latin America only)
Cyber Liability (U.S. only)
Terrorism
Energy

OdysseyRe, the reinsurance arm of our Group, prides itself on its consistent, long-term underwriting approach, well-defined risk appetite and commitment to providing quality service. Our reinsurance operations include a global network of 14 branch and representative offices across five regions:

- North America
- Latin America
- Europe, Middle East and Africa (EMEA)
- AsiaPacific
- London

Each region is comprised of talented, dedicated teams of underwriters, actuaries, auditors, claims professionals and catastrophe modelers.

Reinsurance is primarily underwritten through our flagship company, Odyssey Reinsurance Company. In 2017 we established another platform in Europe with the launch of Odyssey Re Europe S.A., which is based in Paris and will serve as a complementary vehicle for certain clients in select circumstances.

Despite Cat losses, most notably from Harvey, Irma, Maria, the California Wildfires and the Mexican Earthquakes, our 2017 reinsurance results were solid. Our risk appetite and diversified underwriting strategy served us well, as did favorable prior year development in every region and across many parts of our business. Following several years of consolidation, we saw growth in reinsurance around the world. U.S. growth was driven by select Property and Casualty segments, Accident & Health and Auto. In EMEA growth was notably strong in France, Africa, the Middle East and Turkey; our AsiaPacific region saw meaningful growth as well, particularly in China in specialty classes.

We continued to make investments in talent to deepen our bench strength and expand our product offerings. We added underwriting expertise in the U.S. to focus on Cyber Liability, and in Latin America to support our developing Accident & Health business.

Our business approach incorporates continuity, consistency and responsiveness, all of which, and more, have enabled us to create enduring relationships that extend back decades. We strive to be not just another balance sheet, but a credible source of expertise and market leadership.

OFFICE LOCATIONS

STAMFORD
300 First Stamford Place
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USA
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LONDON
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MEXICO CITY
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MIAMI
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TORONTO
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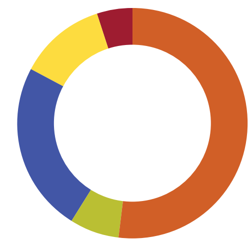
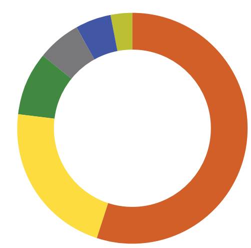


NORTH AMERICA	52%
LATIN AMERICA	7%
EMEA	24%
ASIAPACIFIC	12%
LONDON	5%



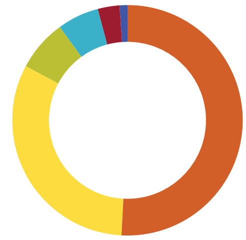
PROPERTY	55%
CASUALTY	22%
MOTOR/AUTO	9%
SURETY & TRADE CREDIT	6%
MARINE & AVIATION	5%
AGRICULTURE	3%

REINSURANCE

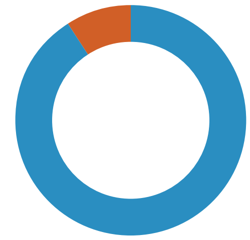
Global Regions

Brian D. Quinn
Chief Executive Officer

2017
GROSS PREMIUMS
WRITTEN



PROPERTY	51%
CASUALTY	32%
FACULTATIVE CASUALTY	7%
ACCIDENT & HEALTH	6%
SURETY	3%
MARINE	1%



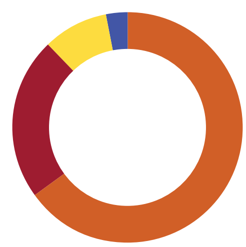
U.S.	91%
CANADA	9%

North America

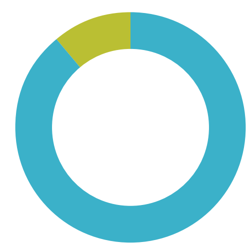
OdysseyRe's North America team offers treaty and facultative reinsurance to clients in the U.S. and Canada. Treaty facilities are based in Stamford, with additional offices in Toronto and Montreal. Casualty facultative underwriters operate from New York and Chicago.

Philippe E. Mallier
Chief Executive Officer

2017
GROSS PREMIUMS
WRITTEN



PROPERTY	65%
SURETY	23%
CASUALTY	9%
MARINE	3%



TREATY	89%
FACULTATIVE	11%

Latin America

OdysseyRe provides treaty and facultative reinsurance to clients located in all countries throughout Latin America and the Caribbean. Underwriters are based in Mexico City, Miami and São Paulo, Brazil.

Carl A. Overy
Chief Executive Officer

2017
GROSS PREMIUMS
WRITTEN

PROPERTY	52%
MARINE & AEROSPACE	29%
MOTOR	13%
CASUALTY	6%

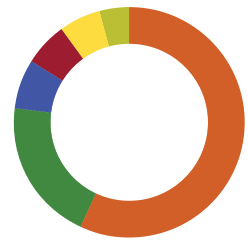
London

OdysseyRe's London branch provides treaty solutions to reinsurance clients in the London Market, including Lloyd's. Its remit is global in scope allowing access to business where we have particular expertise.

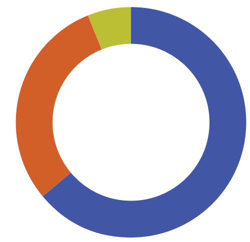
Isabelle Dubots-Lafitte
Chief Executive Officer

$354.8
MILLION

2017
GROSS PREMIUMS
WRITTEN



PROPERTY	57%
MOTOR	20%
MARINE & AEROSPACE	7%
CREDIT & BOND	6%
CASUALTY	6%
CROP	4%



EUROPE	64%
MIDDLE EAST	30%
AFRICA	6%

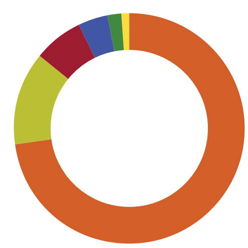
EMEA

OdysseyRe offers treaty reinsurance in Continental Europe, the Middle East and Africa (EMEA) from its offices in Paris and Stockholm. The Paris-based underwriting team is responsible for writing property and casualty treaties in Europe, the Middle East and Africa, while the Stockholm office services the Nordic, Russian and Baltic markets.

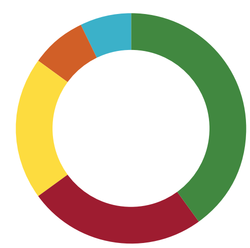
Lucien Pietropoli
Chief Executive Officer

$178.8
MILLION

2017
GROSS PREMIUMS
WRITTEN



PROPERTY	73%
CROP	13%
CREDIT & BOND	7%
MARINE & AEROSPACE	4%
MOTOR	2%
CASUALTY	1%



CHINA	40%
JAPAN	25%
SOUTH EAST ASIA/PACIFIC	20%
INDIA	8%
SOUTH KOREA	7%

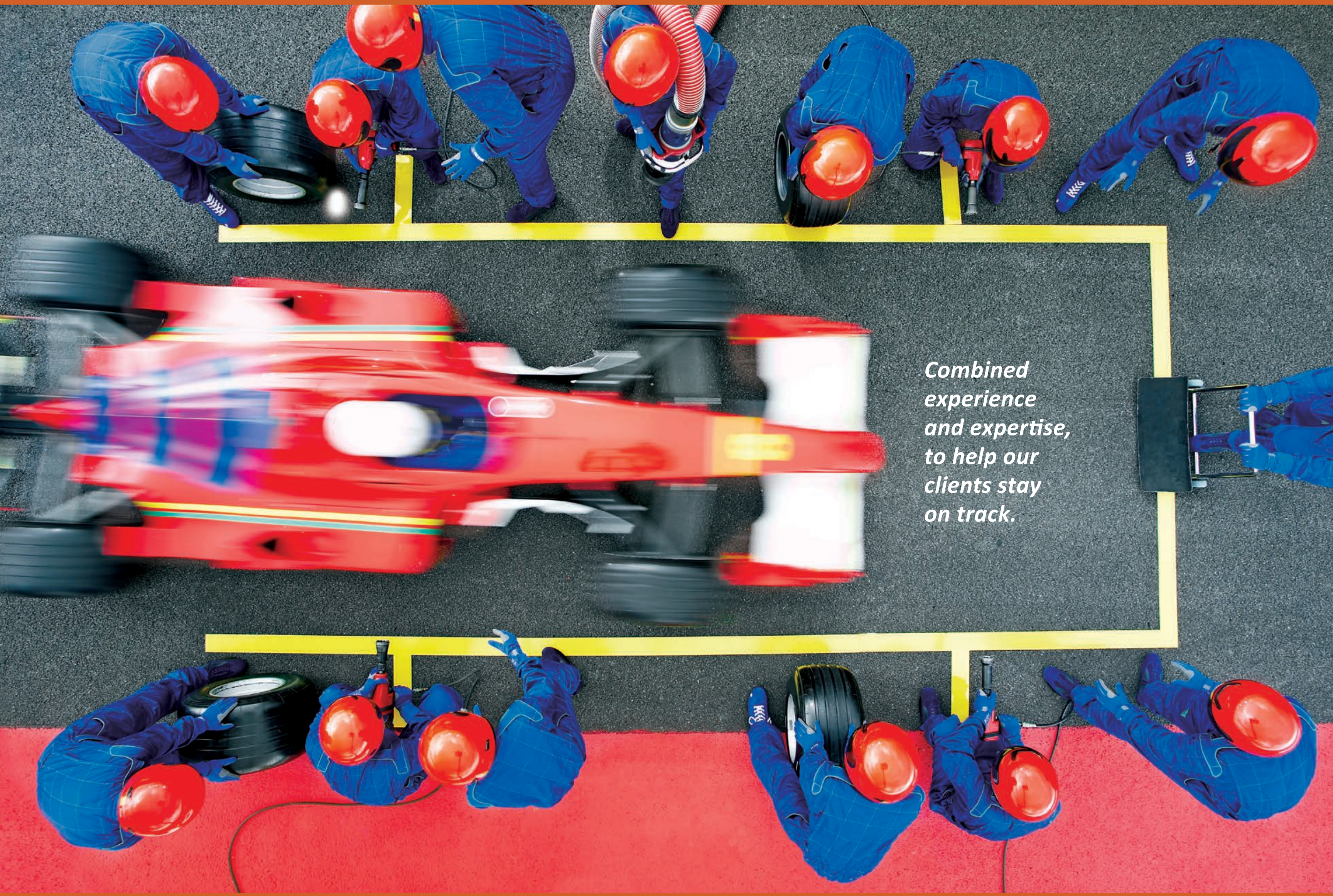
AsiaPacific

OdysseyRe's AsiaPacific team underwrites treaty reinsurance from Singapore, with the support of two representative offices in Beijing and Tokyo. Its geographical focus includes China, Japan, South Korea, Indonesia, Hong Kong, India, South East Asia, Australia and New Zealand.

CONSISTENCY THAT SPANS DECADES

The continuity of our team and the consistency of our business approach set us apart from our peers. By offering quality service, excellent security and innovative solutions to our clients and business partners, we have created enduring relationships that extend back decades.

INSURANCE



PRODUCT OFFERING

WITHIN THE U.S.
Commercial Auto
Commercial Casualty E&S
Commercial Excess & Umbrella
Crop
General Liability/Package
Management Liability
Medical Malpractice
Personal Umbrella
Professional Liability
Specialty Property & Energy
Surety

INTERNATIONALLY
Affinity & Special Risks
Cargo & Specie
Crime
Directors & Officers
Liability
Medical Malpractice
Professional Liability
Space

Specialty insurance is offered by Hudson Insurance Group in the United States and Newline Group internationally.

Hudson offers a broad range of property and casualty insurance products to corporations, professional firms and individuals via retailers, wholesalers and program administrators. With 18 offices in the U.S. and an office in Vancouver, Canada, Hudson underwrites specialty primary and excess insurance on an admitted and non-admitted basis. Hudson is widely known for serving market niches that require highly specialized underwriting and claims capabilities.

Hudson's noteworthy developments in 2017 include:

- The launch of a Commercial Casualty Excess & Surplus facility in Scottsdale, Arizona
- The formation of a new business unit focused on Subcontractor Default Insurance

Newline is headquartered in London and offers a suite of casualty products through two underwriting platforms, Newline Syndicate 1218 and Newline Insurance Company Limited. Newline Syndicate transacts business at its underwriting box at Lloyd's and through its service companies that act as "coverholders" around the world, providing local, customized service. Newline Syndicate also participates in the Lloyd's China platform in Shanghai.

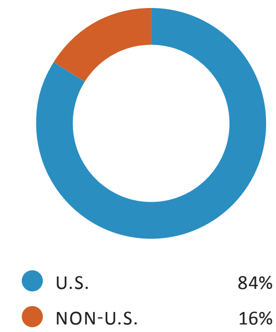
Newline Insurance Company Limited writes insurance throughout the European Community and facultative reinsurance in most other jurisdictions worldwide.

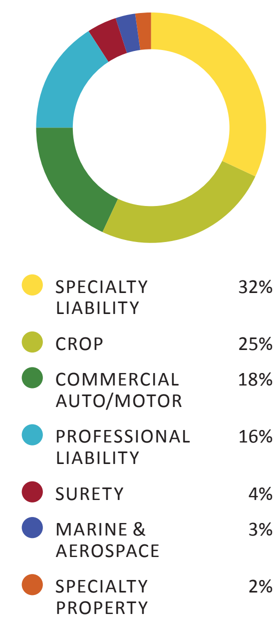
Newline's 2017 accomplishments include:

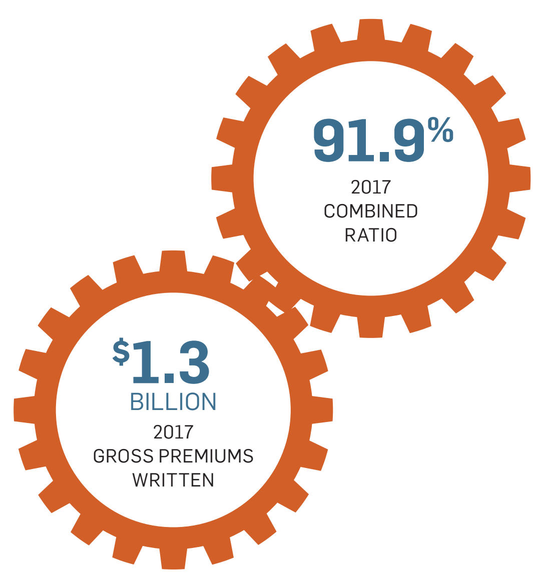
- The launch of a new Affinity & Special Risks business in London
- The establishment of a new regional office for Newline Insurance Company Limited in Leeds, England

Hudson and Newline continued to invest in talent and technology, which resulted in new product offerings, streamlined business processes and enhanced service offerings to clients and business partners around the world. Both insurance operations exhibited strong growth and delivered excellent underwriting results in 2017.

The narratives that follow provide an in-depth view of our insurance business in the U.S. and around the world.







INSURANCE

U.S. Only

HUDSON INSURANCE GROUP® | *Celebrating* **100 years**

OFFICE LOCATIONS

NEW YORK
100 William Street
New York, NY 10038
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ATLANTA
Tel. +1 678 331 4200

AVON
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SCOTTSDALE
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STAMFORD
Tel. +1 203 977 8000

VANCOUVER
Tel. +1 604 449 5360

WESTLAKE
Tel. +1 440 925 1995

Christopher L. Gallagher
Chief Executive Officer
Hudson Insurance Company
Hudson Specialty Insurance Company
Hudson Excess Insurance Company

HUDSON INSURANCE GROUP
2017
GROSS PREMIUMS WRITTEN

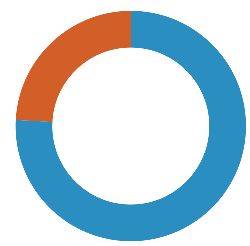
Hudson Insurance Group is a leading provider of specialty insurance operating in the United States and based in New York City, with offices located throughout the U.S. and in Vancouver, Canada. Hudson writes specialty primary and excess insurance on an admitted basis through Hudson Insurance Company and on a non-admitted basis through Hudson Specialty Insurance Company and Hudson Excess Insurance Company.

We offer a diverse range of property and casualty products to corporations, professional firms and individuals through retailers, wholesalers and program administrators. Our nine underwriting units include Commercial Auto, Crop, Financial Products, General Liability & Package, Healthcare Liability, Non-Medical Professional Liability, Specialty Property & Energy, Surety and Tribal.

In 2017 we continued to expand our specialty product offerings. We launched a new Commercial Casualty Excess & Surplus lines facility based in Scottsdale that focuses on small and medium-sized casualty risks in the construction, manufacturing and distribution sectors, enabling us to now offer wholesale brokers a more comprehensive range of liability products. We also established a new Subcontractor Default Insurance business unit to complement our existing Surety business. We are excited by the opportunity for growth in both of these areas.

Turning to our results, Hudson reached a significant milestone in 2017 by exceeding $1 billion in gross premiums written. This record achievement accompanied solid underwriting performance across most of our business segments as we produced a net combined ratio of 91.8%. This compares to gross premiums written of $916.8 million and a net combined ratio of 93.2% in 2016. The most notable growth came from our Commercial Auto, Crop and Liability & Package businesses, while Crop and Surety continued to show improved profitability for a third consecutive year. While we did see some Cat losses from Harvey, Irma and the California Wildfires, we benefited from disciplined underwriting and favorable prior year development across many lines.

2018 marks Hudson's 100th anniversary and we are very proud of our longevity, strength and security. Year after year we have demonstrated our ability to adapt to changing market conditions and be responsive to our clients' ever-changing needs. We made significant investments in talent and technology to ensure our future sustainability, and have expanded our footprint across the U.S., now offering more products and services than ever before. With our underwriting capabilities, highly specialized claims expertise and the deep industry knowledge and experience of our staff, Hudson has never been stronger. Our prospects for the future are exciting, and we are committed to delivering innovative specialty insurance products and services for many years to come.



HUDSON INSURANCE COMPANY	76%
HUDSON SPECIALTY & HUDSON EXCESS INSURANCE COMPANIES	24%

CROP	30%
COMMERCIAL AUTO	20%
SPECIALTY LIABILITY	17%
PROFESSIONAL LINES	12%
GENERAL LIABILITY & PACKAGE	12%
SURETY	5%
SPECIALTY PROPERTY & ENERGY	4%

INSURANCE

International

NEWLINE GROUP®

OFFICE LOCATIONS

LONDON

Corn Exchange
55 Mark Lane
London EC3R 7NE
England

Tel. +44 020 7090 1700

COLOGNE

Tel. +49 221 9669 4510

LABUAN

Tel. +65 6212 1290

LEEDS

Tel. +44 0113 350 8734

MELBOURNE

Tel. +61 03 9999 1901

SINGAPORE

Tel. +65 6212 1290

SHANGHAI

Newline Underwriting
Division at Lloyd's

Tel. +86 021 6162 8278

Carl A. Overy
Chief Executive Officer
Newline Syndicate 1218
Newline Insurance Company Limited

$205.1
MILLION

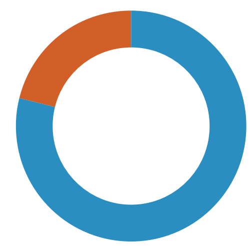
NEWLINE GROUP
2017
GROSS PREMIUMS WRITTEN

Newline Group is a market leading provider of specialty insurance operating through two underwriting platforms, Newline Syndicate 1218 at Lloyd's and Newline Insurance Company Limited. Headquartered in London, with offices in Leeds, Cologne, Singapore, Melbourne and Malaysia, and an underwriting division within Lloyd's Insurance Company (China) Limited, Newline Group offers a suite of casualty products in more than 80 countries around the world. Our territorial focus is predominantly the UK, Continental Europe, Australia, Asia Pacific and Canada.

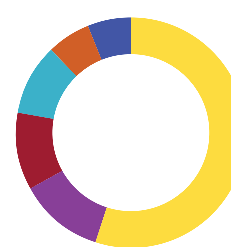
Our product offerings, which are available on a direct and facultative basis, include Public Liability, Employers Liability, Products Liability, Commercial Crime, Bankers Blanket Bond, Professional Liability, Directors & Officers Liability, Medical Malpractice, Space, Cargo and Specie. Our newest product, Affinity & Special Risks, was launched in 2017 and provides both Motor-related and Non-Motor Warranty, as well as an array of ancillary products. This market presents a significant growth opportunity for Newline as we seek to expand our product offerings across new and existing distribution channels.

Newline delivered excellent results in 2017, with gross premiums written of $205.1 million and a net combined ratio of 92.4%. This compares to gross premiums written of $169.3 million and a net combined ratio of 96.4% in 2016. We saw continued growth in our Liability portfolio along with increased volume from our new busness unit, Affinity & Special Risks. Losses in Cargo related to Harvey, Irma and Maria were relatively minor and offset by favourable prior development in other lines, namely Liability, Financial Institutions and Commercial D&O.

Throughout 2017 we continued to build our capabilities by investing in talent and technology around the world. Our newer offices in Cologne and Leeds are progressing well, and our territorial expansion plans are ongoing, enabling us to be closer to our distribution partners and our clients, providing further opportunities for growth. We are also working with other members of the Fairfax group to develop product solutions, offer greater capacity and provide better service for the benefit of our clients.



NEWLINE SYNDICATE AT LLOYD'S	79%
NEWLINE INSURANCE COMPANY LIMITED	21%



LIABILITY	55%
FINANCIAL INSTITUTIONS	12%
MEDICAL MALPRACTICE	11%
PROFESSIONAL LIABILITY	10%
DIRECTORS & OFFICERS	6%
SPACE & MARINE CARGO	6%

EXECUTIVE LEADERSHIP

ODYSSEY RE HOLDINGS CORP.

BOARD OF DIRECTORS

(1) Compensation Committee
(2) Audit Committee

Andrew A. Barnard (1)
Chairman of the Board, President and Chief Operating Officer
Fairfax Insurance Group

Brandon W. Sweitzer (1) (2)
Dean, School of Risk Management
St. John's University School of Risk Management

Peter S. Clarke (2)
Vice President and Chief Risk Officer
Fairfax Financial Holdings Limited

Brian D. Young
President and Chief Executive Officer
Odyssey Re Holdings Corp.

David J. Bonham (2)
Vice President and Chief Financial Officer
Fairfax Financial Holdings Limited

Paul C. Rivett
President
Fairfax Financial Holdings Limited

OFFICERS

Brian D. Young
President and Chief Executive Officer

Michael G. Wacek
Executive Vice President and Chief Risk Officer

Elizabeth A. Sander
Executive Vice President and Chief Actuary

Jan Christiansen
Executive Vice President and Chief Financial Officer

Peter H. Lovell
Senior Vice President, General Counsel and Corporate Secretary

EXECUTIVE TEAM

Alane R. Carey
Executive Vice President Director of Global Marketing

Philippe E. Mallier
Chief Executive Officer
Latin America

Brian D. Quinn
Chief Executive Officer
North America

Isabelle Dubots-Lafitte
Chief Executive Officer
Europe, Middle East & Africa

Carl A. Overy
Chief Executive Officer
London Market

Jeffrey M. Rubin
Senior Vice President Director of Global Claims

Christopher L. Gallagher
Chief Executive Officer
U.S. Insurance

Lucien Pietropoli
Chief Executive Officer
AsiaPacific

Report of Independent Auditors

To the Board of Directors of Odyssey Re Holdings Corp.:

We have audited the accompanying consolidated financial statements of Odyssey Re Holdings Corp. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and December 31, 2016, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years ended December 31, 2017.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 our 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, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

/s/ PricewaterhouseCoopers LLP

New York, NY
March 2, 2018

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED BALANCE SHEETS

	December 31, 2017	December 31, 2016
	(In thousands, except share and per share amounts)	
ASSETS		
Investments and cash:		
Fixed income securities, available for sale, at fair value (amortized cost $621,394 and $855,017, respectively)	$ 651,083	$ 958,664
Fixed income securities, held for trading, at fair value (amortized cost $1,251,075 and $1,963,009, respectively)	1,289,610	1,895,406
Preferred stocks, held for trading, at fair value (cost $32,307 and $0, respectively)	31,983	—
Equity securities:		
Common stocks, available for sale, at fair value (cost $108,200 and $135,896, respectively)	166,911	154,457
Common stocks, held for trading and fair value options, at fair value (cost $913,429 and $1,130,448, respectively)	872,027	1,033,399
Common stocks, at equity	809,638	398,019
Short-term investments, held for trading, at fair value (amortized cost $2,095,823 and $1,742,357, respectively)	2,095,823	1,742,357
Cash and cash equivalents	1,710,485	604,861
Cash and cash equivalents held as collateral	230,074	218,660
Other invested assets	881,879	843,556
Total investments and cash	8,739,513	7,849,379
Accrued investment income	21,039	32,123
Premiums receivable	850,272	700,809
Reinsurance recoverable on paid losses	29,680	42,081
Reinsurance recoverable on unpaid losses	866,985	658,607
Prepaid reinsurance premiums	79,439	74,119
Funds held by reinsureds	145,618	129,949
Deferred acquisition costs	201,994	165,661
Federal and foreign income taxes receivable	144,357	400,782
Other assets	128,745	128,953
Total assets	$ 11,207,642	$ 10,182,463
LIABILITIES		
Unpaid losses and loss adjustment expenses	$ 5,463,595	$ 4,876,848
Unearned premiums	909,078	722,455
Reinsurance balances payable	171,048	149,178
Funds held under reinsurance contracts	89,906	56,734
Debt obligations	89,857	89,815
Other liabilities	471,625	454,254
Total liabilities	7,195,109	6,349,284
Commitments and Contingencies (Note 11)		
SHAREHOLDERS' EQUITY		
Non-controlling interest - preferred shares of subsidiaries	29,299	29,299
Common shares, $10.00 par value; 60,000 shares authorized; 49,170 shares issued and outstanding	492	492
Additional paid-in capital	1,738,968	1,746,290
Accumulated other comprehensive income, net of deferred income taxes	37,222	67,581
Retained earnings	2,206,552	1,989,517
Total shareholders' equity	4,012,533	3,833,179
Total liabilities and shareholders' equity	$ 11,207,642	$ 10,182,463

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2017	2016	2015
		(In thousands)	
REVENUES			
Gross premiums written	$ 2,783,105	$ 2,380,747	$ 2,403,985
Ceded premiums written	287,218	280,570	309,000
Net premiums written	2,495,887	2,100,177	2,094,985
(Increase) decrease in net unearned premiums	(162,486)	(26,081)	109,085
Net premiums earned	2,333,401	2,074,096	2,204,070
Net investment income	191,790	215,073	217,160
Net realized investment gains (losses):			
Realized investment gains (losses)	390,367	(185,688)	(51,388)
Other-than-temporary impairment losses	(12,286)	(16,227)	(65,120)
Total net realized investment gains (losses)	378,081	(201,915)	(116,508)
Total revenues	2,903,272	2,087,254	2,304,722
EXPENSES			
Losses and loss adjustment expenses	1,539,522	1,171,825	1,185,774
Acquisition costs	492,482	431,417	449,083
Other underwriting expenses	246,181	241,329	237,303
Other expenses, net	3,526	74,559	8,131
Interest expense	3,260	2,801	5,463
Total expenses	2,284,971	1,921,931	1,885,754
Income before income taxes	618,301	165,323	418,968
Federal and foreign income tax provision (benefit):			
Current	144,491	28,508	228,267
Deferred	148,556	(24,093)	(108,593)
Total federal and foreign income tax provision	293,047	4,415	119,674
Net income	$ 325,254	$ 160,908	$ 299,294

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2017	2016	2015
		(In thousands)	
Net income	$ 325,254	$ 160,908	$ 299,294
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX			
Unrealized net appreciation (depreciation) on securities arising during the year	56,831	(53,043)	(291,276)
Reclassification adjustment for net realized investment gains included in net income	(100,845)	(48,910)	(34,436)
Foreign currency translation adjustments	528	(24,166)	(27,086)
Benefit plan liabilities	(13,180)	(2,440)	(1,447)
Other comprehensive loss, before tax	(56,666)	(128,559)	(354,245)
TAX (PROVISION) BENEFIT			
Unrealized net (appreciation) depreciation on securities arising during the year	(20,025)	18,546	101,702
Reclassification adjustment for net realized investment gains included in net income	35,296	17,118	12,053
Foreign currency translation adjustments	(185)	8,458	9,480
Benefit plan liabilities	4,613	854	506
Total tax benefit	19,699	44,976	123,741
Other comprehensive loss, net of tax	(36,967)	(83,583)	(230,504)
Comprehensive income	$ 288,287	$ 77,325	$ 68,790

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Years Ended December 31,		
	2017	2016	2015
	(In thousands, except common share amounts)		
NON-CONTROLLING INTEREST - PREFERRED SHARES OF SUBSIDIARIES			
Balance, beginning and end of year	$ 29,299	$ 29,299	$ 29,299
COMMON SHARES (par value)			
Balance, beginning of year	492	492	477
Common shares capital contributions	—	—	15
Balance, end of year	492	492	492
ADDITIONAL PAID-IN CAPITAL			
Balance, beginning of year	1,746,290	1,747,017	1,639,236
Common shares capital contributions	—	—	124,985
Net change due to stock option exercises and restricted share awards	(7,322)	(727)	(17,204)
Balance, end of year	1,738,968	1,746,290	1,747,017
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF DEFERRED INCOME TAXES			
Balance, beginning of year	67,581	151,164	381,668
Unrealized depreciation on securities, net of reclassification adjustments	(28,743)	(66,289)	(211,957)
Foreign currency translation adjustments	343	(15,708)	(17,606)
Benefit plan liabilities	(8,567)	(1,586)	(941)
U.S. tax reform deferred income tax reclassification	6,608	—	—
Balance, end of year	37,222	67,581	151,164
RETAINED EARNINGS			
Balance, beginning of year	1,989,517	2,030,220	1,932,537
Net income	325,254	160,908	299,294
Dividends to preferred shareholders and non-controlling interest	(1,611)	(1,611)	(1,611)
Dividends to common shareholder	(100,000)	(200,000)	(200,000)
U.S. tax reform deferred income tax reclassification	(6,608)	—	—
Balance, end of year	2,206,552	1,989,517	2,030,220
TOTAL SHAREHOLDERS' EQUITY	$ 4,012,533	$ 3,833,179	$ 3,958,192
COMMON SHARES OUTSTANDING			
Balance, beginning of year	49,170	49,170	47,668
Shares issued	—	—	1,502
Balance, end of year	49,170	49,170	49,170

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2017	2016	2015
	(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 325,254	$ 160,908	$ 299,294
Adjustments to reconcile net income to net cash provided by operating activities:			
(Increase) decrease in premiums receivable and funds held, net of reinsurance	(71,061)	(26,572)	49,546
Increase (decrease) in unearned premiums and prepaid reinsurance premiums, net	159,249	26,792	(98,730)
Increase (decrease) in unpaid losses and loss adjustment expenses, net of reinsurance	200,386	10,496	(130,140)
Decrease (increase) in current and deferred federal and foreign income taxes, net	277,366	(148,440)	(177,416)
(Increase) decrease in deferred acquisition costs	(33,549)	(11,419)	27,077
Change in other assets and liabilities, net	(55,752)	41,937	(25,032)
Net realized investment (gains) losses	(378,081)	201,915	116,508
Bond discount amortization, net	(10,803)	(4,183)	(2,985)
Amortization of compensation plans	15,021	14,655	13,440
Net cash provided by operating activities	428,030	266,089	71,562
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturities of fixed income securities, available for sale	147,492	63,890	3,445
Sales of fixed income securities, available for sale	158,332	501,833	158,077
Purchases of fixed income securities, available for sale	(15,179)	(5,330)	(8,203)
Sales of equity securities, available for sale	275,373	584	172,436
Purchases of equity securities, available for sale	(362,353)	(95,254)	(156,786)
Net settlements of other invested assets	485,327	(9,944)	310,631
Purchases of other invested assets	(308,411)	(112,762)	(157,199)
Net change in cash and cash equivalents held as collateral	(36,676)	(11,280)	(12,429)
Sales of trading securities	4,272,564	5,345,260	1,957,778
Purchases of trading securities	(3,930,490)	(5,748,858)	(2,406,470)
Net purchases of fixed assets	(10,769)	(10,680)	(10,760)
Acquisition of net assets of a business	—	—	(9,300)
Net cash provided by (used in) investing activities	675,210	(82,541)	(158,780)
CASH FLOWS FROM FINANCING ACTIVITIES			
Common shares capital contributions	—	—	125,000
Repayment of debt obligations upon maturity	—	—	(125,000)
Purchases of restricted shares	(22,696)	(15,382)	(30,625)
Dividends paid to preferred shareholders	(1,611)	(1,611)	(1,611)
Dividends paid to common shareholder	(1)	(2)	—
Net cash used in financing activities	(24,308)	(16,995)	(32,236)
Effect of exchange rate changes on cash and cash equivalents	26,692	(21,959)	(31,994)
Increase (decrease) in cash and cash equivalents	1,105,624	144,594	(151,448)
Cash and cash equivalents, beginning of year	604,861	460,267	611,715
Cash and cash equivalents, end of year	$ 1,710,485	$ 604,861	$ 460,267
Supplemental disclosures of cash flow information:			
Interest paid	$ 3,193	$ 2,741	$ 6,685
Income taxes paid	$ 17,991	$ 152,842	$ 298,026
Non-cash activity:			
Dividends paid to common shareholder	$ 99,999	$ 199,998	$ 200,000

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Odyssey Re Holdings Corp., a Delaware corporation (together with its subsidiaries, the “Company” or “ORH”; on a stand-alone basis), is an underwriter of reinsurance, providing a full range of property and casualty products on a worldwide basis, and an underwriter of specialty insurance, primarily in the United States and through the Lloyd’s of London (“Lloyd’s”) marketplace. ORH owns all of the common shares of Odyssey Reinsurance Company (“ORC”), its principal operating subsidiary, which is domiciled in the state of Connecticut. ORC directly or indirectly owns all of the common shares of the following subsidiaries:

- Hudson Insurance Company (“Hudson”) and its subsidiaries:
    - Hudson Specialty Insurance Company (“Hudson Specialty”);
    - Hudson Excess Insurance Company (“Hudson Excess”);
- Clearwater Select Insurance Company (“Clearwater Select”);
- Newline Holdings U.K. Limited and its subsidiaries (collectively, “Newline”):
    - Newline Underwriting Management Limited, which manages Newline Syndicate (1218), a member of Lloyd’s;
    - Newline Insurance Company Limited (“NICL”); and
    - Newline Corporate Name Limited (“NCNL”), which provides capital for and receives distributed earnings from Newline Syndicate (1218).
- Odyssey Re Europe Holdings S.A.S. (“OREH”):
    - Odyssey Re Europe S.A. (“ORESA”).

Fairfax Financial Holdings Limited (“Fairfax”), a publicly traded financial services holding company based in Canada, ultimately owns 100% of the common shares of ORH and 100% of the non-controlling interest - preferred shares of ORH’s subsidiaries. ORH’s direct 100% owner is Odyssey US Holdings Inc. (“OUSHI”), all of the common shares of which are ultimately owned by Fairfax.

Dividends and returns of capital from the Company are expected to be the source of funds for servicing OUSHI’s debt obligations owed to various Fairfax entities.

2. Summary of Significant Accounting Policies

(a) *Basis of Presentation*. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions have been eliminated.

The preparation of consolidated financial statements in conformity with GAAP requires the Company to make estimates and assumptions that could differ materially from actual results affecting the reported amounts of assets, liabilities, revenues and expenses and disclosures of contingent assets and liabilities. The Company considers its accounting policies that are most dependent on the application of estimates and assumptions as critical accounting estimates, which are defined as estimates that are both i) important to the portrayal of the Company's financial condition and results of operations and ii) require the Company to exercise significant judgment. These estimates, by necessity, are based on assumptions about numerous factors.

The Company reviews its critical accounting estimates and assumptions on a quarterly basis, including: the estimate of reinsurance premiums and premium related amounts; establishing deferred acquisition costs; goodwill and intangible impairment evaluations; an evaluation of the adequacy of reserves for unpaid losses and loss adjustment expenses; review of its reinsurance and retrocession agreements; estimates related to income taxes, including an analysis of the recoverability of deferred income tax assets; and an evaluation of its investment portfolio, including a review for other-than-temporary declines in estimated fair value.

(b) *Investments*. The majority of the Company's investments in fixed income securities and common stocks are categorized as "available for sale" or "held for trading" and are recorded at their estimated fair value based on quoted market prices (see Note 3). Most investments in common stocks of affiliates are carried at the Company's proportionate share of the equity of those affiliates. Short-term investments, which are classified as "held for trading" and which have a maturity of one year or less from the date of purchase, are carried at fair value. The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents include certificates of deposits totaling $17.7 million and $11.3 million as of December 31, 2017 and 2016, respectively. Investments in limited partnerships, investment funds and real estate have been reported in other invested assets. Other invested assets also include trust accounts relating to the Company's benefit plans and derivative securities, all of which are carried at fair value. The Company routinely evaluates the carrying value of its investments in common stocks of affiliates and in partnerships and investment funds. In the case of limited partnerships and investment funds, the carrying value is generally established on the basis of the net valuation criteria as determined by the managers of the investments. Such valuations could differ significantly from the values that would have been available had markets existed for the securities. Investment transactions are recorded on their trade date, with balances pending settlement reflected in the consolidated balance sheets as a component of other assets or other liabilities.

Investment income, which is reported net of applicable investment expenses, is recorded as earned. Realized investment gains or losses are determined on the basis of average cost. The Company records, in investment income, its proportionate share of income or loss, including realized gains or losses, for those securities for which the equity method of accounting is utilized, which include most common stocks of affiliates, limited partnerships and investment funds. Due to the timing of when financial information is reported by equity investees and received by the Company, results attributable to these investments are generally reported by the Company on a one month or one quarter lag. Unrealized appreciation and depreciation related to trading securities is recorded as realized investment gains or losses in the consolidated statements of operations.

The net amount of unrealized appreciation or depreciation on the Company's available for sale investments, net of applicable deferred income taxes, is reflected in shareholders' equity in accumulated other comprehensive income. A decline in the fair value of an available for sale investment below its cost or amortized cost that is deemed other-than-temporary is recorded as a realized investment loss in the consolidated statements of operations, resulting in a new cost or amortized cost basis for the investment. Other-than-temporary declines in the carrying values of investments recorded in accordance with the equity method of accounting are recorded in net investment income in the consolidated statements of operations.

(c) *Revenue Recognition*. Reinsurance assumed premiums written and related costs are based upon reports received from ceding companies. When reinsurance assumed premiums written have not been reported by the ceding company they are estimated, at the individual contract level, based on historical patterns and experience from the ceding company and judgment of the Company. Subsequent adjustments to premiums written, based on actual results or revised estimates from the ceding company, are recorded in the period in which they become known. Reinsurance assumed premiums written related to proportional treaty business are established on a basis that is consistent with the coverage periods under the terms of the underlying insurance contracts. Reinsurance assumed premiums written related to excess of loss and facultative reinsurance business are recorded over the coverage term of the contracts, which is generally one year. Unearned premium reserves are established for the portion of reinsurance assumed premiums written that are to be recognized over the remaining contract period. Unearned premium reserves related to proportional treaty contracts are computed based on reports received from ceding companies, which show premiums written but not yet earned. Premium adjustments made over the life of the contract are recognized as earned premiums based on the applicable contract period. Insurance premiums written are based upon the effective date of the underlying policy and are generally earned on a pro rata basis over the policy period, which is usually one year. A reserve for uncollectible premiums is established when deemed necessary. The Company has established a reserve for potentially uncollectible premium receivable balances of $10.7 million and $10.2 million as of December 31, 2017 and 2016, respectively, which has been netted against premiums receivable.

The cost of reinsurance purchased by the Company (reinsurance premiums ceded) is reported as prepaid reinsurance premiums and amortized over the contract period in proportion to the amount of reinsurance protection provided. The ultimate amount of premiums, including adjustments, is recognized as premiums ceded, and amortized over the applicable contract period. Premiums earned are reported net of reinsurance ceded premiums earned in the consolidated statements of operations. Amounts paid by the Company for retroactive reinsurance that meet the conditions for reinsurance accounting are reported as reinsurance receivables to the extent those amounts do not exceed the associated liabilities. If the liabilities exceed the amounts paid, reinsurance receivables are increased to reflect the difference, and the resulting gain is deferred and amortized over the estimated settlement period. If the amounts paid for retroactive reinsurance exceed the liabilities, the related liabilities are increased or the reinsurance receivable is reduced, or both, at the time the reinsurance contract is effective, and the excess is charged to net income. Changes in the estimated amount of liabilities relating to the underlying reinsured contracts are recognized in net income in the period of the changes. Assumed and ceded reinstatement premiums represent additional premiums related to reinsurance coverages, principally catastrophe excess of loss contracts, which are paid when the incurred loss limits have been utilized under the reinsurance contract and such limits are reinstated. Premiums written and earned premiums related to a loss event are estimated and accrued as earned. The accrual is adjusted based upon any change to the ultimate losses incurred under the contract.

Leasing revenue is generally recognized ratably over the term of the leases. All of the Company's leasing revenue are generated from operating leases. Assets held for leases consist of land and buildings with estimated useful lives of 30 to 40 years and are valued at $33.2 million.

(d) *Deferred Acquisition Costs*. Acquisition costs, which are reported net of costs recovered under ceded contracts, consist of commissions and brokerage expenses incurred on insurance and reinsurance business written, and premium taxes on direct insurance written, and are deferred and amortized over the period in which the related premiums are earned. Commission adjustments are accrued based on changes in premiums and losses recorded by the Company in the period in which they become known. Deferred acquisition costs are limited to their estimated realizable value based on the related unearned premium, which considers anticipated losses and loss adjustment expenses and estimated remaining costs of servicing the business, all based on historical experience. The realizable value of the Company's deferred acquisition costs is determined without consideration of investment income.

Included in acquisition costs in the consolidated statements of operations are amortized deferred acquisition costs of $483.6 million, $418.2 million and $437.4 million for the years ended December 31, 2017, 2016 and 2015, respectively.

(e) *Goodwill and Intangible Assets*. The Company accounts for goodwill and intangible assets as permitted or required by GAAP. A purchase price paid that is in excess of net assets arising from a business combination is recorded as an asset ("goodwill") and is not amortized. Intangible assets with finite lives are amortized over the estimated useful life of the asset. Intangible assets with indefinite useful lives are not amortized. Goodwill and intangible assets are analyzed for impairment on a quarterly basis to determine if the carrying amount may not be recoverable. If the goodwill or intangible asset is impaired, it is written down to its realizable value with a corresponding expense reflected in the consolidated statements of operations. For the years ended December 31, 2017 and 2015, the Company impaired $0.3 million and $1.4 million, respectively, of intangible assets with finite lives related to its acquisition of an agency producing surety business. For the year ended December 31, 2016, the Company impaired $6.8 million of goodwill related to its acquisition of an agency producing financial products.

The following table reflects the carrying amount of goodwill, intangible assets with indefinite lives and intangible assets with finite lives as of December 31, 2017 and 2016 (in thousands):

		Intangible Assets		
	Goodwill	Indefinite Lives	Finite Lives	Total
Balance, January 1, 2016	$ 59,052	$ 5,813	$ 11,816	$ 76,681
Amortization during 2016	—	—	(5,093)	(5,093)
Impairment during 2016	(6,795)	—	—	(6,795)
Balance, December 31, 2016	52,257	5,813	6,723	64,793
Amortization during 2017	—	—	(3,674)	(3,674)
Impairment during 2017	—	—	(329)	(329)
Balance, December 31, 2017	$ 52,257	$ 5,813	$ 2,720	$ 60,790

The Company acquired $1.0 million of intangible assets with finite lives during the year ended December 31, 2015. The Company amortized $5.5 million during the year ended December 31, 2015 related to its intangible assets with finite lives. The Company impaired $1.4 million during the year ended December 31, 2015 related to its intangible assets with finite lives.

The following table provides the estimated amortization expense related to intangible assets for the succeeding three years (in thousands):

	Years Ended December 31,		
	2018	2019	2020
Amortization of intangible assets	$ 2,300	$ 420	$ —

(f) *Unpaid losses and loss adjustment expenses*. The reserves for losses and loss adjustment expenses are estimates of amounts needed to pay reported and unreported claims and related loss adjustment expenses. The estimates are based on assumptions related to the ultimate cost to settle such claims. The inherent uncertainties of estimating reserves are greater for reinsurers than for primary insurers due to the diversity of development patterns among different types of reinsurance contracts and the necessary reliance on ceding companies for information regarding reported claims. As a result, there can be no assurance that the ultimate liability will not exceed amounts reserved, with a resulting adverse effect on the Company.

The reserves for unpaid losses and loss adjustment expenses are based on the Company's evaluations of reported claims and individual case estimates received from ceding companies for reinsurance business or the estimates advised by the Company's claims adjusters for insurance business. The Company utilizes generally accepted actuarial methodologies to determine reserves for losses and loss adjustment expenses on the basis of historical experience and other estimates. The reserves are reviewed continually during the year and changes in estimates in losses and loss adjustment expenses are reflected as an expense in the consolidated statements of operations in the period the adjustment is made. Reinsurance recoverables on unpaid losses and loss adjustment expenses are reported as assets. A reserve for uncollectible reinsurance recoverables is established based on an evaluation of each reinsurer or retrocessionaire and historical experience. The Company uses tabular reserving for workers' compensation indemnity loss reserves, which are considered to be fixed and determinable, and discounts such reserves using an interest rate of 3.5% and the Life Table for Total Population: United States, 2009.

(g) *Deposit Assets and Liabilities*. The Company may enter into assumed and ceded reinsurance contracts that contain certain loss limiting provisions and, as a result, do not meet the risk transfer provisions of GAAP. These contracts are deemed as either transferring only significant timing risk or only significant underwriting risk or transferring neither significant timing nor underwriting risk and are accounted for using the deposit accounting method, under which revenues and expenses from reinsurance contracts are not recognized as written premium and incurred losses. Instead, the profits or losses from these contracts are recognized net, as other income or other expense, over the contract or contractual settlement periods.

For such contracts, the Company initially records the amount of consideration paid as a deposit asset or received as a deposit liability. Revenue or expense is recognized over the term of the contract, with any deferred amount recorded as a component of assets or liabilities until such time it is earned. The ultimate asset or liability under these contracts is estimated, and the asset or liability initially established, which represents the consideration transferred, is increased or decreased over the term of the contract. The change during the period is recorded in the Company's consolidated statements of operations, with increases and decreases in the ultimate asset or liability shown in other expense, net. As of December 31, 2017 and 2016, the Company had reflected $5.9 million and $7.0 million in other assets and $0.5 million and $0.3 million in other liabilities, respectively, related to deposit contracts. In cases where cedants retain the consideration on a funds held basis, the Company records those assets in other assets, and records the related investment income on the assets in the Company's consolidated statements of operations as investment income.

(h) *Income Taxes*. The Company records deferred income taxes to provide for the net tax effect of temporary differences between the carrying values of assets and liabilities in the Company's consolidated financial statements and their tax bases. Such differences relate principally to deferred acquisition costs, unearned premiums, unpaid losses and loss adjustment expenses, investments and tax credits. Deferred tax assets are reduced by a valuation allowance when the Company believes it is more likely than not that all or a portion of deferred taxes will not be realized. As of December 31, 2017 and 2016, a valuation allowance was not required.

The Company has elected to recognize accrued interest and penalties associated with uncertain tax positions as part of the income tax provision.

(i) *Derivatives*. The Company utilizes derivative instruments to manage against potential adverse changes in the value of its assets and liabilities. Derivatives include total return swaps, interest rate swaps, forward currency contracts, U.S. Treasury bond forward contracts, CPI-linked derivative contracts, credit default swaps, call options and warrants and other equity and credit derivatives. In addition, the Company holds options on certain securities within its fixed income portfolio that allow the Company to extend the maturity date on fixed income securities or convert fixed income securities to equity securities. The Company categorizes these investments as trading securities, and changes in fair value are recorded as realized investment gains or losses in the consolidated statements of operations. All derivative instruments are recognized as either assets or liabilities on the consolidated balance sheet and are measured at their fair value. Gains or losses from changes in the derivative values are reported based on how the derivative is used and whether it qualifies for hedge accounting. For derivative instruments that do not qualify for hedge accounting, changes in fair value are included in realized investment gains and losses in the consolidated statements of operations. Margin balances required by counterparties in support of derivative positions are included in fixed income securities and short-term investments.

(j) *Foreign Currency*. Foreign currency transaction gains or losses resulting from a change in exchange rates between the currency in which a transaction is denominated, or the original currency, and the functional currency are reflected in the consolidated statements of operations in the period in which they occur. The Company translates the financial statements of its foreign subsidiaries and branches that have functional currencies other than the U.S. dollar into U.S. dollars by translating balance sheet accounts at the balance sheet date exchange rate and income statement accounts at the rate at which the transaction occurs or the average exchange rate for each quarter. Translation gains or losses are recorded, net of deferred income taxes, as a component of accumulated other comprehensive income.

The following table presents the foreign exchange effect, net of the effects of foreign currency forward contracts purchased as an economic hedge against foreign exchange rate volatility and of tax, on specific line items in the Company's financial statements for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Statement of operations:			
Realized investment (losses) gains:			
Foreign currency forward contracts (losses) gains	$ (35,407)	$ 4,330	$ 81,354
Other investment gains (losses)	35,187	41,940	(77,071)
Total realized investment (losses) gains	(220)	46,270	4,283
Net investment income	868	1,240	262
Other income (expenses), net	18,552	(52,084)	13,600
Income (loss) before income taxes	19,200	(4,574)	18,145
Total federal and foreign income tax provision (benefit)	6,720	(1,600)	6,351
Net income (loss)	12,480	(2,974)	11,794
Other comprehensive income (losses):			
Other comprehensive income (losses) before income tax	528	(24,166)	(27,086)
Federal and foreign income tax provision (benefit) before income taxes	185	(8,458)	(9,480)
Other comprehensive income (loss), net of tax	343	(15,708)	(17,606)
Total effect on comprehensive income (loss) and shareholders' equity	$ 12,823	$ (18,682)	$ (5,812)

(k) *Stock-Based Compensation Plans*. The Company reflects awards of restricted common stock of Fairfax to employees as a reduction to additional paid-in-capital when the shares are purchased and amortizes the award value through compensation expense over the related vesting periods.

(l) *Payments*. Payments of claims by the Company, as reinsurer, to a broker on behalf of a reinsured company are recorded in the Company's financial statements as a paid loss at the time the cash is disbursed and is treated as paid to the reinsured. Premiums due to the Company from the reinsured are recorded as receivables from the reinsured until the cash is received by the Company, either directly from the reinsured or from the broker.

(m) *Funds Held Balances*. "Funds held under reinsurance contracts" represents amounts due to reinsurers arising from the Company's receipt of a deposit from a reinsurer, or the withholding of a portion of the premiums due, in accordance with contractual terms, as a guarantee that the reinsurer will meet its loss and other obligations. Interest generally accrues on withheld funds in accordance with contract terms. "Funds held by reinsured" represents amount due from a ceding company that withholds, in accordance with the contractual terms, a portion of the premium due the Company as a guarantee that the Company will meet its loss and other obligations.

(n) *Fixed Assets*. Fixed assets, with a net book value of $28.2 million and $25.9 million as of December 31, 2017 and 2016, respectively, are recorded at amortized cost and are included in other assets. Depreciation and amortization are generally computed on a straight-line basis over the following estimated useful lives:

Leasehold improvements	10 years or term of lease, if shorter
Electronic data processing equipment and furniture	5 years
Personal computers and software	3 years

Depreciation and amortization expense for the years ended December 31, 2017, 2016 and 2015 was $9.4 million, $9.8 million and $9.6 million, respectively.

(o) *Contingent Liabilities*. Amounts are accrued for the resolution of claims that have either been asserted or are deemed probable of assertion if, in the opinion of the Company, it is both probable that a liability has been incurred and the amount of the liability can be reasonably estimated. In many cases it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until years after the contingency arises, in which case no accrual is made until that time. As of December 31, 2017 and 2016, no contingent liabilities have been recorded (see Note 11).

(p) *Recent Accounting Pronouncements.* The Financial Accounting Standards Board ("FASB") is the organization responsible for establishing and improving GAAP.

In May 2015, the FASB issued Accounting Standards Update ("ASU") 2015-09, "Financial Services - Insurance - Disclosures about Short-Duration Contracts," which requires additional disclosures in financial statements by insurance entities regarding liabilities for unpaid claims and claim adjustment expenses, and changes in assumptions or methodologies for calculating such liabilities. The Company implemented this guidance in 2017, see Note 6.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-01 generally requires that equity investments (excluding those investments for which the equity method of accounting is utilized) be measured at fair value with changes in fair value recognized in net income. Under existing GAAP, changes in fair value of available-for-sale equity investments are recorded in other comprehensive income. Given the current magnitude of the Company's equity investments, the adoption of ASU 2016-01 could have a significant impact on the periodic net earnings reported in the Company's Consolidated Statement of Earnings, although it likely will not significantly impact the Company's comprehensive income or shareholders' equity. ASU 2016-01 is effective for the Company for annual reporting periods beginning after December 15, 2018, with the cumulative effect of the adoption made to the balance sheet as of the date of adoption. Thus, the adoption will result in a reclassification of the related accumulated unrealized appreciation currently included in accumulated other comprehensive income to retained earnings, with no impact on the Company's shareholders' equity. If ASU 2016-01 had been adopted as of December 31, 2017, the required reclassification would have decreased other comprehensive income and increased retained earnings by approximately $48.3 million.

In February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term, along with additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the Company for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is evaluating the effect this standard will have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses," which provides for the recognition and measurement at the reporting date of all expected credit losses for financial assets that are not accounted for at fair value through net income, including investments in available-for-sale debt securities and loans, premiums receivable and reinsurance recoverable. The updated guidance amends the current other-than-temporary impairment model for available-for-sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. This guidance also applies a new current expected credit loss model for determining credit-related impairments for financial instruments measured at amortized cost. ASU 2016-13 is effective for the Company for annual reporting periods beginning after December 15, 2020, with early adoption permitted. The Company is evaluating the effect this standard will have on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." ASU 2016-18 requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts described as restricted cash or restricted cash equivalents. Disclosure will be required to reconcile such total to amounts on the balance sheet and to disclose the nature of the restrictions. ASU 2016-18 is effective for the Company for annual reporting periods beginning after December 15, 2019, with early adoption permitted.

In March 2017, the FASB issued ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." ASU 2017-07 requires that the service cost component of net periodic benefit costs be reported within the same line item of the statements of operations as other compensation costs are reported. Other components of net periodic benefit costs should be reported separately. Footnote disclosure is required to state within which line items of the statements of operations the components are reported. ASU 2017-07 is effective for the Company for annual reporting periods beginning after December 15, 2018. The Company does not expect the adoption of ASU 2017-07 to have a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." ASU 2017-08 requires that the premium on callable debt securities be amortized through the earliest call date rather than through the maturity date of the callable security. ASU 2017-08 is effective for the Company for annual reporting periods beginning after December 15, 2019. The Company does not expect the adoption of ASU 2017-08 to have a material impact on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation." ASU 2017-09 provides clarity when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. The new guidance requires that modification accounting will be applied only if there is a change in fair value, vesting conditions or classification. ASU 2017-09 is effective for annual periods beginning after December 15, 2017. The Company does not expect the adoption of ASU 2017-09 to have a material impact on the Company's consolidated financial statements.

(q) *Subsequent Events*. The Company has evaluated the significance of events occurring subsequent to December 31, 2017 with respect to disclosing the nature and expected impact of such events as of March 2, 2018, the date these consolidated financial statements were available to be issued.

3. Fair Value Measurements

The Company accounts for a significant portion of its financial instruments at fair value as permitted or required by GAAP.

Fair Value Hierarchy

The assets and liabilities recorded at fair value in the consolidated balance sheets are measured and classified in a three level hierarchy for disclosure purposes based on the observability of inputs available in the marketplace used to measure fair values. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Gains and losses for assets and liabilities categorized within the Level 3 table below, therefore, may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). Financial assets and liabilities recorded in the consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1: Level 1 financial instruments are financial assets and liabilities for which the values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access. Market price data generally is obtained from exchange markets. The Company does not adjust the quoted price for such instruments. The majority of the Company's Level 1 investments are common stocks that are actively traded in a public market and short-term investments and cash equivalents, for which the cost basis approximates fair value.

Level 2: Level 2 financial instruments are financial assets and liabilities for which the values are based on quoted prices in markets that are not active, or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

a) Quoted prices for similar assets or liabilities in active markets;

b) Quoted prices for identical or similar assets or liabilities in non-active markets;

c) Pricing models, the inputs for which are observable for substantially the full term of the asset or liability; and

d) Pricing models, the inputs for which are derived principally from, or corroborated by, observable market data through correlation or other means, for substantially the full term of the asset or liability.

Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 include government, corporate and municipal fixed income securities, which are priced using publicly traded over-the-counter prices and broker-dealer quotes. Observable inputs such as benchmark yields, reported trades, broker-dealer quotes, issuer spreads and bids are available for these investments. Also included in Level 2 are inactively traded convertible corporate debentures that are valued using a pricing model that includes observable inputs such as credit spreads and discount rates in the calculation.

Level 3: Level 3 financial instruments are financial assets and liabilities for which the values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These measurements include circumstances in which there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Therefore, these inputs reflect the Company's own assumptions about the methodology and valuation techniques that a market participant would use in pricing the asset or liability.

For the year ended December 31, 2017, the Company transferred $79.2 million of Level 2 securities to Level 3 after determining that the valuation technique required unobservable inputs. For the year ended December 31, 2016, no securities were transferred into or out of Level 3. For the year ended December 31, 2015, the Company transferred $128.3 million of a Level 3 security to Level 2 after determining that the underlying invested assets of the investee had changed.

The Company uses valuation techniques to establish the fair value of Level 3 investments. During the years ended December 31, 2017, 2016 and 2015, the Company purchased $159.0 million, $258.1 million and $63.4 million, respectively, of investments that are classified as Level 3. As of December 31, 2017 and 2016, the Company held $518.9 million and $288.7 million, respectively, of investments that are classified as Level 3. Level 3 investments include CPI-linked derivative contracts, and certain warrants, bonds, preferred stocks and common stocks.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are generally reported as transfers in or out of the Level 3 category as of the beginning of the period in which the reclassifications occur. The Company has determined, after carefully considering the impact of recent economic conditions and liquidity in the credit markets on the Company's portfolio, that it should not re-classify any of its investments from Level 1 or Level 2 to Level 3 for the years ended December 31, 2017, 2016 or 2015. There were no transfers of securities between Level 1 and Level 2 during the years ended December 31, 2017 and 2015. For the year ended December 31, 2016, $0.9 million common stock – held for trading and fair value option was transferred from Level 1 to Level 2.

The Company is responsible for determining the fair value of its investment portfolio by utilizing market driven fair value measurements obtained from active markets, where available, by considering other observable and unobservable inputs and by employing valuation techniques that make use of current market data. For the majority of the Company's investment portfolio, the Company uses quoted prices and other information from independent pricing sources to determine fair values.

The following tables present the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 and 2016 (in thousands):

	Fair Value Measurements as of December 31, 2017			
	Reported Fair Value	Level 1	Level 2	Level 3
Fixed income securities, available for sale:				
United States government, government agencies and authorities	$ 5,894	$ —	$ 5,894	$ —
States, municipalities and political subdivisions	590,633	—	590,633	—
Corporate	54,556	1,170	53,386	—
Total fixed income securities, available for sale	651,083	1,170	649,913	—
Fixed income securities, held for trading:				
United States government, government agencies and authorities	184,013	—	184,013	—
States, municipalities and political subdivisions	382,975	—	382,975	—
Foreign governments	267,772	—	267,772	—
Corporate	454,850	—	26,556	428,294
Total fixed income securities, held for trading	1,289,610	—	861,316	428,294
Preferred stocks, held for trading	31,983	1,199	—	30,784
Common stocks, available for sale	152,169	147,909	4,260	—
Common stocks, held for trading and fair value options	514,584	435,912	30,469	48,203
Short-term investments, held for trading	2,095,823	2,061,247	34,576	—
Cash equivalents	1,541,866	1,541,866	—	—
Derivatives	48,321	—	36,731	11,590
Other investments	13,812	—	13,812	—
Total assets measured at fair value	$ 6,339,251	$ 4,189,303	$ 1,631,077	$ 518,871
Derivative liabilities	$ 60,952	$ —	$ 60,952	$ —
Total liabilities measured at fair value	$ 60,952	$ —	$ 60,952	$ —

	Fair Value Measurements as of December 31, 2016			
	Reported Fair Value	Level 1	Level 2	Level 3
Fixed income securities, available for sale:				
United States government, government agencies and authorities	$ 7,930	$ —	$ 7,930	$ —
States, municipalities and political subdivisions	891,125	—	891,125	—
Foreign governments	8,901	—	8,901	—
Corporate	50,708	1,629	49,079	—
Total fixed income securities, available for sale	958,664	1,629	957,035	—
Fixed income securities, held for trading:				
United States government, government agencies and authorities	189,672	—	189,672	—
States, municipalities and political subdivisions	960,243	—	960,243	—
Foreign governments	416,591	—	416,591	—
Corporate	328,900	—	107,702	221,198
Total fixed income securities, held for trading	1,895,406	—	1,674,208	221,198
Common stocks, available for sale	142,180	138,439	3,741	—
Common stocks, held for trading and fair value options	745,832	633,318	58,578	53,936
Short-term investments, held for trading	1,742,357	1,742,357	—	—
Cash equivalents	490,443	490,443	—	—
Derivatives	82,641	—	69,027	13,614
Other investments	12,257	—	12,257	—
Total assets measured at fair value	$ 6,069,780	$ 3,006,186	$ 2,774,846	$ 288,748
Derivative liabilities	$ 79,540	$ —	$ 79,540	$ —
Total liabilities measured at fair value	$ 79,540	$ —	$ 79,540	$ —

In accordance with ASU 2015-17, “Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities That Calculate Net Asset Value (NAV) per Share (or Its Equivalent),” investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient, have not been classified in the fair value hierarchy. As of December 31, 2017 and 2016, $965.5 million and $859.0 million, respectively, of investments, reported as equity securities and other invested assets are not included within the fair value hierarchy tables.

The following table provides a summary of changes in the fair value of Level 3 financial assets and liabilities for the years ended December 31, 2017 and 2016 (in thousands):

	Fixed Income Securities	Other Invested Assets	Equity Securities
Balance, January 1, 2016	$ 258,311	$ 61,024	$ 45,068
Change in value related to securities sold	(13,788)	—	(782)
Change in value related to securities held	(12,361)	(48,695)	9,640
Purchases / advances	211,832	1,285	45,000
Settlements / paydowns	(222,796)	—	(44,990)
Balance, December 31, 2016	221,198	13,614	53,936
Change in value related to securities sold	8,480	(8,164)	—
Change in value related to securities held	81,871	—	(5,441)
Purchases / advances	122,410	6,140	30,492
Settlements / paydowns	(84,865)	—	—
Transfers from Level 2 to Level 3	79,200	—	—
Balance, December 31, 2017	$ 428,294	$ 11,590	$ 78,987

The following tables present changes in value included in net income related to Level 3 assets for the years ended December 31, 2017, 2016, and 2015 (in thousands):

Year ended December 31, 2017	Net Investment Income (Losses)	Net Realized Capital Gains (Losses)	Currency Translation	Total
Fixed income securities	$ 865	$ 89,489	$ (3)	$ 90,351
Other invested assets	—	(8,164)	—	(8,164)
Equity securities	—	(5,696)	255	(5,441)
Total changes in value included in net income	$ 865	$ 75,629	$ 252	$ 76,746
Year ended December 31, 2016				
Fixed income securities	$ (2,842)	$ (20,691)	$ (2,616)	$ (26,149)
Other invested assets	—	(48,695)	—	(48,695)
Equity securities	—	9,118	(259)	8,859
Total changes in value included in net income	$ (2,842)	$ (60,268)	$ (2,875)	$ (65,985)
Year ended December 31, 2015				
Fixed income securities	$ (2,297)	$ (42,662)	$ (1,514)	$ (46,473)
Other invested assets	—	5,526	387	5,913
Equity securities	—	(8,098)	(2,906)	(11,004)
Total changes in value included in net income	$ (2,297)	$ (45,234)	$ (4,033)	$ (51,564)

The following table provides information on the valuation techniques, significant unobservable inputs and ranges for each major category of Level 3 assets measured at fair value on a recurring basis at December 31, 2017 and 2016 (in thousands):

Valuation Technique/Asset Type	As of December 31, 2017	As of December 31, 2016	Significant Unobservable Inputs	Range 2017	Range 2016
Market Approach					
Fixed income securities, held for trading	$ 306,938	$ 221,198	Risk premium for credit risk	1.6%-4.0%	6.0%-9.1%
	121,356	—	Net Asset Valuation for secured loans	60%-100%	—
Preferred stocks, held for trading	28,284	—	Risk premium for credit risk	3.5%-3.6%	—
	2,500	—	Transaction price	—	—
CPI-linked derivatives (1)	6,382	13,614	Broker quotes		
Warrants	5,209	—	Volatility	30.7%-31.2%	—
Total valued using market approach	470,669	234,812			
Income Approach					
Common stocks, held for trading	17,499	14,652	EV/EBITDA multiple	7.5x	7.5x
Market Price to Book Value					
Common stocks, fair value option (2)	30,703	39,284	Time lag in receiving book value of comparable companies		
Total - Level 3	$ 518,871	$ 288,748			

(1) Valued using broker-dealer quotes that use market observable inputs except for the inflation volatility input, which is not market observable.
(2) The Company evaluates observable price-to-book multiples of peer companies and applies such to the most recently available book value per share.

Fair Value Option

The fair value option (“FVO”) allows companies to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities. Changes in the fair value of assets and liabilities for which the election is made are recognized in net income as they occur. The FVO election is permitted on an instrument-by-instrument basis at initial recognition of an asset or liability or upon the occurrence of an event that gives rise to a new basis of accounting for that instrument.

The Company elected the FVO for its investment in Advent Capital (Holdings) PLC (“Advent”) as, at the time of the election, Advent was publicly traded and its trading price was believed to be a better indicator of its value than an amount computed under the equity method. Fairfax and its subsidiaries currently own 100% of Advent’s common stock, of which the Company holds 17.0%. To determine the fair value of Advent, the Company evaluates observable price-to-book multiples of peer companies and applies such to Advent’s most recently available book value per share. As of December 31, 2017 and 2016, the Company’s interest in Advent was recorded at fair value of $30.7 million and $39.3 million, respectively, in common stocks held for trading and fair value options, with related changes in fair value recognized as a realized investment gain or loss in the period in which they occurred. The change in Advent’s fair value resulted in the recognition of a realized investment loss of $8.6 million for the year ended December 31, 2017, a realized investment gain of $5.8 million for the year ended December 31, 2016, and a realized investment loss of $8.9 million for the year ended December 31, 2015. The value of the Company’s interest in Advent as of December 31, 2017, calculated in accordance with the equity method of accounting, would have been $23.9 million.

The Company owns Classes A, C, G, H, J and Q common shares of HWIC Asia Fund ("HWIC Asia"), which is 100% owned by Fairfax and of which the Company owns 23% as of December 31, 2017. At the time of the purchase of each class of shares, the Company elected the FVO for these investments, as HWIC Asia is a multi-class investment company that reports its investments at fair value and provides a Net Asset Value on a monthly basis.

The carrying value of the Company's investment in the various HWIC Asia common share issues as of December 31, 2017 and 2016, which is included in common stocks held for trading and fair value option on the balance sheet, and the changes in fair value for each issue for the years then ended, are summarized below (in thousands):

	HWIC Asia Class A	HWIC Asia Class C	HWIC Asia Class E	HWIC Asia Class G	HWIC Asia Class H	HWIC Asia Class J	HWIC Asia Class Q	Total
Fair value as of December 31, 2015	$ —	$ 39,513	$ 288,935	$ 56,961	$ 125,474	$ 42,117	$ —	$ 553,000
(Sales) purchases	—	—	(289,341)	17,000	—	—	20,212	(252,129)
Change in fair value	—	(4,113)	406	2,112	(12,937)	4,185	366	(9,981)
Currency translation adjustment	—	—	—	—	(288)	(2,125)	(909)	(3,322)
Fair value as of December 31, 2016	—	35,400	—	76,073	112,249	44,177	19,669	287,568
Purchases	4,189	—	—	—	—	—	—	4,189
Change in fair value	396	1,482	—	11,462	49,929	(541)	754	63,482
Currency translation adjustment	—	—	—	—	163	1,113	928	2,204
Fair value as of December 31, 2017	$ 4,585	$ 36,882	$ —	$ 87,535	$ 162,341	$ 44,749	$ 21,351	$ 357,443

HWIC Asia's fair value decreased by $22.4 million for the year ended December 31, 2015.

The Company did not elect the FVO for its other affiliated investments, as these affiliated investments were ultimately 100% owned by Fairfax and its subsidiaries, and fair values were deemed to be not readily obtainable.

As of December 31, 2017 and 2016, respectively, the Company has not elected the FVO for any of its liabilities.

4. Investments and Cash

A summary of the Company's available for sale investment portfolio as of December 31, 2017 and 2016, is as follows (in thousands):

2017	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
Fixed income securities:				
United States government, government agencies and authorities	$ 5,225	$ 669	$ —	$ 5,894
States, municipalities and political subdivisions	560,973	29,716	56	590,633
Corporate	55,196	—	640	54,556
Total fixed income securities	621,394	30,385	696	651,083
Common stocks	108,200	58,711	—	166,911
Total	$ 729,594	$ 89,096	$ 696	$ 817,994

2016	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
Fixed income securities:				
United States government, government agencies and authorities	$ 7,055	$ 923	$ 48	$ 7,930
States, municipalities and political subdivisions	792,179	99,266	320	891,125
Foreign governments	7,466	1,435	—	8,901
Corporate	48,317	2,391	—	50,708
Total fixed income securities	855,017	104,015	368	958,664
Common stocks	135,896	25,463	6,902	154,457
Total	$ 990,913	$ 129,478	$ 7,270	$ 1,113,121

Common stocks accounted for under the equity method of accounting were carried at $809.6 million and $398.0 million as of December 31, 2017 and 2016, respectively. Common stocks at equity had gross unrealized appreciation of $6.8 million and $8.5 million and gross unrealized depreciation of $9.6 million and $5.6 million as of December 31, 2017 and 2016, respectively. Other invested assets were carried at $881.9 million and $843.6 million as of December 31, 2017 and 2016, respectively, reflecting no gross unrealized appreciation or depreciation.

A summary of the Company's held for trading and fair value option portfolios as of December 31, 2017 and 2016 is as follows (in thousands):

	2017 Fair Value	2016 Fair Value
Fixed income securities:		
United States government, government agencies and authorities	$ 184,013	$ 189,672
States, municipalities and political subdivisions	382,975	960,243
Foreign governments	267,772	416,591
Corporate	454,850	328,900
Total fixed income securities	1,289,610	1,895,406
Preferred stocks	31,983	—
Common stocks	872,027	1,033,399
Short-term investments	2,095,823	1,742,357
Cash and cash equivalents	1,710,485	604,861
Cash collateral for borrowed securities	230,074	218,660
Total	$ 6,230,002	$ 5,494,683

(a) Fixed Income Maturity Schedule

The amortized cost and fair value of fixed income securities as of December 31, 2017, by contractual maturity, are shown below (in thousands):

	At December 31, 2017					
	Available for Sale			Held for Trading		
	Cost or Amortized Cost	Fair Value	% of Total Fair Value	Cost or Amortized Cost	Fair Value	% of Total Fair Value
Due in one year or less	$298,042	$309,965	47.7%	$ 164,641	$ 158,214	12.3%
Due after one year through five years	50,385	51,630	7.9	373,324	401,539	31.1
Due after five years through ten years	4,371	4,773	0.7	38,033	53,223	4.1
Due after ten years	268,596	284,715	43.7	675,077	676,634	52.5
Total fixed income securities	$621,394	$651,083	100.0%	$1,251,075	$1,289,610	100.0%

Actual maturities may differ from the contractual maturities shown in the table above due to the existence of call options. In the case of securities containing call options, the actual maturity will be the same as the contractual maturity if the issuer elects not to exercise its call option. Total securities subject to call options represent approximately 49.2% of the total fair value.

(b) Net Investment Income and Realized Investment Gains (Losses)

The following table sets forth the sources and components of net investment income for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Interest on fixed income securities	$ 103,052	$ 189,520	$ 176,320
Dividends on preferred stocks	60	6,112	7,398
Dividends on common stocks	20,831	25,954	40,258
Net income of common stocks, at equity	46,679	22,890	9,940
Interest on cash and short-term investments	20,984	6,049	4,048
Net income from other invested assets	26,020	24,489	51,806
Gross investment income	217,626	275,014	289,770
Less: investment expenses	25,836	59,941	72,610
Net investment income	$ 191,790	$ 215,073	$ 217,160

The following table summarizes the Company's net realized investment gains and losses for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Available for sale:			
From sales	$ 114,085	$ 58,547	$ 96,045
Other-than-temporary impairments	(12,286)	(16,227)	(65,120)
Total available for sale	101,799	42,320	30,925
Held for trading:			
From sales and settlements	(1,912)	(264,734)	236,280
From mark to market adjustments	278,194	20,499	(383,713)
Total held for trading	276,282	(244,235)	(147,433)
Total net realized investment gains (losses)	$ 378,081	$ (201,915)	$ (116,508)

The following table sets forth the components of net realized investment gains and losses on the Company's available for sale securities for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Fixed income securities:			
Realized investment gains	$ 67,281	$ 68,081	$ 173,615
Realized investment losses	(1,523)	(9,905)	(2,931)
Other-than-temporary impairments	—	—	(1,052)
Net realized investment gains	65,758	58,176	169,632
Equity securities:			
Realized investment gains	20,052	724	2,722
Realized investment losses	—	(353)	(57,501)
Other-than-temporary impairments	(12,286)	(16,227)	(64,068)
Net realized investment gains (losses)	7,766	(15,856)	(118,847)
Common stocks, at equity:			
Realized investment gains	30,854	—	—
Realized investment losses	(2,579)	—	(19,860)
Net realized investment gains (losses)	28,275	—	(19,860)
Total available for sale securities:			
Realized investment gains	118,187	68,805	176,337
Realized investment losses	(4,102)	(10,258)	(80,292)
Other-than-temporary impairments	(12,286)	(16,227)	(65,120)
Net realized investment gains	$ 101,799	$ 42,320	$ 30,925

For those fixed income securities that were determined to be other-than-temporarily impaired, the Company determined that such impairments were related to credit, requiring the recognition of an impairment charge to income, and not related to other factors (e.g., interest rates and market conditions) which would have required charges to other comprehensive income.

The net realized investment gains or losses on disposal of held for trading securities in the table below represent the total gains or losses from the purchase dates of the investments and have been reported in net realized investment gains in the consolidated statements of operations. The change in fair value presented below consists of two components: (i) the reversal of the gain or loss recognized in previous years on securities sold and (ii) the change in fair value resulting from mark-to-market adjustments on contracts still outstanding. The following table sets forth the total net realized investment gains and losses on held for trading securities for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Fixed income securities:			
Net realized investment gains on disposal	$ 13,551	$ 75,991	$ 47,669
Change in fair value	105,547	47,776	(234,665)
Net realized investment gains (losses)	119,098	123,767	(186,996)
Preferred stock:			
Net realized investment gains (losses) on disposal	410	(41,989)	33,816
Change in fair value	(301)	34,719	(45,223)
Net realized investment gains (losses)	109	(7,270)	(11,407)
Equity securities:			
Net realized investment gains (losses) on disposal	84,714	(20,756)	28,637
Change in fair value	60,434	(15,490)	(221,497)
Net realized investment gains (losses)	145,148	(36,246)	(192,860)
Derivative securities:			
Net realized investment (losses) gains on disposal/ settlement	(95,186)	(327,402)	142,350
Change in fair value	(20,215)	(79,779)	87,794
Net realized investment (losses) gains	(115,401)	(407,181)	230,144
Other securities:			
Net realized investment (losses) gains on disposal	(5,401)	49,422	(16,192)
Change in fair value	132,729	33,273	29,878
Net realized investment gains	127,328	82,695	13,686
Total held for trading securities:			
Net realized investment (losses) gains on disposal	(1,912)	(264,734)	236,280
Change in fair value	278,194	20,499	(383,713)
Net realized investment gains (losses)	$ 276,282	$ (244,235)	$ (147,433)

(c) Unrealized (Depreciation) Appreciation

The following table sets forth the changes in net unrealized appreciation (depreciation) of investments, and the related tax effect, reflected in accumulated other comprehensive income for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Fixed income securities	$ (77,126)	$ (88,131)	$ (210,885)
Equity securities	33,160	(13,578)	(115,097)
Other	(48)	(244)	270
Decrease in unrealized net appreciation of investments	(44,014)	(101,953)	(325,712)
Deferred income tax benefit on disposal	15,271	35,664	113,755
Change in net unrealized depreciation of investments included in other comprehensive (loss) income	$ (28,743)	$ (66,289)	$ (211,957)

On a quarterly basis, the Company reviews its investment portfolio classified as available for sale for declines in value and specifically evaluates securities with fair values that have declined to less than 80% of their cost or amortized cost at the time of review. Declines in the fair value of investments that are determined to be temporary are recorded as unrealized depreciation, net of tax, in accumulated other comprehensive income. If the Company determines that a decline relating to credit issues is “other-than-temporary,” the cost or amortized cost of the investment will be written down to the fair value, and a realized loss will be recorded in the Company’s consolidated statements of operations. If the Company determines that a decline related to other factors (e.g., interest rates or market conditions) is “other-than-temporary,” the cost or amortized cost of the investment will be written down to the fair value within other comprehensive income.

In assessing the value of the Company’s debt and equity securities that are classified as available for sale and possible impairments of such securities, the Company reviews (i) the issuer’s current financial position and disclosures related thereto, (ii) general and specific market and industry developments, (iii) the timely payment by the issuer of its principal, interest and other obligations, (iv) the outlook and expected financial performance of the issuer, (v) current and historical valuation parameters for the issuer and similar companies, (vi) relevant forecasts, analyses and recommendations by research analysts, rating agencies and investment advisors, and (vii) other information the Company may consider relevant. Generally, a change in the market or interest rate environment would not, of itself, result in an impairment of an investment. In addition, the Company considers its ability and intent to hold the security to recovery when evaluating possible impairments.

The facts and circumstances involved in making a decision regarding an other-than-temporary impairment are those that exist at that time. Should the facts and circumstances change such that an other-than-temporary impairment is considered appropriate, the Company will recognize the impairment by reducing the cost, amortized cost or carrying value of the investment to its fair value, and recording the loss in its consolidated statements of operations. Upon the disposition of a security where an other-than-temporary impairment has been taken, the Company will record a gain or loss based on the adjusted cost or carrying value of the investment.

The following table reflects the fair value and gross unrealized depreciation of the Company's fixed income securities and common stocks, at fair value classified as available for sale, aggregated by investment category for individual securities that have been in a continuous unrealized depreciation position for less than 12 months, as of December 31, 2017 and 2016 (in thousands):

	Fair Value	Gross Unrealized Depreciation	Number of Securities
December 31, 2017			
Fixed income securities:			
States, municipalities and political subdivisions	$ —	$ 56	1
Corporate	11,000	640	1
Total fixed income securities	11,000	696	2
Total temporarily impaired securities	$ 11,000	$ 696	2

	Fair Value	Gross Unrealized Depreciation	Number of Securities
December 31, 2016			
Fixed income securities:			
United States government, government agencies and authorities	$ 975	$ 48	1
States, municipalities and political subdivisions	12,535	320	5
Total fixed income securities	13,510	368	6
Common stocks, at fair value	80,296	6,902	2
Total temporarily impaired securities	$ 93,806	$ 7,270	8

The Company did not own any fixed income or common stocks, at fair value classified as available for sale, that have been in a continuous unrealized loss position for more than 12 months as of December 31, 2017 or 2016.

The Company believes the gross unrealized depreciation for securities classified as available for sale is temporary in nature and has not recorded a realized investment loss related to these securities. Given the size of the Company's investment portfolio and capital position, the Company believes it is likely that it will not be required to sell or liquidate these securities before the fair value recovers the gross unrealized depreciation.

(d) Common Stocks, at Equity

The following table sets forth the components of common stocks, at equity, as of December 31, 2017 and 2016 (in thousands):

	Carrying Value		Goodwill and Other included in Carrying Value		Quoted Market Value		Relative Economic Ownership
	2017	2016	2017	2016	2017	2016	2017
Grivalia Properties Real Estate Investment Company	$ 201,691	$ —	$ 2,847	$ —	$ 201,845	$ n/a	18.8%
Fairfax India Holdings Corp.	137,217	90,907	—	—	151,679	100,476	6.9%
Cara Operations Limited	134,887	161,594	87,467	106,306	126,992	152,421	10.5%
Fairfax Africa Holdings Corp.	106,822	—	—	—	144,162	n/a	20.1%
Apple Bidco Limited	73,752	51,608	(653)	(1,690)	n/a	n/a	17.6%
Zenith National Insurance Corp.	37,084	39,859	3,928	3,928	n/a	n/a	6.1%
Boat Rocker Media Inc.	28,356	24,051	15,923	14,877	n/a	n/a	27.3%
Sigma Companies International Corp.	21,705	—	—	—	n/a	n/a	42.0%
Davos Brands LLC	18,298	20,000	12,824	—	n/a	n/a	13.9%
2018296 Alberta ULC	18,298	—	—	—	n/a	n/a	27.3%
Farmers Edge Inc.	16,940	—	15,747	—	n/a	n/a	7.8%
Peak Achievement Athletics Inc.	14,588	10,000	469	—	n/a	n/a	3.8%
Total common stocks, at equity	$ 809,638	$ 398,019	$ 138,552	$ 123,421			

During 2017, the Company and Fairfax purchased additional common stock shares of Grivalia Properties Real Estate Investment Company ("Grivalia"), resulting in Grivalia becoming an affiliate of the Company and a change in the accounting for the Company's investment in Grivalia to the equity method. Prior to 2017, the Company's investment in Grivalia was reported as a common stock, held for trading, at fair value.

Zenith National Insurance Corp. and 2018296 Alberta ULC are wholly-owned subsidiaries of Fairfax, while Fairfax is the controlling or largest shareholder of Grivalia (52.7%), Fairfax India Holdings Corp. (30.2%), Cara Operations Limited (40.2%), Fairfax Africa Holdings Corp. (64.2%) Apple Bidco Limited (70.6%), Boat Rocker Media Inc. (58.2%), Sigma Companies International Corp. (81.2%), Davos Brands LLC (34.7%), Farmers Edge Inc. (43.5%) and Peak Achievement Athletics Inc. (42.6%).

During 2015, the Company exchanged its interest in Fairfax Asia Limited ("Fairfax Asia") for a note receivable from an affiliate, and later exchanged this note (plus warrants and preferred shares of Cara) for common stock of Cara.

(e) Other Invested Assets

The following table shows the components of other invested assets as of December 31, 2017 and 2016 (in thousands):

	2017	2016
Investment funds and partnerships, at fair value	$ 568,586	$ 509,065
Investment funds and partnerships, at equity	186,567	182,794
Derivatives, at fair value	48,322	82,641
Real estate	33,182	—
Affiliate loans	19,155	50,069
Benefit plan funds, at fair value	13,812	12,257
Other	12,255	6,730
Total other invested assets	$ 881,879	$ 843,556

The Company's investment funds and partnership investments may be subject to restrictions on redemptions or sales, which are determined by the governing documents thereof, and may limit the Company's ability to liquidate these investments in the short term. Due to a time lag in reporting by a majority of investment fund and partnership fund managers, valuations for these investments are recorded by the Company on a one month or one quarter lag. For the years ended December 31, 2017, 2016 and 2015, the Company recognized net investment income of $15.8 million, $20.0 million and $46.0 million, respectively, from its investment funds and partnership investments. For the years ended December 31, 2017, 2016 and 2015, the Company recognized net realized investment gains of $145.6 million, $67.7 million and $24.8 million, respectively, from its investment funds and partnerships that are held as trading securities. With respect to the Company's $755.2 million in investments in investment funds and partnerships, the Company has commitments that may require additional funding of up to $87.1 million.

(f) Derivative Investments

The Company has utilized CPI-linked derivative contracts, total return swaps, forward currency contracts, U.S. Treasury bond forward contracts and various other contracts, to manage against adverse changes in the values of assets and liabilities. These products are typically not directly linked to specific assets or liabilities on the consolidated balance sheets or a forecasted transaction. The following tables set forth the Company's derivative positions, which are included in other invested assets or other liabilities in the consolidated balance sheets, as of December 31, 2017 and 2016, respectively (in thousands):

As of December 31, 2017	Exposure/ Notional Amount	Cost	Fair Value Asset	Fair Value Liability
CPI-linked derivative contracts	$35,399,630	$ 229,779	$ 6,382	$ —
Forward currency contracts	829,519	—	28,502	47,757
U.S. Treasury bond forward contracts	230,875	—	—	6,905
Long total return swaps	230,820	—	6,546	4,159
Short total return swaps	120,136	—	1,493	2,131
Warrants	117,913	12,074	5,399	—
Total		$ 241,853	$ 48,322	$ 60,952

As of December 31, 2016	Exposure/ Notional Amount	Cost	Fair Value Asset	Fair Value Liability
CPI-linked derivative contracts	$32,902,540	$ 229,779	$ 13,616	$ —
U.S. Treasury bond forward contracts	913,950	—	—	13,866
Forward currency contracts	729,430	—	62,311	53,469
Short total return swaps	117,819	—	1,010	9,254
Long total return swaps	78,729	—	5,704	2,951
Other	—	6,623	—	—
Total		$ 236,402	$ 82,641	$ 79,540

The Company held long position common stock total return swaps, with a total notional value of $230.8 million and $78.7 million as of December 31, 2017 and 2016, respectively, as replications of investments in publicly-listed common stocks. The common stock total return swaps, which are carried at fair value, are recorded in other invested assets or other liabilities based on the positive or negative value of the underlying contracts as of the financial statement date. Changes in the fair value of common stock total return swaps are recorded as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

As of December 31, 2017 and 2016, the Company held short position common stock total return swaps with a notional value of $120.1 million and $117.8 million, respectively. The common stock total return swaps are recorded at fair value in other invested assets or other liabilities based on the positive or negative value of the underlying contracts as of the financial statement date. Changes in the fair value of the swaps are recorded as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

Due to volatility in the equity markets, the Company had entered into U.S. equity index total return swap contracts to protect against a potential significant market downturn. As a result of fundamental changes in the U.S. in the fourth quarter of 2016 that were expected to bolster economic growth and business development in the future, the Company closed all of its U.S. equity index total return swap contracts. The equity index total return swaps were recorded at fair value in other invested assets or other liabilities based on the positive or negative value of the underlying contracts as of financial statement date, with the related changes in the fair values recorded as realized investment gains or losses in the consolidated statements of operations in the period in which they occurred.

The following table summarize the effect of the derivative instruments used to manage adverse changes in equity investment values and related items on the Company's financial position, results of operations and cash flows as of and for the year ended December 31, 2016 (in thousands):

			Effect on Pre-tax:			
	Exposure (a)	Carrying Value	Other Comprehensive Income	Net Investment Income / Realized Gains (Losses)	Net Equity Impact	Net Cash Flow from Disposals
As of and for the year ended December 31, 2016						
Equity risk exposures:						
Common stocks, at fair value	$ 1,119,079	$1,119,079	$ (21,201)	$ (48,523)	$ (69,724)	$ (20,737)
Preferred stocks	—	—	—	(7,270)	(7,270)	(41,989)
Bonds – convertible	233,790	233,790	—	(18,150)	(18,150)	10,589
Partnerships	670,467	670,467	—	86,621	86,621	34,481
Total return swaps – long	81,482	2,753	—	6,956	6,956	1,674
Total equity exposure	$ 2,104,818	$2,026,089	(21,201)	19,634	(1,567)	(15,982)
Hedging instruments included in other invested assets:						
Total return swaps - short	$ 126,063	$ (8,244)	—	(388,988)	(388,988)	(308,629)
Total equity hedging instruments	$ 126,063	$ (8,244)	—	(388,988)	(388,988)	(308,629)
Net equity impact			$ (21,201)	$ (369,354)	$ (390,555)	$ (324,611)

(a) The exposure for hedging instruments represents the notional value stated in the underlying contracts plus or minus the current carrying value of the derivative investment.

As a result of fundamental changes to the macroeconomic outlook for the U.S. during the fourth quarter of 2016 and the ensuing potential for a significant increase in market interest rates, the Company reduced its exposure to interest rate risk by selling certain U.S. state and municipal bonds and long dated U.S. Treasury bonds. To further reduce its exposure to interest rate risk (specifically exposure to U.S. state and municipal bonds and any remaining long dated U.S. Treasury bonds held in its fixed income portfolio), the Company began entering into, and continues to hold, forward contracts to sell long dated U.S. Treasury bonds. These contracts have an average term to maturity of less than one year and may be renewed at market rates. The U.S. Treasury bond forward contracts are recorded at fair value in other invested assets or in other liabilities based on the positive or negative value of the underlying contracts as of the financial statement date, with the related changes in fair value recognized as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

As an economic hedge against the potential adverse impact on the Company of decreasing price levels in the economy, the Company has purchased derivative contracts referenced to consumer price indices ("CPI") in various geographic regions in which the Company operates. These contracts had a remaining average life of 4.1 years and 5.1 years as of December 31, 2017 and 2016, respectively. As the remaining life of a contract declines, the fair value of the contract (excluding the impact of CPI changes) will generally decline. The initial premium paid for the contracts is recorded as a derivative asset and subsequently adjusted for changes in the unrealized fair value of the contracts at each balance sheet date. Changes in the unrealized fair value of the contracts are recorded as realized gains or losses on investments in the Company's consolidated statements of operations with a corresponding adjustment to the carrying value of the derivative asset. In the event of a sale, expiration or early settlement of one of the Company's CPI-linked derivative contracts, the Company would receive the fair value of that contract on the date of the transaction. The Company's maximum potential cash loss is limited to the premiums already paid to enter into the derivative contracts.

The Company has entered into forward currency contracts to manage its foreign currency exchange rate risk on a macro basis. Under a forward currency contract, the Company and the counterparty are obligated to purchase or sell an underlying currency at a specified price and time. Forward currency contracts are recorded at fair value in other invested assets or other liabilities based on the positive or negative value of the underlying contracts as of the financial statement date, with the related changes in fair value recognized as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

The Company has investments in warrants, which are contracts that grant the holder the right, but not the obligation, to purchase an underlying financial instrument at a given price and time or at a series of prices and times. Warrants, which are included in other invested assets, are recorded at fair value, with the related changes in fair value recognized as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

The Company had investments in call options, which are contracts that grant the holder the right (but not the obligation) to purchase a stock at a specified price within a specific time period. Changes in the fair value of the call options were recognized as realized investment gains or losses in the consolidated statement of operations in the period in which they occur.

Pursuant to the agreements governing various derivative contracts, the fair value of collateral deposited by the Company with the contracts' counterparties totaled $51.2 million and $46.8 million as of December 31, 2017 and 2016, respectively, while the fair value of collateral deposited by various counterparties for the benefit of the Company was $8.8 million and $11.6 million as of December 31, 2017 and 2016, respectively.

Counterparties to the derivative instruments expose the Company to credit risk in the event of non-performance. The Company believes this risk is low, given the diversification of the placement of the contracts among various highly rated counterparties. The credit risk exposure is reflected in the fair value of the derivative instruments.

The net realized investment gains or losses on disposal of derivatives in the table below represent the total gains or losses for the years ended December 31, 2017, 2016 and 2015 from the purchase dates of the investments and have been reported in net realized investment gains in the consolidated statements of operations; the change in fair value presented consists of two components: (i) the reversal of the gain or loss recognized in previous years on securities sold and (ii) the change in fair value resulting from mark-to-market adjustments on contracts still outstanding (in thousands):

	2017	2016	2015
CPI-linked derivative contracts:			
Change in fair value	$ (7,233)	$ (48,695)	$ (17)
Net realized investment losses	(7,233)	(48,695)	(17)
Forward currency contracts:			
Net realized investment (losses) gains on disposal	(8,241)	23,037	100,666
Change in fair value	(27,166)	(18,707)	(19,312)
Net realized investment (losses) gains	(35,407)	4,330	81,354
U.S. Treasury bond forward contracts:			
Net realized investment (losses) gains on disposal	(35,950)	33,143	—
Change in fair value	6,961	(13,866)	—
Net realized investment (losses) gains	(28,989)	19,277	—
Long total return swaps:			
Net realized investment gains (losses) on disposal	6,469	1,674	(22,473)
Change in fair value	(367)	5,282	5,558
Net realized investment gains (losses)	6,102	6,956	(16,915)
Short total return swaps:			
Net realized investment (losses) gains on disposal	(53,848)	(308,629)	71,894
Change in fair value	7,605	(80,359)	90,119
Net realized investment (losses) gains	(46,243)	(388,988)	162,013
Warrants:			
Change in fair value	(6,638)	—	—
Net realized investment losses	(6,638)	—	—
Call options:			
Net realized investment gains on disposal	3,007	—	—
Net realized investment gains	3,007	—	—
Other:			
Net realized investment losses on disposal	(6,623)	(76,627)	(7,737)
Change in fair value	6,623	76,566	11,446
Net realized investment (losses) gains	—	(61)	3,709
Total derivatives:			
Net realized investment (losses) gains on disposal	(95,186)	(327,402)	142,350
Change in fair value	(20,215)	(79,779)	87,794
Net realized investment (losses) gains	$ (115,401)	$ (407,181)	$ 230,144

(g) Assets on Deposit

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 in the statutes and regulations of the individual jurisdictions. The assets on deposit are available to settle insurance and reinsurance liabilities. For certain reinsurance contracts, derivative contracts and affiliate guarantees, the Company utilizes trust funds to collateralize its obligations or potential obligations to the ceding companies and counterparties. As of December 31, 2017, restricted assets supporting these deposits and trust fund requirements totaled $1.1 billion, as depicted in the following table (in thousands):

	Restricted Assets Relating to:				
	Fixed Income Securities	Cash Cash Equivalents Short-term Investments	Common Stocks	Partnerships	Total
U.S. regulatory requirements	$ 28,987	$ 52,279	$ —	$ —	$ 81,266
Foreign regulatory/Lloyd's requirements	90,634	371,268	148,337	10,882	621,121
Derivative collateral requirements	—	51,215	—	—	51,215
Reinsurance collateral requirements	120,431	168,672	—	—	289,103
Guarantee collateral requirements	28,781	21,930	—	—	50,711
Total	$ 268,833	$ 665,364	$ 148,337	$ 10,882	$ 1,093,416

5. Accumulated Other Comprehensive Income

The following table shows the components of the change in accumulated other comprehensive income, net of deferred income taxes, for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Beginning balance of unrealized net appreciation on securities	$ 86,858	$ 153,147	$ 365,104
Ending balance of unrealized net appreciation on securities	58,115	86,858	153,147
Current period change in unrealized net depreciation on securities	(28,743)	(66,289)	(211,957)
Beginning balance of foreign currency translation adjustments	10,854	26,562	44,168
Ending balance of foreign currency translation adjustments	11,197	10,854	26,562
Current period change in foreign currency translation adjustments	343	(15,708)	(17,606)
Beginning balance of benefit plan liabilities	(30,131)	(28,545)	(27,604)
Ending balance of benefit plan liabilities	(38,698)	(30,131)	(28,545)
Current period change in benefit plan liabilities	(8,567)	(1,586)	(941)
Other comprehensive loss	$ (36,967)	$ (83,583)	$ (230,504)
Beginning balance of accumulated other comprehensive income	$ 67,581	$ 151,164	$ 381,668
Other comprehensive loss	(36,967)	(83,583)	(230,504)
U.S. tax reform deferred income tax reclassification	6,608	—	—
Ending balance of accumulated other comprehensive income	$ 37,222	$ 67,581	$ 151,164

In February 2018, the FASB issued ASU 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220)." This ASU allows the effect of remeasuring deferred tax assets and liabilities related to the Tax Cuts and Jobs Act of 2017 with respect to items with accumulated other comprehensive income to be reclassified to retained earnings. The amount of the reclassification is the difference between the amount initially charged or credited directly to other comprehensive income at the previously enacted U.S. federal corporate income tax rate that remains in accumulated other comprehensive income and the amount that would have been charged or credited using the newly enacted 21 percent rate. The Company implemented this ASU in its 2017 consolidated financial statements; the effect of the reclassification was to increase accumulated other comprehensive income and decrease retained earnings by $6.6 million.

The following table shows the components of accumulated other comprehensive income and the related deferred income taxes on each component, as of December 31, 2017 and 2016 (in thousands):

	2017	2016
Gross:		
Unrealized appreciation on securities	$ 89,445	$ 133,459
Foreign currency translation adjustments	17,227	16,701
Benefit plan liabilities	(59,537)	(46,356)
Total accumulated other comprehensive income, gross of deferred income taxes	$ 47,135	$ 103,804
Deferred taxes:		
Unrealized depreciation on securities	$ (18,799)	$ (46,601)
Foreign currency translation adjustments	(3,618)	(5,847)
Benefit plan liabilities	12,504	16,225
Total deferred taxes on accumulated other comprehensive loss	$ (9,913)	$ (36,223)

The following table shows the changes in the balances of each component of accumulated other comprehensive income (loss), for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	Unrealized Gains and Losses on Securities	Foreign Currency Items	Benefit Plan Items	Total
Balance, January 1, 2015	$ 365,104	$ 44,168	$ (27,604)	$ 381,668
Amounts arising during the period	(189,574)	(20,123)	(2,301)	(211,998)
Reclassification adjustment included in net (loss) income	(22,383)	2,517	1,360	(18,506)
Net other comprehensive loss	(211,957)	(17,606)	(941)	(230,504)
Balance, December 31, 2015	153,147	26,562	(28,545)	151,164
Amounts arising during the period	(34,497)	(24,229)	(3,017)	(61,743)
Reclassification adjustment included in net (loss) income	(31,792)	8,521	1,431	(21,840)
Net other comprehensive loss	(66,289)	(15,708)	(1,586)	(83,583)
Balance, December 31, 2016	86,858	10,854	(30,131)	67,581
Amounts arising during the period	36,806	11,116	(10,000)	37,922
Reclassification adjustment included in net (loss) income	(65,549)	(10,773)	1,433	(74,889)
Net other comprehensive (loss) income	(28,743)	343	(8,567)	(36,967)
Adjustment for U.S. Tax Reform	12,531	2,412	(8,335)	6,608
Balance, December 31, 2017	$ 70,646	$ 13,609	$ (47,033)	$ 37,222

The following table shows the significant amounts reclassified out of each component of accumulated other comprehensive income for the years ended of December 31, 2017, 2016 and 2015 (in thousands):

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income (a) 2017	2016	2015	Affected Line Item in the Consolidated Statement of Operations Where Net Income is Presented
Unrealized net depreciation of securities:				
	$ 100,845	$ 48,910	$ 34,436	Net realized investment gains
	(35,296)	(17,118)	(12,053)	Total federal and foreign income benefit
	$ 65,549	$ 31,792	$ 22,383	Net income (loss)
Foreign currency translations:				
	$ 16,574	$ (13,109)	$ (3,873)	Net realized investment gains (losses)
	(5,801)	4,588	1,356	Total federal and foreign income (benefit) provision
	$ 10,773	$ (8,521)	$ (2,517)	Net gain (loss)
Amortization of benefit plan items:				
Net actuarial loss	$ (2,242)	$ (2,239)	$ (2,129)	Other underwriting expenses (b)
Prior service costs	37	37	37	Other underwriting expenses (b)
	(2,205)	(2,202)	(2,092)	Loss before federal and foreign income tax benefit
	772	771	732	Total federal and foreign income tax provision
	$ (1,433)	$ (1,431)	$ (1,360)	Net loss
Total reclassifications	$ 74,889	$ 21,840	$ 18,506	

(a) Amounts in parentheses indicate decreases to the indicated line item of the consolidated statement of operations.

(b) These accumulated other comprehensive income components are included in the computation of net periodic benefit plan costs (see Note 14 for additional details).

6. Unpaid Losses and Loss Adjustment Expenses

Estimates of reserves for unpaid losses and loss adjustment expenses, which relate to loss events that have occurred on or before the balance sheet date, are contingent on many assumptions that may or may not occur in the future. The estimates reflect assumptions regarding initial expectations of losses and patterns of loss reporting, both for claims with higher frequency and lower severity as well as for claims with lower frequency and higher severity associated with individual large loss events, such as earthquakes, windstorms, and floods. The eventual outcome of these loss events may be different from the assumptions underlying the Company's reserve estimates. When the business environment and loss trends diverge from expected trends, the Company may have to adjust its reserves accordingly, potentially resulting in adverse or favorable effects to the Company's financial results. The Company believes that the recorded estimate represents the best estimate of unpaid losses and loss adjustment expenses based on the information available as of December 31, 2017. The estimate is reviewed on a quarterly basis and the ultimate liability may be greater or less than the amounts provided, for which any adjustments will be reflected in the periods in which they become known.

The Company's estimate of ultimate loss is determined based on a review of the results of several commonly accepted actuarial projection methodologies incorporating the quantitative and qualitative information described above. The specific methodologies the Company utilizes in its loss reserve review process include, but may not be limited to (i) incurred and paid loss development methods, (ii) incurred and paid Bornhuetter Ferguson ("BF") methods and (iii) loss ratio methods. The incurred and paid loss development methods utilize loss development patterns derived from historical loss emergence trends usually based on cedant/insured claim information to determine ultimate loss. These methods assume that the ratio of losses in one period to losses in an earlier period will remain constant in the future. Loss ratio methods multiply expected loss ratios, derived from aggregated analyses of internally developed pricing trends, by earned premium to determine ultimate loss. The incurred and paid BF methods are a blend of the loss development and loss ratio methods. These methods utilize both loss development patterns, as well as expected loss ratios, to determine ultimate loss. When using the BF methods, the initial treaty year ultimate loss is based predominantly on expected loss ratios. As loss experience matures, the estimate of ultimate loss using this methodology is based predominantly on loss development patterns. The Company generally does not utilize methodologies that are dependent on claim counts reported, claim counts settled or claim counts open. Due to the nature of the Company's business, this information is not routinely provided for every treaty/program. Consequently, actuarial methods utilizing this information generally cannot be relied upon by the Company in its loss reserve estimation process. As a result, for much of the Company's business, the separate analysis of frequency and severity of loss activity underlying overall loss emergence trends is not practical. Generally, the Company relies on BF and loss ratio methods for estimating ultimate loss liabilities for more recent treaty years. These methodologies, at least in part, apply a loss ratio, determined from aggregated analyses of internally developed pricing trends across reserve cells, to premium earned on that business. Adjustments to premium estimates generate appropriate adjustments to ultimate loss estimates in the quarter in which they occur, using the BF and loss ratio methods. To estimate losses for more mature treaty years, the Company generally relies on the incurred loss development methodology, which does not rely on premium estimates. In addition, the Company may use other methods to estimate liabilities for specific types of claims. For property catastrophe losses, the Company may utilize vendor catastrophe models to estimate ultimate loss soon after a loss occurs, where loss information is not yet reported to the Company from cedants/insureds. Incurred but not reported reserves are determined by subtracting the total of paid loss and case reserves including additional case reserves from ultimate loss.

The Company completes comprehensive loss reserve reviews, which include a reassessment of loss development and expected loss ratio assumptions, on an annual basis. The Company completed this year's annual review in the fourth quarter of 2017. The results of these reviews are reflected in the period in which they are completed. Quarterly, the Company compares actual loss emergence to expectations established by the comprehensive loss reserve review process. In the event that loss trends diverge from expected trends, the Company may have to adjust its reserves for losses and loss adjustment expenses ("LAE") accordingly. Any adjustments will be reflected in the periods in which they become known, potentially resulting in adverse or favorable effects to our financial results. The Company believes that the recorded estimate represents the best estimate of unpaid losses and LAE based on the information available at December 31, 2017. The Company's most significant assumptions underlying its estimate of losses and LAE reserves are as follows: (i) that historical loss emergence trends are indicative of future loss development trends; (ii) that internally developed pricing trends provide a reasonable basis for determining loss ratio expectations for recent underwriting years; and (iii) that no provision is made for extraordinary future emergence of new classes of loss or types of loss that are not sufficiently represented in its historical database or that are not yet quantifiable if not in its database.

U.S. Casualty Reinsurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance), ii) total incurred but not reported ("IBNR") liabilities plus expected development on reported loss and iii) cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) for the U.S. Casualty Reinsurance line of business for the year ended and as of December 31, 2017 (in thousands):

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance	Total of IBNR Liabilities Plus Expected Development on Reported Losses
2013	$ 185,102	$ 68,319
2014	194,920	87,996
2015	194,437	94,758
2016	207,119	123,311
2017	224,642	180,944
Total incurred loss and loss adjustment expenses	$ 1,006,220	

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance
2013	$ 89,404
2014	75,105
2015	56,941
2016	44,841
2017	20,895
Total paid loss and loss adjustment expenses	287,186
Total incurred loss and loss adjustment expenses	1,006,220
Outstanding liabilities for accident years prior to 2013	414,933
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance	$ 1,133,967

U.S. Property Reinsurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance), ii) total IBNR liabilities plus expected development on reported loss and iii) cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) for the U.S. Property Reinsurance line of business for the year ended and as of December 31, 2017 (in thousands):

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance	Total of IBNR Liabilities Plus Expected Development on Reported Losses
2013	$ 196,465	$ 2,567
2014	138,592	2,819
2015	134,554	6,947
2016	153,593	17,017
2017	310,178	180,875
Total incurred loss and loss adjustment expenses	$ 933,382	

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance
2013	$ 190,245
2014	132,934
2015	117,160
2016	126,180
2017	92,300
Total paid loss and loss adjustment expenses	658,819
Total incurred loss and loss adjustment expenses	933,382
Outstanding liabilities for accident years prior to 2013	28,180
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance	$ 302,743

Non-U.S. Casualty Reinsurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance), ii) total IBNR liabilities plus expected development on reported loss and iii) cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) for the Non-U.S. Casualty Reinsurance line of business for the year ended and as of December 31, 2017 (in thousands):

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance	Total of IBNR Liabilities Plus Expected Development on Reported Losses
2013	$ 82,741	$ 24,071
2014	96,452	37,956
2015	101,670	41,321
2016	96,579	41,516
2017	122,737	86,215
Total incurred loss and loss adjustment expenses	$ 500,179	

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance
2013	$ 36,043
2014	31,518
2015	25,003
2016	23,000
2017	10,834
Total paid loss and loss adjustment expenses	126,398
Total incurred loss and loss adjustment expenses	500,179
Outstanding liabilities for accident years prior to 2013	397,499
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance	$ 771,280

Non-U.S. Property Reinsurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance), ii) total IBNR liabilities plus expected development on reported loss and iii) cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) for the Non-U.S. Property Reinsurance line of business for the year ended and as of December 31, 2017 (in thousands):

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance	Total of IBNR Liabilities Plus Expected Development on Reported Losses
2013	$ 272,199	$ 9,372
2014	279,732	14,850
2015	246,404	20,270
2016	346,702	82,315
2017	429,058	209,772
Total incurred loss and loss adjustment expenses	$ 1,574,095	

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance
2013	$ 245,698
2014	239,562
2015	184,088
2016	193,174
2017	87,153
Total paid loss and loss adjustment expenses	949,675
Total incurred loss and loss adjustment expenses	1,574,095
Outstanding liabilities for accident years prior to 2013	125,385
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance	$ 749,805

U.S. Casualty Insurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance), ii) total IBNR liabilities plus expected development on reported loss, iii) cumulative number of reported loss (determined by the number of events, not claimants, regardless of whether or not any payments were ultimately made) and iv) cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) for the U.S. Casualty Insurance line of business for the year ended and as of December 31, 2017 (in thousands):

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims
2013	$ 207,109	$ 19,374	23,048
2014	259,288	55,561	29,489
2015	278,209	80,824	27,241
2016	278,025	130,744	17,538
2017	341,698	234,769	13,515
Total incurred loss and loss adjustment expenses	$ 1,364,329		

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance
2013	$ 174,795
2014	177,766
2015	154,993
2016	100,615
2017	60,032
Total paid loss and loss adjustment expenses	668,201
Total incurred loss and loss adjustment expenses	1,364,329
Outstanding liabilities for accident years prior to 2013	41,092
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance	$ 737,220

U.S. Property Insurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance), ii) total IBNR liabilities plus expected development on reported loss, iii) cumulative number of reported loss (determined by the number of events, not claimants, regardless of whether or not any payments were ultimately made) and iv) cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) for the U.S. Property Insurance line of business for the year ended and as of December 31, 2017 (in thousands):

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims
2013	$ 196,391	$ 56	10,181
2014	231,402	225	11,809
2015	195,061	696	11,548
2016	209,572	3,961	11,743
2017	230,670	74,677	11,683
Total incurred loss and loss adjustment expenses	$ 1,063,096		

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance
2013	$ 195,998
2014	230,614
2015	193,617
2016	199,384
2017	77,377
Total paid loss and loss adjustment expenses	896,990
Total incurred loss and loss adjustment expenses	1,063,096
Outstanding liabilities for accident years prior to 2013	832
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance	$ 166,938

Non-U.S. Casualty Insurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance), ii) total IBNR liabilities plus expected development on reported loss and iii) cumulative number of reported loss (determined by the number of events, not claimants, regardless of whether or not any payments were ultimately made) for the Non-U.S. Casualty Insurance line of business for the year ended and as of December 31, 2017 (in thousands):

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance	Total of IBNR Liabilities Plus Expected Development on Reported Losses
2013	$ 82,801	$ 29,933
2014	83,935	34,139
2015	83,816	47,570
2016	77,833	54,258
2017	91,649	81,306
Total incurred loss and loss adjustment expenses	$ 420,034	

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance
2013	$ 35,188
2014	32,422
2015	19,311
2016	10,679
2017	4,135
Total paid loss and loss adjustment expenses	101,735
Total incurred loss and loss adjustment expenses	420,034
Outstanding liabilities for accident years prior to 2013	243,162
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance	$ 561,461

See Supplemental Schedule 1 - Losses Incurred and Related Development for prior years audited, incurred loss and allocated loss adjustment expenses (net of reinsurance), total IBNR liabilities plus expected development on reported loss, cumulative number of reported loss (determined by the number of events, not claimants, regardless of whether or not any payments were ultimately made), cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) and historical average annual percentage payouts of incurred loss and allocated loss adjustment expenses.

The reconciliation of the net incurred and paid claims development tables (preceding) to the liability for unpaid losses and loss adjustment expenses in the consolidated statement of financial position as of December 31, 2017 is as follows (in thousands):

	December 31, 2017
Net unpaid loss and allocated loss adjustment expenses:	
U.S. Casualty Reinsurance	$ 1,133,967
U.S. Property Reinsurance	302,743
Non-U.S. Casualty Reinsurance	771,280
Non-U.S. Property Reinsurance	749,805
U.S. Casualty Insurance	737,220
U.S. Property Insurance	166,938
Non-U.S. Casualty Insurance	561,461
Unallocated loss adjustment expenses	66,307
Workers' compensation discount	(38,033)
Other	149,696
Effect of foreign exchange rates	(4,774)
Total unpaid loss and allocated loss adjustment expenses, net of reinsurance	4,596,610
Reinsurance recoverable on unpaid losses and loss adjustment expenses:	
U.S. Casualty Reinsurance	42,502
U.S. Property Reinsurance	90,186
Non-U.S. Casualty Reinsurance	93
Non-U.S. Property Reinsurance	130,204
U.S. Casualty Insurance	229,207
U.S. Property Insurance	103,292
Non-U.S. Casualty Insurance	239,709
Unallocated loss adjustment expenses	300
Effect of foreign exchange rates	(1,596)
Other	33,088
Total reinsurance recoverable on unpaid losses	866,985
Total gross unpaid loss and loss adjustment expenses	$ 5,463,595

The following table sets forth the activity in the liability for unpaid losses and loss adjustment expenses for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Gross unpaid losses and loss adjustment expenses, beginning of year	$ 4,876,848	$ 5,002,422	$ 5,317,465
Less: Ceded unpaid losses and loss adjustment expenses, beginning of year	658,607	690,884	726,196
Net unpaid losses and loss adjustment expenses, beginning of year	4,218,241	4,311,538	4,591,269
Add: Net incurred losses and loss adjustment expenses related to:			
Current year	1,827,571	1,438,311	1,419,132
Prior years	(288,049)	(266,486)	(233,358)
Total net incurred losses and loss adjustment expenses	1,539,522	1,171,825	1,185,774
Less: Net paid losses and loss adjustment expenses related to:			
Current year	376,331	264,582	275,728
Prior years	953,050	972,915	1,048,267
Total net paid losses and loss adjustment expenses	1,329,381	1,237,497	1,323,995
Effect of exchange rate changes	168,228	(27,625)	(141,510)
Net unpaid losses and loss adjustment expenses, end of year	4,596,610	4,218,241	4,311,538
Add: Ceded unpaid losses and loss adjustment expenses, end of year	866,985	658,607	690,884
Gross unpaid losses and loss adjustment expenses, end of year	$ 5,463,595	$ 4,876,848	$ 5,002,422

Net incurred losses and loss adjustment expenses related to the current year were $1,827.6 million, $1,438.3 million and $1,419.1 million for the years ended December 31, 2017, 2016 and 2015, respectively. The increase in incurred losses and loss adjustment expenses for the year ended December 31, 2017 was principally attributable to an increase in current year catastrophe losses and increased losses associated with premium growth. The increase in incurred losses and loss adjustment expenses for the year ended December 31, 2016 was principally attributable to an increase in current year catastrophe losses largely offset by a decrease in non-catastrophe losses in Non-U.S Property Reinsurance. For the years ended December 31, 2017, 2016 and 2015, current year property catastrophe losses were $406.0 million, $190.3 million and $108.5 million, respectively. For the year ended December 31, 2017, current year property catastrophe losses included $105.9 million related to Hurricane Maria, $75.7 million related to Hurricane Irma, $54.1 related to Hurricane Harvey, $25.0 million related to the Northern California Wildfires, and $25.0 million related to the Southern California Wildfires. For the year ended December 31, 2016, current year property catastrophe losses included $30.8 million related to Hurricane Matthew. For the year ended December 31, 2015, current year losses included $55.9 million for the Port of Tianjin explosion.

Net incurred losses and loss adjustment expenses related to prior years included reductions in loss estimates of $288.0 million, $266.5 million and $233.4 million for the years ended December 31, 2017, 2016 and 2015, respectively. The reductions in prior years' incurred losses and loss adjustment expenses were attributable to decreased loss estimates due to loss emergence lower than expectations in most regions and lines of business.

Net paid losses and loss adjustment expenses related to the current year were $376.3 million, $264.6 million and $275.7 million for the years ended December 31, 2017, 2016 and 2015, respectively. The increase in paid losses and loss adjustment expenses for the year ended December 31, 2017 was principally due to increased current year catastrophe losses. The decrease in paid losses and loss adjustment expenses for the year ended December 31, 2016 was principally due to a decrease in payments on crop business in U.S. Property Insurance.

The effects of exchange rate changes on net unpaid losses and loss adjustment expenses resulted in an increase of $168.2 million for the year ended December 31, 2017, and decreases of $27.6 million and $141.5 million for the years ended December 31, 2016, and 2015, respectively, and were attributable to Non-U.S. Reinsurance and Non-U.S. Insurance.

Ceded unpaid losses and loss adjustment expenses were $867.0 million, $658.6 million and $690.9 million as of December 31, 2017, 2016 and 2015, respectively. The increase in ceded unpaid losses and loss adjustment expenses for the year ended December 31, 2017 was principally attributable to an increase in ceded unpaid reinsurance recoverables as a result of Hurricanes Irma and Maria, and the Northern California Wildfires. The decrease in ceded unpaid losses and loss adjustment expenses for the year ended December 31, 2016 was principally attributable to a decrease in ceded unpaid reinsurance recoverables in U.S. Casualty Insurance.

The Company uses tabular reserving for workers' compensation indemnity loss reserves, which are considered to be fixed and determinable, and discounts such reserves using an interest rate of 3.5%. Workers' compensation indemnity loss reserves have been discounted using the Life Table for Total Population: United States, 2009. Reserves reported at the discounted value were $53.4 million and $54.3 million as of December 31, 2017 and 2016, respectively. The amount of case reserve discount was $17.5 million and $18.5 million as of December 31, 2017 and 2016, respectively. The amount of incurred but not reported reserve discount was $20.5 million and $20.6 million as of December 31, 2017 and 2016, respectively.

The Company is not materially exposed to asbestos and environmentally-related liabilities and does not establish a specific reserve for such exposures.

7. Reinsurance and Retrocessions

The Company utilizes reinsurance and retrocessional agreements to reduce and spread the risk of loss on its insurance and reinsurance business and to limit exposure to multiple claims arising from a single occurrence. The Company is subject to accumulation risk with respect to catastrophic events involving multiple treaties, facultative certificates and insurance policies. To protect against these risks, the Company purchases catastrophe excess of loss protection. The retention, the level of capacity purchased, the geographical scope of the coverage and the costs vary from year to year. Additionally, the Company purchases specific protections related to the insurance business underwritten in both the U.S. and abroad.

There is credit risk with respect to reinsurance, which would result in the Company recording a charge to earnings in the event that such reinsuring companies are unable, at some later date, to meet their obligations under the reinsurance agreements in force. Reinsurance recoverables are recorded as assets and a reserve for uncollectible reinsurance recoverables is established based on the Company's evaluation of each reinsurer's or retrocessionaire's ability to meet its obligations under the agreements. Premiums written and earned are stated net of reinsurance ceded in the consolidated statements of operations. Direct, reinsurance assumed, reinsurance ceded and net amounts for the years ended December 31, 2017, 2016 and 2015 follow (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Premiums Written			
Direct	$ 1,289,551	$ 1,086,119	$ 1,089,892
Add: assumed	1,493,554	1,294,628	1,314,093
Less: ceded	287,218	280,570	309,000
Net	$ 2,495,887	$ 2,100,177	$ 2,094,985
Premiums Earned			
Direct	$ 1,195,849	$ 1,070,553	$ 1,108,264
Add: assumed	1,420,639	1,303,878	1,416,857
Less: ceded	283,087	300,335	321,051
Net	$ 2,333,401	$ 2,074,096	$ 2,204,070

The total amount of reinsurance recoverable on paid and unpaid losses as of December 31, 2017 and 2016 was $896.7 million and $700.7 million, respectively. The reserve for uncollectible reinsurance recoverable was

$13.1 million and $15.0 million, as of December 31, 2017 and 2016, respectively, and has been netted against reinsurance recoverables on loss payments in the consolidated balance sheets.

In accordance with the terms of certain reinsurance agreements, the Company has recorded interest expense associated with its ceded reinsurance agreements of less than $0.1 million for each of the years ended December 31, 2017, 2016 and 2015.

8. Reinsurance Recoverables

The Company's ten largest reinsurers represent 70.9% of its total reinsurance recoverables as of December 31, 2017. Amounts due from all other reinsurers are diversified, with no other individual reinsurer representing more than $26.9 million, or 3.0%, of reinsurance recoverables as of December 31, 2017, and the average balance is less than $1.8 million. The Company held total collateral of $265.1 million as of December 31, 2017, representing 29.6% of total reinsurance recoverables. The following table shows the total amount as of December 31, 2017 that is recoverable from each of the Company's ten largest reinsurers for paid and unpaid losses, the amount of collateral held and each reinsurer's A.M. Best rating (in thousands):

Reinsurer	Reinsurance Recoverable	% of Total	Collateral	A.M. Best Rating
Markel CatCo Reinsurance Ltd	$ 158,051	17.6%	$ 158,051	NR
Lloyd's Syndicates (excluding Brit PLC Syndicate 2987)	120,531	13.4	4,050	A
Federal Crop Insurance Corporation	110,893	12.4	—	NR
CRC Reinsurance Limited	52,694	5.9	52,474	NR
Chubb Tempest Reinsurance Ltd	37,081	4.1	27,318	A++
Berkley Insurance Company	34,120	3.8	—	A+
National Indemnity Company	33,359	3.7	—	A++
Everest Reinsurance Co (USA)	33,069	3.7	—	A+
Markel Global Reinsurance Co.	29,217	3.3	—	A
Everest Reinsurance (Bermuda) Ltd	26,977	3.0	—	A+
Sub-total	635,992	70.9	241,893	
All other	260,673	29.1	23,221	
Total	$ 896,665	100.0%	$ 265,114	

Several individual reinsurers are part of the same corporate group. The following table shows the five largest aggregate amounts that are recoverable from all individual entities that form part of the same corporate group as of December 31, 2017 and the amount of collateral held from each group (in thousands):

Reinsurer	Reinsurance Recoverable	% of Total	Collateral
Markel Corporation	$ 211,990	23.6%	$ 159,095
Lloyd's Syndicates (excluding Brit PLC Syndicate 2987)	120,531	13.4	4,050
Federal Crop Insurance Corporation	110,893	12.4	—
Fairfax Financial Holdings Ltd.	100,618	11.2	53,997
Everest Re Group	60,046	6.7	—
Sub-total	604,078	67.3	217,142
All other	292,587	32.7	47,972
Total	$ 896,665	100.0%	$ 265,114

Reinsurance recoverables were $700.7 million and collateral was $134.7 million, or 19.2% of the reinsurance recoverable balance, as of December 31, 2016.

The Company is the beneficiary of letters of credit, cash and other forms of collateral to secure certain amounts due from its reinsurers. Collateral held by the Company as of December 31, 2017 was comprised of the following forms (in thousands):

Form of Collateral	Collateral	% of Recoverables
Trust agreements	$ 156,667	17.5%
Funds withheld from reinsurers	70,228	7.8
Letters of credit	38,219	4.3
Total	$ 265,114	29.6%

Each reinsurance contract between the Company and the reinsurer describes the losses that are covered under the contract and terms upon which payments are to be made. The Company generally has the ability to utilize collateral to settle unpaid balances due under its reinsurance contracts when it determines that the reinsurer has not met its contractual obligations. Letters of credit are for the sole benefit of the Company to support the obligations of the reinsurer, providing the Company with the unconditional ability, in its sole discretion, to draw upon the letters of credit in support of any unpaid amounts due under the relevant contracts. Cash and investments supporting funds withheld from reinsurers are included in the Company's invested assets. Funds withheld from reinsurers are typically used to automatically offset payments due to the Company in accordance with the terms of the relevant reinsurance contracts. Amounts held under trust agreements are typically comprised of cash and investment grade fixed income securities and are not included in the Company's invested assets. The ability of the Company to draw upon funds held under trust agreements to satisfy any unpaid amounts due under the relevant reinsurance contracts is typically unconditional and at the sole discretion of the Company.

9. Debt Obligations, Common Shares and Non-Controlling Interest – Preferred Shares of Subsidiaries

Debt Obligations

The amortized cost by component of the Company's debt obligations as of December 31, 2017 and 2016 were as follows (in thousands):

	December 31, 2017	December 31, 2016
Series A Floating Rate Senior Debentures due 2021	$ 49,917	$ 49,890
Series C Floating Rate Senior Debentures due 2021	39,940	39,925
Total debt obligations	$ 89,857	$ 89,815

On November 28, 2006, the Company completed the private sale of a $40.0 million aggregate principal amount of floating rate senior debentures, Series C, due December 15, 2021 (the "Series C Notes"). Interest on the Series C Notes accrues at a rate per annum equal to the three-month London Interbank Offer Rate ("LIBOR"), reset quarterly, plus 2.50%, and is payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year. The Company has the option to redeem the Series C Notes at par, plus accrued and unpaid interest, in whole or in part on any interest payment date. For the years ended December 31, 2017 and 2016, the average annual interest rate on the Series C Notes was 3.69% and 3.18%, respectively.

On February 22, 2006, the Company issued a $50.0 million aggregate principal amount of floating rate senior debenture Series A, due March 15, 2021 (the "Series A Notes"), pursuant to a private placement offering. Interest on the debenture is due quarterly in arrears on March 15, June 15, September 15 and December 15 of each year at an interest rate equal to the three-month LIBOR, reset quarterly, plus 2.20%. The Series A Notes are callable by the Company on any interest payment date at their par value, plus accrued and unpaid interest. For the years ended December 31, 2017 and 2016, the average annual interest rate on Series A Notes was 3.39% and 2.88%, respectively.

As of December 31, 2017 and 2016, the estimated fair value of the Company's debt obligations was $92.9 million and $94.1 million, respectively. The estimated fair value is based on quoted market prices of the Company's debt, where available, for debt similar to the Company's, and discounted cash flow calculations.

Common Shares

The Company did not issue any common shares during the years ended December 31, 2017 and 2016.

The Company issued 1,502 common shares to a Fairfax affiliate during the second quarter of 2015 in exchange for a $125.0 million capital contribution to fund the payment of the Company's $125.0 million 6.875% Senior Notes, which matured on May 1, 2015.

The Company declared and paid $100.0 million in common share dividends during the year ended December 31, 2017. The Company declared and paid $200.0 million in common share dividends during each of the years ended December 31, 2016 and 2015.

Non-Controlling Interest – Preferred Shares of Subsidiaries

TIG Insurance Company ("TIG"), a Fairfax affiliate, holds all 23,807 shares of Hudson's 5.5% Series A preferred stock with a liquidation preference of $1,000 per share and an aggregate book value of $23.8 million, and all 5,492 shares of Clearwater Select's 5.5% Series A preferred stock, with a liquidation preference of $1,000 per share and an aggregate book value of $5.5 million. On October 3, 2017, Clearwater Select's Board of Directors declared a preferred dividend to TIG in the amount of $0.3 million and Hudson's Board of Directors declared a preferred dividend to TIG in the amount of $1.3 million. Both dividends were paid on October 20, 2017. The aggregate amount of the preferred shares of Hudson and Clearwater Select owned by TIG is presented on the balance sheet as non-controlling interest – preferred shares of subsidiaries in the amount of $29.3 million.

10. Federal and Foreign Income Taxes

The components of the federal and foreign income tax provision included in the consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015 are as follows (in thousands):

	2017	2016	2015
Current:			
United States	$ 98,131	$ 5,593	$ 200,240
Foreign	46,360	22,915	28,027
Total current income tax provision	144,491	28,508	228,267
Deferred:			
United States	158,583	(19,766)	(99,636)
Foreign	(10,027)	(4,327)	(8,957)
Total deferred income tax provision (benefit)	148,556	(24,093)	(108,593)
Total federal and foreign income tax provision	$ 293,047	$ 4,415	$ 119,674

Deferred federal and foreign income taxes reflect the tax impact of temporary differences between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. Components of federal and foreign income tax assets and liabilities as of December 31, 2017 and 2016 are as follows (in thousands):

	2017	2016
Unpaid losses and loss adjustment expenses	$ 50,867	$ 80,352
Unearned premiums	31,291	42,424
Reserve for potentially uncollectible balances	3,111	6,838
Pension and benefit accruals	23,640	34,505
Investments	98,593	161,174
Alternative minimum tax credit	—	1,561
Foreign tax credit	35,112	97,345
Other	—	2,688
Total deferred tax assets	242,614	426,887
Deferred acquisition costs	38,684	55,160
Foreign deferred items	10,155	20,182
Subsidiary net operating loss	4,653	7,754
Other	500	—
Total deferred tax liabilities	53,992	83,096
Net deferred tax assets	188,622	343,791
Deferred income taxes on accumulated other comprehensive loss	(9,909)	(36,223)
Deferred federal and foreign income tax asset	178,713	307,568
Current federal and foreign income tax (payable) receivable	(34,356)	93,214
Federal and foreign income taxes receivable	$ 144,357	$ 400,782

The following table reconciles federal and foreign income taxes at the statutory federal income tax rate to the Company's tax provision and effective tax rate for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017		2016		2015	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Income before income taxes	$618,301		$165,323		$418,968	
Income tax provision computed at the U.S. statutory tax rate on income	$216,405	35.0%	$ 57,863	35.0%	$146,639	35.0%
(Decrease) increase in income taxes resulting from:						
Dividend received deduction	(3,013)	(0.5)	(3,259)	(2.0)	(1,506)	(0.4)
Tax-exempt income	(14,135)	(2.3)	(23,353)	(14.1)	(30,827)	(7.4)
Proration recovery of tax preferred income	2,140	0.3	—	—	—	—
Foreign tax expense	(176)	(0.0)	—	—	209	0.0
State tax expense	(364)	(0.1)	—	—	—	—
True-up of prior year taxes	(430)	(0.1)	—	—	—	—
Write-off of subsidiary NOL DTL	—	—	(32,999)	(20.0)	—	—
U.S. tax reform - tax rate decrease	95,074	15.4	—	—	—	—
U.S. tax reform - mandatory deemed repatriation	(6,643)	(1.1)	—	—	—	—
Other, net	4,189	0.8	6,163	3.7	5,159	1.4
Total federal and foreign income tax provision	$293,047	47.4%	$ 4,415	2.6%	$119,674	28.6%

Pre-tax income (loss) generated in the United States was $463.7 million, $(3.3) million and $340.5 million for the years ended December 31, 2017, 2016 and 2015, respectively. Foreign pre-tax income was $154.6 million, $168.6 million and $78.5 million for the years ended December 31, 2017, 2016 and 2015, respectively.

The Company has claimed the benefit of a foreign tax credit in the tax years ended December 31, 2017, 2016 and 2015.

During 2016, the Company released the deferred tax liability relating to a contingent contractual obligation to a former subsidiary of the Company as a result of the Company's utilization of the former subsidiary's net operating losses in years prior to the sale of the former subsidiary, pursuant to tax sharing agreements in effect for those years, following the determination that such liability will not be realized.

The Company is included in the United States tax group of Fairfax (US) Inc. ("Fairfax (US)"). The method of allocation among the companies is subject to a written agreement. Tax payments are made to, or refunds received from, Fairfax (US) in amounts equal to the amounts as if separate tax returns were filed with federal taxing authorities.

The United States Tax Cuts and Jobs Act (the "Act") was signed into law on December 22, 2017. The Act reduces the U.S. federal corporate tax rate from 35% to 21% and requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. The Act also includes the following provisions for tax years beginning after December 31, 2017: repeal of the alternative minimum tax regime, changes to loss reserve discounting, a new minimum base erosion and anti-abuse tax ("BEAT") on certain payments to foreign affiliates and a US tax on foreign earnings for certain global intangible low-taxed income ("GILTI"), as well as a number of other provisions expected to have an immaterial impact on the Company.

Pursuant to Accounting Standards Code ("ASC") 740 "Income Taxes", deferred tax assets ("DTAs") and deferred tax liabilities ("DTLs") as of December 31, 2017, are measured using the new enacted tax rate of 21% that is expected to apply to taxable income in the periods in which the DTAs and DTLs are expected to be settled or realized. The impact of the federal rate change was determined as of December 31, 2017. Any difference between the impact measured as of that date and the date of enactment was considered not material to the financial statements. Changes in DTAs and DTLs, including changes attributable to changes in tax rates and changes attributable to items recognized as part of accumulated other comprehensive income, are recognized as a component of deferred income tax expense from continuing operations. The remeasurement of deferred taxes due to the change in tax rate resulted in a reduction of net deferred tax assets of $95.1 million. See Note 5 for discussion of the effects on accumulated other comprehensive income and the application of ASU 2018-02.

For tax years beginning before January 1, 2018, the Act requires that U.S. companies include in income the impacts of a mandatory deemed repatriation of post-1986 undistributed foreign earnings ("transition tax" or "toll charge"). For the year ended December 31, 2017, the Company has included income of $36.8 million related to previously untaxed foreign earnings. The Company utilized both existing and current year foreign tax credits to reduce the toll charge liability to zero. As a result of the transition tax, the Company has recognized a reduction in net deferred tax liability of $37.6 million related to previously deferred earnings of the Newline Group as well as a reduction in its foreign tax credits of $31.3 million related to foreign tax credits that no longer have value due to the mandatory repatriation.

The one-time transition tax is based on total post-1986 earnings and profits ("E&P) that were previously deferred from U.S. income taxes and is based in part on the amount of those earnings held in cash and other specified assets. The effects of the transition tax are provisional estimates based on upon the best reliable information. As additional reliable information becomes available, the estimated effects of the toll charge will be updated.

The effects of the changes in loss reserve discounting are not reflected in income taxes for the year ended December 31, 2017, as information is not readily available to reasonably estimate the impact of these changes. The Company does not expect the impact of these amounts to be material.

The Company will recognize the charges, if any, related to BEAT or GILTI in the period in which it is included on the Company's tax return. The Company has, therefore, not included impacts from BEAT or GILTI in measuring its deferred taxes as of December 31, 2017.

The Company paid federal and foreign income taxes of $18.0 million, $152.8 million and $298.0 million for the years ended December 31, 2017, 2016 and 2015, respectively. As of December 31, 2017, the Company had a current tax payable of $34.4 million, which included $6.4 million payable to Fairfax (US) and a net payable of $28.0 million to various foreign governments. As of December 31, 2016, the Company had a current tax receivable of $93.2 million, which included $88.0 million receivable from Fairfax (US) and a net receivable of $5.2 million from various foreign governments. The Company files income tax returns with various federal, state and foreign jurisdictions.

The Company's U.S. federal income tax returns for tax years prior to 2016 are closed. The Internal Revenue Service ("IRS") is expected to complete their audit of the Company's 2016 returns during 2018. Effective for 2016 through 2018 tax years, the Company participates in the IRS's Compliance Assurance Program ("CAP"). Under CAP, the IRS begins their examination of the tax year before the tax return is filed. The goal of CAP is to expedite the exam process and reduce the level of uncertainty regarding a taxpayer's filing positions by examining significant transactions and events as they occur. The IRS has not proposed any material adjustments as part of the Company's ongoing examinations. Income tax returns filed with various state and foreign jurisdictions remain open to examination in accordance with individual statutes.

The Company has elected to recognize accrued interest and penalties associated with uncertain tax positions as part of the income tax provision. The Company does not have any material unrecognized tax benefits and has not recognized any accrued interest or penalties associated with uncertain tax positions.

The Company has recorded foreign tax credits of $35.1 million, of which $3.1 million, $13.4 million and $17.8 million expire in 2020, 2026 and 2027, respectively, the remainder of which the carryforward period has not yet begun.

11. Commitments and Contingencies

(a) *Contingencies*

The Company participates in Lloyd's through its 100% ownership of the capital provider for Newline Syndicate (1218), for which the Company directly or indirectly provides 100% of the capacity. The results of Newline Syndicate (1218) are consolidated in the financial statements of the Company. In support of Newline Syndicate (1218)'s capacity at Lloyd's, the Company has pledged securities and cash with a fair value of $292.7 million as of December 31, 2017 in a deposit trust account in favor of the Society and Council of Lloyd's. The securities may be substituted with other securities at the discretion of the Company, subject to approval by Lloyd's. The securities are carried at fair value and are included in investments and cash in the Company's consolidated balance sheets. Interest earned on the securities is included in investment income. The pledge of assets in support of Newline Syndicate (1218) provides the Company with the ability to participate in writing business through Lloyd's, which remains an important part of the Company's business. The pledged assets effectively secure the contingent obligations of Newline Syndicate (1218) should it not meet its obligations. The Company's contingent liability to the Society and Council of Lloyd's is limited to the aggregate amount of the pledged assets. The Company has the ability to remove funds at Lloyd's annually, subject to certain minimum amounts required to support outstanding liabilities as determined under risk-based capital models and approved by Lloyd's. The funds used to support outstanding liabilities are adjusted annually and the obligations of the Company to support these liabilities will continue until they are settled or the liabilities are reinsured by a third party approved by Lloyd's. The Company expects to continue to actively operate Newline Syndicate (1218) and support its requirements at Lloyd's. The Company believes that Newline Syndicate (1218) maintains sufficient liquidity and financial resources to support its ultimate liabilities and the Company does not anticipate that the pledged assets will be utilized.

ORC agreed to guarantee the performance of all the insurance and reinsurance contract obligations of Compagnie Transcontinentale de Réassurance ("CTR"), a subsidiary of Fairfax, in the event CTR became insolvent and CTR was not otherwise indemnified under its guarantee agreement with a Fairfax affiliate. Fairfax has agreed to indemnify ORC for all its obligations incurred under its guarantee. The Company's potential exposure in connection with this agreement stems from CTR's remaining gross reserves, which are estimated to be $61.0 million as of December 31, 2017. The Company believes that the financial resources of the Fairfax subsidiaries that have assumed CTR's liabilities provide adequate protection to satisfy the obligations that are subject to this guarantee. The Company does not expect to make payments under this guarantee and does not consider its potential exposure under this guarantee to be material to its consolidated financial position.

ORC has agreed to guarantee the payment of all of the insurance contract obligations (the "Subject Contracts"), whether incurred before or after the agreement, of Falcon Insurance Company (Hong Kong) Limited ("Falcon"), a subsidiary of Fairfax Asia, in the event Falcon becomes insolvent. The guarantee by ORC was made to assist Falcon in writing business through access to ORC's financial strength ratings and capital resources. ORC is paid a fee for this guarantee of one quarter of one percent of all gross premiums earned associated with the Subject Contracts on a quarterly basis. For each of the years ended December 31, 2017, 2016 and 2015, Falcon paid $0.1 million to ORC in connection with this guarantee. ORC's potential exposure in connection with this agreement is estimated to be $123.6 million, based on Falcon's loss reserves at December 31, 2017. Fairfax has agreed to indemnify ORC for any obligation under this guarantee. The Company believes that the financial resources of Falcon provide adequate protection to support its liabilities in the ordinary course of business. The Company anticipates that Falcon will meet all of its obligations in the normal course of business and does not expect to make any payments under this guarantee. The Company does not consider its potential exposure under this guarantee to be material to its consolidated financial position.

During 2015, in consideration for an appropriate fee, ORC agreed to guarantee the payment of certain obligations of TIG with respect to a certain contract of reinsurance of asbestos, pollution and health hazard claims (the "APH contract") entered into by TIG with an unrelated third party. The guarantee was made to enable TIG to access ORC's financial strength ratings and capital resources for securing the APH Contract. ORC's maximum exposure in connection with this guarantee is $350.0 million; as of December 31, 2017, the Company's estimated exposure under the guarantee is $61.2 million, based on TIG's loss reserves for the APH Contract at December 31, 2017. The Company i) believes that the financial resources of TIG provide adequate protection to support is liabilities in the ordinary course of business; ii) anticipates that TIG will meet all of its obligations in the normal course of business and iii) does not expect to make any payments under this guarantee.

The Company and its subsidiaries are involved from time to time in ordinary litigation and arbitration proceedings as part of the Company's business operations. In the Company's opinion, the outcome of these suits, individually or collectively, is not likely to result in judgments that would be material to the financial condition or results of operations of the Company.

(b) *Commitments*

The Company and its subsidiaries lease office space and furniture and equipment under long-term operating leases expiring through the year 2033. Minimum annual rentals follow (in thousands):

	Amount
2018	$ 11,311
2019	11,226
2020	11,318
2021	10,523
2022	9,993
2023 and thereafter	60,342
Total	$ 114,713

The Company leases certain office and retail space held as an investment under various operating leases. Lease income for 2017 totaled $1.1 million; there was no lease income for 2016. Future rental income from these leases are as follows (in thousands):

	Amount
2018	$ 2,101
2019	2,101
2020	2,009
2021	1,569
2022	963
2023 and thereafter	1,815
Total	$ 10,558

Rental expense, before sublease income under these operating leases, was $11.9 million, $12.1 million and $12.2 million for the years ended December 31, 2017, 2016 and 2015, respectively. The Company recovered $0.1 million for each of the years ended December 31, 2017 and 2016 and less than $0.1 million for the year ended December 31, 2015 from subleases.

12. Statutory Information and Dividend Restrictions

ORC, the Company’s principal operating subsidiary, is subject to state regulatory restrictions that limit the maximum amount of dividends payable. In any 12-month period, ORC may pay dividends equal to the greater of (i) 10% of statutory capital and surplus as of the prior year end or (ii) net income for such prior year, without prior approval of the Insurance Commissioner of the State of Connecticut (the “Connecticut Commissioner”). Connecticut law further provides that (i) ORC must report to the Connecticut Commissioner, for informational purposes, all dividends and other distributions within five business days after the declaration thereof and at least ten days prior to payment and (ii) ORC may not pay any dividend or distribution in excess of its earned surplus, defined as the insurer’s “unassigned funds surplus” reduced by 25% of unrealized appreciation in value or revaluation of assets or unrealized profits on investments, as reflected in its most recent statutory annual statement on file with the Connecticut Commissioner, without the Connecticut Commissioner’s approval. The maximum ordinary dividend capacity available during 2018, without prior approval, is $324.9 million. ORC declared and paid to ORH dividends of $100.0 million, $200.0 million and $300.0 million during the years ended December 31, 2017, 2016 and 2015, respectively. Hudson declared and paid dividends on its preferred shares owned by TIG of $1.3 million during each of the years ended December 31, 2017, 2016 and 2015. Clearwater Select declared and paid dividends on its preferred shares owned by TIG of $0.3 million during each of the years ended December 31, 2017, 2016 and 2015.

The following is the consolidated statutory basis net income and policyholders’ surplus of ORC and its subsidiaries, for each of the years ended and as of December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Net income	$ 64,095	$ 145,455	$ 534,723
Policyholders' surplus	3,285,326	3,223,232	3,317,809

13. Related Party Transactions

The Company has entered into various reinsurance arrangements with Fairfax and its affiliates. The amounts included in or deducted from income, expense, assets and liabilities in the accompanying consolidated financial statements with respect to reinsurance assumed and ceded from and to affiliates as of and for the years ended December 31, 2017, 2016 and 2015, follow (in thousands):

	2017	2016	2015
Assumed:			
Premiums written	$ 57,691	$ 25,267	$ 22,702
Premiums earned	53,713	23,148	25,963
Losses and loss adjustment expenses	43,705	8,278	12,689
Acquisition costs	9,523	1,722	3,164
Reinsurance payable on paid losses	1,223	667	2,474
Reinsurance balances receivable	13,956	4,604	5,117
Unpaid losses and loss adjustment expenses	147,010	57,896	60,684
Unearned premiums	22,871	8,826	6,692
Ceded:			
Premiums written	$ 43,283	$ 32,661	$ 28,622
Premiums earned	37,309	32,566	33,565
Losses and loss adjustment expenses	29,132	22,066	19,057
Acquisition costs	5,574	3,253	4,409
Ceded reinsurance balances payable	1,817	2,705	2,579
Reinsurance recoverables on paid losses	3,143	1,299	680
Reinsurance recoverables on unpaid losses	110,186	99,585	83,550
Unearned premiums	15,651	10,588	10,617

The Company's subsidiaries have entered into investment management agreements with Fairfax and its wholly-owned subsidiary, Hamblin Watsa Investment Counsel Ltd. These agreements generally provide for an annual base fee, calculated and paid quarterly based upon each subsidiary's average invested assets for the preceding three months, and an incentive fee, which is payable if realized gains on equity investments exceed certain benchmarks. These agreements may be terminated by either party on 30 days' notice. For the years ended December 31, 2017, 2016 and 2015, total fees, including incentive fees, of $13.5 million, $21.5 million and $14.5 million, respectively, are included in the consolidated statements of operations.

Included in other expenses, net, for the years ended December 31, 2017, 2016 and 2015, are charitable contribution expenses of $6.0 million, $1.6 million and $4.0 million, respectively, primarily representing amounts to be funded by ORH to the Odyssey Group Foundation, a not-for-profit entity through which the Company provides funding to charitable organizations active in the communities in which the Company operates.

Due to expense sharing and investment management agreements with Fairfax and its affiliates, the Company has accrued, on its consolidated balance sheet, amounts receivable from affiliates of $3.6 million and $4.0 million as of December 31, 2017 and 2016, respectively, and amounts payable to affiliates of $5.2 million and $7.1 million as of December 31, 2017 and 2016, respectively.

On December 6, 2016, the Company loaned to 9938982 Canada Inc., $50.1 million, the proceeds of which were used to fund a debtor in possession loan to a Canadian retail company. The loan to 9938982 Canada Inc. bore interest at 8.0% and was repaid on February 28, 2017.

During 2017, the Company loaned $19.2 million to Farmers Edge Inc. The loans to Farmers Edge Inc. bear interest at 7.0% and mature on January 31, 2018.

On July 17, 2017, September 15, 2017 and October 11, 2017, the Company loaned to Fairfax (US), $150.0 million, $50.0 million and $150.0 million, respectively, and bore interest at 1.22%, 1.29% and 1.27%, respectively. The loans were repaid by December 28, 2017.

In the ordinary course of the Company's investment activities, the Company makes investments in investment funds, limited partnerships and other investment vehicles in which Fairfax or its affiliates may also be investors.

14. Employee Benefits

The Company provides its employees with benefits through various plans as described below.

Defined Benefit Pension Plan

The Company maintains a qualified, non-contributory, defined benefit pension plan (the "Pension Plan") covering substantially all employees in the United States hired prior to August 1, 2011 who have reached age twenty-one. Employer contributions to the Pension Plan are in accordance with the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended.

The amortization period for unamortized pension costs and credits, including prior service costs, if any, and actuarial gains and losses, is based on the remaining service period for those employees expected to receive pension benefits. Actuarial gains and losses result when actual experience differs from that assumed or when actuarial assumptions are changed.

The following tables set forth the Pension Plan's unfunded status and accrued pension cost recognized in the Company's consolidated financial statements as of December 31, 2017 and 2016 (in thousands):

	2017	2016
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 179,299	$ 159,624
Service cost	9,003	8,819
Interest cost	7,438	6,935
Actuarial loss	17,676	6,366
Benefits paid	(6,102)	(2,445)
Benefit obligation at end of year	207,314	179,299
Change in Plan assets:		
Fair value of Pension Plan assets at beginning of year	130,263	112,722
Actual appreciation on Pension Plan assets	8,508	12,186
Actual contributions during the year	10,300	7,800
Benefits paid	(6,102)	(2,445)
Fair value of Pension Plan assets at end of year	142,969	130,263
Funded status and accrued pension cost	$ (64,345)	$ (49,036)

The net amount reported in the consolidated balance sheets related to the accrued pension cost for the Pension Plan of $64.3 million and $49.0 million, as of December 31, 2017 and 2016, respectively, is included in other liabilities. The unamortized amount of accumulated other comprehensive loss related to the Pension Plan is $43.6 million and $28.0 million, before taxes, as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the fair value and percentage of fair value of the total Pension Plan assets by type of investment are as follows (in thousands):

	As of December 31,			
	2017		2016	
Equity securities	$ 94,482	66.1%	$ 79,782	61.3%
Mutual funds - fixed income securities	38,721	27.1	38,699	29.7
Money market	9,766	6.8	11,782	9.0
Fair value of Plan assets	$ 142,969	100.0%	$ 130,263	100.0%

The Pension Plan seeks to maximize the economic value of its investments by applying a long-term, value-oriented approach to optimize the total investment returns of the Pension Plan's invested assets. Assets are transferred and allocated among various investment vehicles, when appropriate. The long-term rate of return assumption is based on this flexibility to adjust to market conditions. The actual return on assets has historically been in line with the Company's assumptions of expected returns. The Company contributed $10.3 million to the Pension Plan during the year ended December 31, 2017. During each of the years ended December 31, 2016 and 2015, the Company contributed $7.8 million to the Pension Plan. The Company currently expects to make a contribution to the Pension Plan of $7.8 million during 2018.

The Company accounts for its Pension Plan assets at fair value as required by GAAP. The Company has categorized its Pension Plan assets, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy, using the three-level hierarchy approach described in Note 3.

All of the Pension Plan's assets as of December 31, 2017 and 2016 were categorized as Level 1 assets. Quoted market prices are used for determining the fair value of the Company's Pension Plan assets. The majority of these Pension Plan assets are common stocks and mutual funds that are actively traded in a public market. The Pension Plan's money market account, for which the cost basis approximates fair value, is also classified as a Level 1 investment.

The following table presents the targeted asset allocation percentages for the Pension Plan's assets by type:

	Targeted Asset Allocation %
Equities	60.00
Mutual funds - fixed income securities	30.00
Money market	10.00
Total target asset allocations	100.00

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2017 and 2016 are as follows:

	2017	2016
Discount rate	3.75%	4.25%
Rate of compensation increase	3.80%	3.80%

The discount rate represents the Company's estimate of the interest rate at which the Pension Plan's benefits could be effectively settled. The discount rates are used in the measurement of the expected and accumulated Pension Plan benefit obligations and the service and interest cost components of net periodic Pension Plan benefit cost.

The net periodic benefit cost included in the Company's consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015 is comprised of the following (in thousands):

	2017	2016	2015
Net Periodic Benefit Cost:			
Service cost	$ 9,003	$ 8,819	$ 9,261
Interest cost	7,438	6,935	6,257
Return on Plan assets	(7,709)	(6,582)	(6,833)
Recognized actuarial loss	1,252	1,504	569
Net periodic benefit cost	$ 9,984	$ 10,676	$ 9,254
Change in accumulated other comprehensive loss:			
Beginning balance	$ 27,987	$ 28,729	$ 20,155
Actuarial loss arising during the year	16,877	762	9,143
Amortization of actuarial gain recognized in net periodic costs	(1,252)	(1,504)	(569)
Accumulated other comprehensive loss at end of year	$ 43,612	$ 27,987	$ 28,729

The Company estimates that the net periodic benefit cost for the Pension Plan will be $11.8 million for the year ended December 31, 2018. The Company does not expect any refunds of Pension Plan assets during the year ended December 31, 2018.

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Discount rate	4.25%	4.50%	4.25%
Rate of compensation increase	3.80%	3.80%	3.80%
Expected long term rate of return on Pension Plan assets	6.00%	6.00%	6.00%

The accumulated benefit obligation for the Pension Plan was $178.4 million and $153.7 million as of the December 31, 2017 and 2016 measurement dates, respectively.

The Pension Plan's expected future benefit payments for the next 10 years are shown below (in thousands):

Year	Amount
2018	$ 8,998
2019	8,523
2020	10,203
2021	11,379
2022	11,468
2023 – 2027	63,136

The amortization of actuarial losses and of prior service costs (currently reflected in accumulated other comprehensive income) as components of net periodic cost are expected to be $2.9 million and $0.0 million, respectively, for the year ended December 31, 2018.

Excess Benefit Plans

The Company maintains two non-qualified excess benefit plans (the "Excess Plans") that provide more highly compensated officers and employees in the United States hired prior to August 1, 2011 with defined retirement benefits in excess of qualified plan limits imposed by federal tax law. The following tables set forth the combined amounts recognized for the Excess Plans in the Company's consolidated financial statements as of December 31, 2017 and 2016 (in thousands):

	2017	2016
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 26,600	$ 23,813
Service cost	1,378	1,232
Interest cost	1,105	1,046
Actuarial loss	23	985
Benefits paid	(1,132)	(476)
Benefit obligation at end of year	27,974	26,600
Change in Excess Plans' assets:		
Fair value of Excess Plans' assets at beginning of year	—	—
Actual contributions during the year	1,132	476
Benefits paid	(1,132)	(476)
Fair value of Excess Plans' assets at end of year	—	—
Funded status and accrued pension cost	$ (27,974)	$ (26,600)

The net amount reported in the consolidated balance sheets related to the accrued pension cost for the Excess Plans of $28.0 million and $26.6 million, as of December 31, 2017 and 2016, respectively, is included in other liabilities. The unamortized amount of accumulated other comprehensive loss related to the Excess Plan is $5.2 million and $5.5 million, before taxes, as of December 31, 2017 and 2016, respectively.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2017 and 2016 are as follows:

	2017	2016
Discount rate	3.75%	4.25%
Rate of compensation increase	3.80%	3.80%

The discount rate represents the Company's estimate of the interest rate at which the Excess Plans' benefits could be effectively settled. The discount rates are used in the measurement of the expected and accumulated Excess Plans' benefit obligations and the service and interest cost components of net periodic Excess Plans' benefit cost.

Net periodic benefit cost included in the Company's consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015 is comprised of the following (in thousands):

	2017	2016	2015
Net Periodic Benefit Cost:			
Service cost	$ 1,378	$ 1,232	$ 1,121
Interest cost	1,105	1,046	941
Recognized net actuarial loss	309	242	251
Recognized prior service cost	(37)	(37)	(37)
Net periodic benefit cost	$ 2,755	$ 2,483	$ 2,276
Change in accumulated other comprehensive loss:			
Beginning balance	$ 5,519	$ 4,740	$ 4,835
Actuarial loss arising during the year	23	985	119
Amortization of actuarial gain recognized in net periodic costs	(309)	(243)	(251)
Amortization of prior service costs recognized in net periodic costs	37	37	37
Accumulated other comprehensive loss at end of year	$ 5,270	$ 5,519	$ 4,740

The Company estimates that the net periodic benefit cost for the Excess Plans will be $2.7 million for the year ended December 31, 2018.

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Discount rate	4.25%	4.50%	4.25%
Rate of compensation increase	3.80%	3.80%	3.80%

The accumulated benefit obligation for the Excess Plans was $21.6 million and $19.8 million as of December 31, 2017 and 2016, respectively.

The Excess Plans' expected benefit payments for the next 10 years are shown below (in thousands):

Year	Amount
2018	$ 2,073
2019	2,090
2020	1,281
2021	7,939
2022	4,433
2023 – 2027	10,354

The amortization of actuarial losses and of prior service costs (currently reflected in accumulated other comprehensive income) as components of net periodic costs are expected to be $0.3 million and less than $0.1 million, respectively, for the year ended December 31, 2018.

The Company expects to contribute $2.1 million to the Excess Plans during the year ended December 31, 2018, which represents the amount necessary to fund the 2018 expected benefit payments.

Postretirement Benefit Plan

The Company provides certain health care and life insurance (“postretirement”) benefits for retired employees in the United States. Substantially all employees in the United States hired prior to August 1, 2011 may become eligible for these benefits if they reach retirement age while working for the Company. The Company’s cost for providing postretirement benefits other than pensions is accounted for in accordance with ASC 715, “Compensation – Retirement Benefits.” The following tables set forth the amounts recognized for the postretirement benefit plan in the Company’s consolidated financial statements as of December 31, 2017 and 2016 (in thousands):

	2017	2016
Change in accumulated postretirement obligation:		
Accumulated postretirement obligation at beginning of year	$ 75,431	$ 66,087
Service cost	4,638	4,181
Interest cost	3,176	2,947
Actuarial (gain) loss	(1,515)	2,896
Benefits paid	(848)	(853)
Participant contributions	74	82
Retiree Drug Subsidy receipts	—	91
Accumulated postretirement obligation at end of year	80,956	75,431
Funded status and accrued prepaid pension cost	$ (80,956)	$ (75,431)

The net amount reported in the consolidated balance sheets related to the accrued benefit cost for the postretirement plan of $81.0 million and $75.4 million, as of December 31, 2017 and 2016, respectively, is included in other liabilities. The unamortized amount of accumulated other comprehensive loss related to the postretirement plan is $10.7 million and $12.9 million, before taxes, as of December 31, 2017 and 2016, respectively.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2017 and 2016 are as follows:

	2017	2016
Discount rate	3.75%	4.25%
Rate of compensation increase	3.80%	3.80%

The discount rate represents the Company’s estimate of the interest rate at which the postretirement benefit plan benefits could be effectively settled. The discount rates are used in the measurement of the expected and accumulated postretirement benefit obligations and the service and interest cost of net periodic postretirement benefit cost.

Net periodic benefit cost included in the Company's consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015 is comprised of the following (in thousands):

	2017	2016	2015
Net Periodic Benefit Cost:			
Service cost	$ 4,638	$ 4,181	$ 5,114
Interest cost	3,176	2,947	2,735
Recognized actuarial loss	681	492	1,309
Net periodic benefit cost	$ 8,495	$ 7,620	$ 9,158
Change in accumulated other comprehensive loss:			
Beginning balance	$ 12,851	$ 10,447	$ 17,479
Actuarial (gain) loss arising during the year	(1,515)	2,896	(5,723)
Amortization of actuarial gain recognized in net periodic costs	(681)	(492)	(1,309)
Accumulated other comprehensive loss at end of year	$ 10,655	$ 12,851	$ 10,447

The Company estimates that the net periodic benefit costs relating to this plan will be $7.4 million for the year ended December 31, 2018.

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Discount rate	4.25%	4.50%	4.25%
Rate of compensation increase	3.80%	3.80%	3.80%

The postretirement plan's expected benefit payments for the next 10 years are shown below (in thousands):

Year	Amount
2018	$ 1,361
2019	1,674
2020	2,010
2021	2,346
2022	2,692
2023 – 2027	17,791

The amortization of actuarial losses and of prior service costs (currently reflected in accumulated other comprehensive income) as components of net periodic costs are expected to be $0.4 million and $0.0 million, respectively, for the year ended December 31, 2018.

The annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is assumed to be 6.2% in 2018, gradually decreasing to 4.5% in 2038 and remaining constant thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation by $15.5 million (19.29% of the benefit obligation as of December 31, 2017) and the service and interest cost components of net periodic postretirement benefit costs by $1.8 million for the year ended December 31, 2017. Decreasing the assumed health care cost trend rates by one percentage point in each year would decrease the accumulated postretirement benefit obligation and the service and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 2017 by $12.4 million and $1.4 million, respectively.

Other Plans

The Company also maintains a defined contribution profit sharing plan for all eligible employees. Each year, the Board of Directors may authorize payment of an amount equal to a percentage of each participant's basic annual earnings based on the results of the Company for that year. These amounts are credited to the employees' accounts maintained by a third party, which has contracted to provide benefits under the plan. No contributions were authorized for the years ended December 31, 2017, 2016 or 2015.

The Company maintains a qualified deferred compensation plan pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended. Employees may contribute up to 50% of base salary on a pre-tax basis, subject to annual maximum contributions set by law ($18,500 in 2018 plus an additional $6,000 if an employee is age 50 or older). The Company contributes an amount equal to 100% of each employee's pre-tax contribution up to certain limits. The maximum matching contribution is 4.0% of annual base salary, with certain government-mandated restrictions on contributions to highly compensated employees. The Company also maintains a non-qualified deferred compensation plan to allow for contributions in excess of qualified plan limitations. The Company's contributions to both of these plans, which totaled $3.7 million, $3.1 million, and $3.0 million for the years ended December 31, 2017, 2016 and 2015, respectively, are included primarily in other underwriting expenses in the consolidated statements of operations.

All employees in the United States hired on or after August 1, 2011 are eligible for an annual profit sharing contribution, subject to the profit sharing plan limitations. The Company makes this contribution regardless of whether or not elective deferrals were made during the year. The profit sharing contribution is paid each January and uses the prior year's 401(k) compensation (base pay, short-term disability earnings and any overtime earnings) to determine the actual contribution for each employee. These profit sharing contributions are calculated as a percentage of earnings at the end of each year and allocated to participant accounts in January of the following year.

The profit sharing contribution percentages are based upon each employee's years of service as follows:

Years of Service	Percent
Less than or equal to 5 years	6%
More than 5 years but less than or equal to 15	7%
More than 15 years	8%

The profit sharing contribution amounts vest based upon the following vesting schedule:

Years of Service	Percent
Less than 2 years	0%
2 years but less than 3	20%
3 years but less than 4	40%
4 years but less than 5	60%
5 years but less than 6	80%
6 years or more	100%

15. Stock-Based Compensation Plans

Fairfax Restricted Share Plan and Share Option Plan

In 1999, Fairfax established the Fairfax Financial 1999 Restricted Share Plan (the "Fairfax Restricted Share Plan") and the Share Option Plan (the "Option Plan") (collectively, the "Fairfax Plans"), in which the Company participates. The Fairfax Plans generally provide officers, key employees and directors who were employed by or provided services to the Company with awards of restricted shares or stock options (with a grant price of zero) of Fairfax common stock (collectively, "Restricted Share Awards"). The Restricted Share Awards generally vest over five years. The Company had 273,990 Restricted Share Awards outstanding as of December 31, 2017.

The fair value of the Restricted Share Awards is estimated on the date of grant based on the market price of Fairfax's stock and is amortized to compensation expense on a straight-line basis over the related vesting periods. The Company purchases Fairfax common stock on the open market to cover the grant of a Restricted Share Award and reflects such purchase as a reduction in the Company's additional paid-in capital. As of December 31, 2017, there was $57.6 million of unrecognized compensation cost related to unvested Restricted Share Awards granted from the Fairfax Plans that was netted against additional paid-in capital, which is expected to be recognized over a remaining weighted-average vesting period of 2.5 years. The total fair values of the Restricted Share Awards granted for the years ended December 31, 2017, 2016 and 2015 were $28.9 million, $14.2 million and $21.1 million, respectively. As of December 31, 2017, the aggregate fair value of the Restricted Share Awards outstanding was $94.1 million. For the years ended December 31, 2017, 2016 and 2015, the Company recognized expense related to the Fairfax Plans of $14.7 million, $14.2 million and $12.9 million, respectively.

The following table summarizes activity for the Fairfax Plans for the year ended December 31, 2017:

	Shares / Options	Weighted-Average Value at Grant Date
Awards outstanding as of December 31, 2016	219,552	$ 446.39
Granted	58,950	489.83
Vested	(19,623)	398.68
Forfeited	(5,978)	456.64
Unallocated	21,089	506.41
Awards outstanding as of December 31, 2017	273,990	$ 463.55
Vested and exercisable as of December 31, 2017	3,952	$ 390.56

Employee Share Purchase Plans

Under the terms of the Odyssey Re Holdings Corp. (Non-Qualified) 2010 Employee Share Purchase Plan (the "2010 ESPP"), eligible employees are given the election to purchase Fairfax common shares in an amount up to 10% of their annual base salary. The Company matches these contributions by purchasing, on the employee's behalf, a number of Fairfax's common shares equal in value to 30% of the employee's contribution. In the event that the Company achieves a net combined ratio in any calendar year that is less than the lesser of i) 100% or ii) the average of the reported net combined ratios of the ten (10) most recent calendar years prior to the current calendar year, additional shares are purchased by the Company for the employee's benefit, in an amount equal in value to 20% of the employee's contribution during that year. During the year ended December 31, 2017, the Company purchased 14,666 Fairfax common shares on behalf of employees pursuant to the 2010 ESPP, at an average purchase price of $477.03. The compensation expense recognized by the Company for purchases of Fairfax's common shares under the 2010 ESPP was $1.9 million, $2.7 million and $1.8 million for the years ended December 31, 2017, 2016 and 2015, respectively.

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Report of Independent Auditors

To the Board of Directors of Odyssey Re Holdings Corp.:

We have audited the consolidated financial statements of Odyssey Re Holdings Corp. and its subsidiaries ("ORH" or the Company) as of December 31, 2017 and for the year then ended and our report thereon appears on page 21 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information about incurred and paid claims development that precedes the current reporting period and the historical claims payout percentages, as described in Supplemental Schedule 1 – Losses Incurred and Related Development, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

/s/ PricewaterhouseCoopers LLP

New York, NY
March 2, 2018

PricewaterhouseCoopers LLP, 300 Madison Avenue, New York, NY 10017
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SUPPLEMENTAL SCHEDULE 1 – LOSSES INCURRED AND RELATED DEVELOPMENT

U.S. Casualty Reinsurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance), ii) total incurred but not reported ("IBNR") liabilities plus expected development on reported loss, iii) cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) and iv) historical average annual percentage payouts of incurred loss and allocated loss adjustment expenses for the U.S. Casualty Reinsurance line of business (in thousands):

	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance					**As of December 31, 2017**
	For the Years Ended December 31,					**Total of IBNR Liabilities Plus Expected Development on Reported Losses**
Accident Year	**2013**	**2014**	**2015**	**2016**	**2017**	
2013	$ 173,142	$ 179,282	$ 185,531	$ 188,566	$ 185,102	$ 68,319
2014	—	186,429	192,000	194,204	194,920	87,996
2015	—	—	192,995	190,885	194,437	94,758
2016	—	—	—	202,760	207,119	123,311
2017	—	—	—	—	224,642	180,944
				Total incurred loss and loss adjustment expenses	$ 1,006,220	

	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance				
	For the Years Ended December 31,				
Accident Year	**2013**	**2014**	**2015**	**2016**	**2017**
2013	$ 9,984	$ 17,035	$ 46,501	$ 70,275	$ 89,404
2014	—	13,175	31,159	52,671	75,105
2015	—	—	11,883	29,916	56,941
2016	—	—	—	18,522	44,841
2017	—	—	—	—	20,895
				Total paid loss and loss adjustment expenses	287,186
				Total incurred loss and loss adjustment expenses	1,006,220
				Outstanding liabilities for loss and allocated loss adjustment expenses for accident years prior to 2013	414,933
				Liabilities for loss and allocated loss adjustment expenses, net of reinsurance	$ 1,133,967

	Average Annual Percentage Payout of Incurred Loss and Allocated Loss Adjustment Expenses by Age, Net of Reinsurance				
In Year:	1	2	3	4	5
Average of each year	7.4%	8.3%	11.4%	11.1%	10.0%

U.S. Property Reinsurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance), ii) total IBNR liabilities plus expected development on reported loss, iii) cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) and iv) historical average annual percentage payouts of incurred loss and allocated loss adjustment expenses for the U.S. Property Reinsurance line of business (in thousands):

	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,					As of December 31, 2017
Accident Year	2013	2014	2015	2016	2017	Total of IBNR Liabilities Plus Expected Development on Reported Losses
2013	$ 228,294	$ 226,713	$ 214,774	$ 203,837	$ 196,465	$ 2,567
2014	—	156,223	155,415	141,831	138,592	2,819
2015	—	—	146,646	142,501	134,554	6,947
2016	—	—	—	156,664	153,593	17,017
2017	—	—	—	—	310,178	180,875
				Total incurred loss and loss adjustment expenses	$ 933,382	

	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,				
Accident Year	2013	2014	2015	2016	2017
2013	$ 90,101	$ 149,194	$ 176,557	$ 187,893	$ 190,245
2014	—	53,675	97,004	124,585	132,934
2015	—	—	65,327	100,541	117,160
2016	—	—	—	64,312	126,180
2017	—	—	—	—	92,300
Total paid loss and loss adjustment expenses					658,819
Total incurred loss and loss adjustment expenses					933,382
Outstanding liabilities for loss and allocated loss adjustment expenses for accident years prior to 2013					28,180
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance					$ 302,743

	Average Annual Percentage Payout of Incurred Loss and Allocated Loss Adjustment Expenses by Age, Net of Reinsurance				
In Year:	1	2	3	4	5
Average of each year	39.2%	36.7%	13.2%	6.7%	1.1%

Non-U.S. Casualty Reinsurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance), ii) total IBNR liabilities plus expected development on reported loss, iii) cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) and iv) historical average annual percentage payouts of incurred loss and allocated loss adjustment expenses for the Non-U.S. Casualty Reinsurance line of business (in thousands):

	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,					As of December 31, 2017 Total of IBNR Liabilities Plus Expected Development on Reported Losses
Accident Year	**2013**	**2014**	**2015**	**2016**	**2017**	
2013	$ 93,885	$ 91,885	$ 94,632	$ 94,154	$ 82,741	$ 24,071
2014	—	84,987	86,285	91,250	96,452	37,956
2015	—	—	82,736	83,779	101,670	41,321
2016	—	—	—	90,407	96,579	41,516
2017	—	—	—	—	122,737	86,215
Total incurred loss and loss adjustment expenses					$ 500,179	

	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,				
Accident Year	**2013**	**2014**	**2015**	**2016**	**2017**
2013	$ 12,927	$ 22,727	$ 27,842	$ 31,734	$ 36,043
2014	—	9,339	20,305	26,455	31,518
2015	—	—	8,389	18,161	25,003
2016	—	—	—	8,668	23,000
2017	—	—	—	—	10,834
Total paid loss and loss adjustment expenses					126,398
Total incurred loss and loss adjustment expenses					500,179
Outstanding liabilities for loss and allocated loss adjustment expenses for accident years prior to 2013					397,499
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance					$ 771,280

	Average Annual Percentage Payout of Incurred Loss and Allocated Loss Adjustment Expenses by Age, Net of Reinsurance				
In Year:	1	2	3	4	5
Average of each year	10.0%	12.3%	5.9%	7.1%	8.3%

Non-U.S. Property Reinsurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance), ii) total IBNR liabilities plus expected development on reported loss, iii) cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) and iv) historical average annual percentage payouts of incurred loss and allocated loss adjustment expenses for the Non-U.S. Property Reinsurance line of business (in thousands):

	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,					As of December 31, 2017
Accident Year	**2013**	**2014**	**2015**	**2016**	**2017**	**Total of IBNR Liabilities Plus Expected Development on Reported Losses**
2013	$ 383,390	$ 316,715	$ 296,793	$ 286,048	$ 272,199	$ 9,372
2014	—	381,494	322,429	298,440	279,732	14,850
2015	—	—	386,658	290,425	246,404	20,270
2016	—	—	—	371,385	346,702	82,315
2017	—	—	—	—	429,058	209,772
				Total incurred loss and loss adjustment expenses	$ 1,574,095	

	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,				
Accident Year	**2013**	**2014**	**2015**	**2016**	**2017**
2013	$ 59,662	$ 158,132	$ 213,882	$ 235,115	$ 245,698
2014	—	82,509	181,960	225,606	239,562
2015	—	—	66,828	156,473	184,088
2016	—	—	—	77,411	193,174
2017	—	—	—	—	87,153
				Total paid loss and loss adjustment expenses	949,675
				Total incurred loss and loss adjustment expenses	1,574,095
				Outstanding liabilities for loss and allocated loss adjustment expenses for accident years prior to 2013	125,385
				Liabilities for loss and allocated loss adjustment expenses, net of reinsurance	$ 749,805

	Average Annual Percentage Payout of Incurred Loss and Allocated Loss Adjustment Expenses by Age, Net of Reinsurance				
In Year:	1	2	3	4	5
Average of each year	23.7%	36.5%	17.9%	7.9%	4.3%

U.S. Casualty Insurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance), ii) total IBNR liabilities plus expected development on reported loss, iii) cumulative number of reported loss (determined by the number of events, not claimants, regardless of whether or not any payments were ultimately made), iv) cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) and v) historical average annual percentage payouts of incurred loss and allocated loss adjustment expenses for the U.S. Casualty Insurance line of business (in thousands):

	Incurred Loss and Allocated Loss Adjustment Expenses , Net of Reinsurance					As of December 31, 2017	
	For the Years Ended December 31,						
Accident Year	2013	2014	2015	2016	2017	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims
2013	$ 244,726	$ 241,873	$ 238,051	$ 217,364	$ 207,109	$ 19,374	23,048
2014	—	294,177	275,305	269,942	259,288	55,561	29,489
2015	—	—	287,419	286,650	278,209	80,824	27,241
2016	—	—	—	278,509	278,025	130,744	17,538
2017	—	—	—	—	341,698	234,769	13,515
	Total incurred loss and loss adjustment expenses				$ 1,364,329		

	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance				
	For the Years Ended December 31,				
Accident Year	2013	2014	2015	2016	2017
2013	$ 51,986	$ 86,527	$ 128,490	$ 162,146	$ 174,795
2014	—	59,690	94,896	143,152	177,766
2015	—	—	66,555	103,030	154,993
2016	—	—	—	59,657	100,615
2017	—	—	—	—	60,032
Total paid loss and loss adjustment expenses					668,201
Total incurred loss and loss adjustment expenses					1,364,329
Outstanding liabilities for loss and allocated loss adjustment expenses for accident years prior to 2013					41,092
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance					$ 737,220

	Average Annual Percentage Payout of Incurred Loss and Allocated Loss Adjustment Expenses by Age, Net of Reinsurance				
In Year:	1	2	3	4	5
Average of each year	21.8%	15.8%	19.6%	15.6%	11.5%

U.S. Property Insurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance), ii) total IBNR liabilities plus expected development on reported loss, iii) cumulative number of reported loss (determined by the number of events, not claimants, regardless of whether or not any payments were ultimately made), iv) cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) and v) historical average annual percentage payouts of incurred loss and allocated loss adjustment expenses for the U.S. Property Insurance line of business (in thousands):

	Incurred Loss and Allocated Loss Adjustment Expenses , Net of Reinsurance For the Years Ended December 31,					As of December 31, 2017	
Accident Year	2013	2014	2015	2016	2017	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims
2013	$ 212,167	$ 203,970	$ 197,496	$ 197,124	$ 196,391	$ 56	10,181
2014	—	227,198	233,124	232,178	231,402	225	11,809
2015	—	—	187,266	197,486	195,061	696	11,548
2016	—	—	—	221,585	209,572	3,961	11,743
2017	—	—	—	—	230,670	74,677	11,683
			Total incurred loss and loss adjustment expenses		$ 1,063,096		

	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,				
Accident Year	2013	2014	2015	2016	2017
2013	$ 101,466	$ 190,056	$ 192,033	$ 194,391	$ 195,998
2014	—	80,295	221,162	228,772	230,614
2015	—	—	77,398	181,585	193,617
2016	—	—	—	75,333	199,384
2017	—	—	—	—	77,377
Total paid loss and loss adjustment expenses					896,990
Total incurred loss and loss adjustment expenses					1,063,096
Outstanding liabilities for loss and allocated loss adjustment expenses for accident years prior to 2013					832
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance					$ 166,938

	Average Annual Percentage Payout of Incurred Loss and Allocated Loss Adjustment Expenses by Age, Net of Reinsurance				
In Year:	1	2	3	4	5
Average of each year	38.7%	56.4%	3.5%	0.7%	0.5%

Non-U.S. Casualty Insurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance), ii) total IBNR liabilities plus expected development on reported loss, iii) cumulative number of reported loss (determined by the number of events, not claimants, regardless of whether or not any payments were ultimately made) and iv) historical average annual percentage payouts of incurred loss and allocated loss adjustment expenses for the Non-U.S. Casualty Insurance line of business (in thousands):

	Incurred Loss and Allocated Loss Adjustment Expenses , Net of Reinsurance For the Years Ended December 31,					As of December 31, 2017
Accident Year	**2013**	**2014**	**2015**	**2016**	**2017**	**Total of IBNR Liabilities Plus Expected Development on Reported Losses**
2013	$ 86,202	$ 82,673	$ 82,955	$ 84,360	$ 82,801	$ 29,933
2014	—	86,615	87,879	86,386	83,935	34,139
2015	—	—	86,673	85,267	83,816	47,570
2016	—	—	—	81,177	77,833	54,258
2017	—	—	—	—	91,649	81,306
Total incurred loss and loss adjustment expenses					$ 420,034	

	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,				
Accident Year	**2013**	**2014**	**2015**	**2016**	**2017**
2013	$ 5,697	$ 9,245	$ 17,120	$ 25,335	$ 35,188
2014	—	5,028	12,045	19,795	32,422
2015	—	—	3,845	8,847	19,311
2016	—	—	—	3,408	10,679
2017	—	—	—	—	4,135
Total paid loss and loss adjustment expenses					101,735
Total incurred loss and loss adjustment expenses					420,034
Outstanding liabilities for loss and allocated loss adjustment expenses for accident years prior to 2013					243,162
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance					$ 561,461

	Average Annual Percentage Payout of Incurred Loss and Allocated Loss Adjustment Expenses by Age, Net of Reinsurance				
In Year:	1	2	3	4	5
Average of each year	5.3%	7.2%	10.0%	12.2%	7.9%

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