Harrington

HARRINGTON RE LTD.

Financial Statements and
Independent Auditors' Report

For the Period Ended December 31, 2016

HARRINGTON RE LTD.

Index to Financial Statements

Deloitte.

Deloitte Ltd.
Corner House
20 Parliament Street
P.O. Box HM 1556
Hamilton HM FX
Bermuda

Tel: +1 (441) 292 1500
Fax: +1 (441) 292 0961
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder of Harrington Re Ltd.:

We have audited the accompanying financial statements of Harrington Re Ltd. (the "Company"), which comprise the balance sheet as of December 31, 2016, and the related statements of income, changes in shareholder's equity, and cash flows for the period from June 22, 2016 (commencement of operations) to December 31, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harrington Re Ltd. as of December 31, 2016, and the results of its operations and its cash flows for the period from June 22, 2016 (commencement of operations) to December 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

Deloitte Ltd.

April 27, 2017

HARRINGTON RE LTD.
BALANCE SHEET
December 31, 2016

		December 31, 2016
ASSETS		
Investments (Cost: $541,000,000)	$	550,883,378
Cash and cash equivalents		3,633,786
Reinsurance balances receivable		79,313,011
Deferred acquisition costs		38,137,814
Prepaid expenses		1,124,250
Other assets		872,631
TOTAL ASSETS	$	673,964,870
LIABILITIES		
Reserve for losses and loss expenses	$	37,903,889
Unearned premiums reserve		101,054,219
Accounts payable and accrued expenses		2,260,839
TOTAL LIABILITIES		141,218,947
SHAREHOLDER'S EQUITY		
Share capital ($1.00 par; shares authorized, issued and outstanding: 1,000,000)		1,000,000
Contributed surplus		531,341,262
Retained earnings		404,661
TOTAL SHAREHOLDER'S EQUITY		532,745,923
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$	673,964,870

See Notes to the Financial Statements

HARRINGTON RE LTD.
STATEMENT OF INCOME
For the period from June 22, 2016 (Commencement of Operations)
to December 31, 2016

		For the period ended December 31, 2016
REVENUES		
Gross premiums written	$	154,432,522
Increase in unearned premiums reserve		(101,054,219)
Net premiums earned		53,378,303
Net investment income		9,892,262
TOTAL REVENUES		63,270,565
EXPENSES		
Losses and loss expenses		39,224,533
Acquisition costs		18,725,063
General and administrative expenses		4,823,435
Financing costs		92,873
TOTAL EXPENSES		62,865,904
NET INCOME	$	404,661

See Notes to the Financial Statements

HARRINGTON RE LTD.
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
For the period from June 22, 2016 (Commencement of Operations)
to December 31, 2016

		For the period ended December 31, 2016
SHARE CAPITAL		
Balance at beginning of period	$	-
Common shares issued		1,000,000
Balance at the end of the year		1,000,000
CONTRIBUTED SURPLUS		
Balance at beginning of period		-
Common shares issued		531,341,262
Balance at the end of the year		531,341,262
RETAINED EARNINGS		
Balance at beginning of period		-
Net income		404,661
Balance at the end of the year		404,661
TOTAL SHAREHOLDER'S EQUITY	$	532,745,923

See Notes to the Financial Statements

HARRINGTON RE LTD.
STATEMENT OF CASH FLOWS
For the period from June 22, 2016 (Commencement of Operations)
to December 31, 2016

		For the period ended December 31, 2016
OPERATING ACTIVITIES:		
Net Income	$	404,661
Adjustments to reconcile net loss to net cash provided by operating activities:		
Net unrealized gains on investments		(9,883,378)
Share-based compensation		221,262
Changes in:		
Reinsurance balances receivable		(79,313,011)
Deferred acquisition costs		(38,137,814)
Prepaid expenses		(1,124,250)
Other assets		(872,631)
Reserve for losses and loss expenses		37,903,889
Unearned premiums reserve		101,054,219
Accounts payable and accrued expenses		2,260,839
Net cash provided by operating activities		12,513,786
INVESTING ACTIVITIES:		
Purchase of Investments		(541,000,000)
Net cash used in investing activities		(541,000,000)
FINANCING ACTIVITIES:		
Proceeds from Common shares issued		532,120,000
Net cash provided by financing activities		532,120,000
INCREASE IN CASH		3,633,786
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD		-
CASH AND CASH EQUIVALENTS, END OF YEAR	$	3,633,786
Interest paid	$	-

See Notes to the Financial Statements

1. GENERAL

Harrington Re Ltd. (the "Company", "Harrington Re" or “we’) was incorporated under the laws of Bermuda on March 16, 2016, and is a wholly-owned subsidiary of Harrington Reinsurance Holdings Limited (the "Parent", and together with the Company, the “Group”). The Parent was incorporated under the laws of Bermuda on March 15, 2016.

The Company is licensed as a Class 4 multi-line insurer under the Insurance Act 1978, amendments thereto and Related Regulations of Bermuda (the "Insurance Act") and is licensed to underwrite general business on an insurance and reinsurance basis. The Company was licensed by the Bermuda Monetary Authority (the “BMA”) effective June 22, 2016, and commenced its operations subsequently. The Company provides a broad range of reinsurance products on a worldwide basis.

These financial statements are presented for the period from June 22, 2016 to December 31, 2016.

During the second quarter of 2016, the Parent raised approximately $542 million in net proceeds through the issuance of its common shares. AXIS Capital Holdings Limited ("AXIS Capital") through a wholly-owned subsidiary, AXIS Ventures Limited, invested $100.0 million and acquired 18.1% of the Parent's common equity. The investment was subsequently increased to 19.0% of the Parent’s common equity. The Blackstone Group L.P. (“Blackstone Group”), through a wholly-owned subsidiary, together with investment entities formed for certain senior professionals and employees of the Blackstone Group, have in total acquired 9.9% of the Parent’s common equity.

Harrington Re has engaged AXIS Reinsurance Managers Limited ("ARM" or the "Liability Manager"), a company incorporated in Bermuda and a wholly-owned subsidiary of AXIS Capital, to act as the liability manager pursuant to the Services Agreement dated July 1, 2016 (the "Services Agreement"). The Liability Manager manages the day-to-day underwriting activities of the Company subject to the provisions of the Services Agreement and the oversight of the Company’s Board of Directors (the "Board"). See Note 12, *"Related Party Transactions"* for further details.

Pursuant to an Investment Management Agreement dated July 1, 2016 (the “Investment Management Agreement”) between Blackstone Harrington Partners L.P., a Cayman Islands exempted limited partnership (the “Fund”) and Blackstone Multi-Asset Advisors L.L.C., a Delaware limited liability company and an affiliate of the Blackstone Group (“BMAA” or the “Investment Manager”), BMAA serves as the investment manager of the assets of the Company that are invested in the Fund. The Company is the sole limited partner of the Fund. The Fund seeks to achieve attractive risk-adjusted returns through a portfolio of diversified, primarily alternative, investments.

See Note 12, *"Related Party Transactions"* for further details.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While management believes that the amounts included in the financial statements reflect its best estimates and assumptions, actual results could differ from those estimates.

(b) Premiums and Acquisition Costs

Premiums

Reinsurance premiums written are recorded in accordance with the terms of the underlying policies. Reinsurance premiums are recorded at the inception of the contract and are estimated based upon information received from ceding companies. For multi-year contracts where reinsurance premiums are payable in annual installments, premiums are recorded at the inception of the contract based on management's best estimate of total premiums to be received. However, premiums are normally recognized on an annual basis for multi-year contracts where the cedant has the ability to unilaterally commute or cancel coverage within the term of the policy. The remaining annual premiums are included as written at each successive anniversary date within the multi-year term. Any subsequent differences arising on reinsurance premium estimates are recorded in the period they are determined.

Reinsurance premiums are generally earned based on information received from ceding companies over the period during which we are exposed to the underlying risk, which is usually one to two years with the exception of multi-year contracts. Unearned premiums represent the portion of premiums written which is applicable to the unexpired risks under contracts in force.

Reinstatement premiums are recognized and earned at the time a loss event occurs, where the coverage limits for the remaining life of the contract are reinstated under pre-defined contract terms. The accrual of reinstatement premiums is based on our estimate of losses and loss expenses, which reflects management's judgment, as described in Note 2(c) *"Losses and Loss Expenses"* below.

Premiums receivable balances are reviewed for impairment at least quarterly and an allowance is established for amounts considered uncollectible. The need for charge-off of any amounts previously reserved as uncollectible is assessed on a quarterly basis.

Acquisition Costs

Acquisition costs vary with and are directly related to the acquisition of reinsurance contracts and consist primarily of fees and commissions paid to brokers, underwriting fees paid to our liability manager and premium taxes. Premiums receivable are presented net of applicable acquisition costs when contract terms provide for the right of offset.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Acquisition Costs (cont'd)

Total acquisition costs are deferred and charged to expense as the related premium is earned. Anticipated losses and loss expenses, other costs and investment income related to these premiums are considered in assessing the recoverability of our deferred acquisition costs. If deferred amounts are estimated to be unrecoverable, they are expensed.

(c) Losses and Loss Expenses

Our reserve for losses and loss expenses represents an estimate of the unpaid portion of our ultimate liability for losses and loss expenses for reinsured events that have occurred at or before the balance sheet date. The balance reflects both claims that have been reported to us ("case reserves") and claims that have been incurred but not yet reported to us ("IBNR"). These amounts are reduced for estimated amounts of salvage and subrogation recoveries.

We review our reserve for losses and loss expenses on a quarterly basis. Case reserves are primarily established based on amounts reported by the ceding companies. Management estimates IBNR after reviewing detailed actuarial analyses and applying informed judgment regarding qualitative factors that may not be fully captured in the actuarial estimates. A variety of actuarial methods are utilized in this process, including the Expected Loss Ratio, Bornhuetter-Ferguson and Chain Ladder methods. Our estimate is highly dependent on judgment as to which method(s) are most appropriate for a particular accident year and class of business. Our historical claims data is often supplemented with industry benchmarks when applying these methodologies.

Any adjustments to our previous reserve for losses and loss expenses estimates are recognized in the period they are determined. While we believe that our reserves for losses and loss expenses are adequate, this estimate requires significant judgment and new information, events or circumstances may result in ultimate losses that are materially greater or less than provided for in the Balance Sheet.

(d) Investments

The Company has elected the fair value option for its investments in accordance with Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 825 "*Financial Instruments*". As a result, the Company's investments are reported at fair value with changes in fair value included in earnings in the Statement of Income.

The fair value of our investments is based on the Net Asset Values ("NAV's") of the Fund as received from the Investment Manager. The NAV is determined through the valuation of underlying holdings in accordance with U.S. GAAP. Net investment income includes the change in the value of our Fund and the interest income generated by our cash and cash equivalents. The change in the value of the Fund is driven by interest and dividend income received by the Fund, realized and unrealized investment gains and losses together with amortization of market premiums and discounts and is net of investment management fees, borrowing costs and other investment related expenses.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(d) Investments (cont'd)

Investment gains or losses realized on the sale of investments are determined on a first-in, first-out basis. See Note 4, *"Investments"* for further details.

(e) Cash and cash equivalents

Cash and cash equivalents include cash and investments with original maturities of three months or less that are not managed by the external Investment Manager.

Cash and cash equivalents are recorded at amortized cost, which approximates fair value due to the short-term, liquid nature of these securities.

(f) Share-Based Compensation

The Parent is authorized to issue stock options to the Company's employees. The fair value of the compensation cost relating to service-based awards is measured at the grant date and expensed on a straight-line basis over the period for which the employee is required to provide services in exchange for the award. The fair value of performance-based awards is measured at the grant date based on pre-established targets relating to certain performance based measures, with the associated expense recognized on a straight-line basis over the applicable performance and vesting period. Forfeiture benefits are estimated at the time of grant and incorporated in the determination of stock-based compensation.

(g) Recent Accounting Pronouncements

<u>*Leases*</u>

In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)"* which provides a new comprehensive model for lease accounting. The guidance will require a lessee to recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. This guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact of this guidance on our results of operations, financial condition and liquidity.

3. RESERVE FOR LOSSES AND LOSS EXPENSES

Our reserve for losses and loss expenses comprises the following:

At December 31, 2016

Reserve for reported losses and loss expenses	$	3,561,821
Reserve for losses incurred but not reported ("IBNR")		34,342,068
Reserve for losses and loss expenses	**$**	**37,903,889**

The following table presents a reconciliation of our beginning and ending reserve for losses and loss expenses:

Period ended December 31, 2016

Reserve for losses and loss expenses, beginning of the period	$	-
Losses and loss expenses incurred		39,224,533
Paid losses and loss expenses		(1,320,644)
Reserve for losses and loss expenses, end of year	**$**	**37,903,889**

4. INVESTMENTS

The Company's investments are comprised of a limited partnership interest in the Fund. The Fund is a Cayman Islands exempted limited partnership that was formed on August 20, 2015 and commenced operations on July 5, 2016. Blackstone Harrington Associates L.L.C., a Delaware limited liability company (the "General Partner"), serves as the general partner of the Fund. The Company is the sole limited partner of the Fund.

Pursuant to the Investment Management Agreement, the Fund is managed by the Investment Manager. The Investment Manager provides certain administrative and investment management services to the Fund, including the investigation, evaluation, selection, allocation, negotiation, structuring, commitment to, monitoring of and disposition of the Fund's investments (including allocation of the Fund's assets among investment strategies). The General Partner and the Investment Manager are affiliates of the Blackstone Group.

Pursuant to a letter agreement dated as of November 2, 2016 between the Investment Manager and the Parent (the "Letter Agreement"), the Investment Manager provides (i) certain reporting on the Fund's investment portfolio to the Company's management and the Board and (ii) assistance and support to the Company's management in connection with the Investment Manager's management of the Fund's portfolio by providing certain supplemental reporting, data, analyses and other support (as mutually agreed) with respect to the Fund.

4. INVESTMENTS (Cont'd)

The Fund seeks to achieve attractive risk-adjusted returns through a portfolio of diversified, primarily alternative, investments.

The following table summarizes the fair value of the Fund's securities grouped by investment strategy held as at December 31, 2016:

Strategy		**Fair Value**
Hedge Funds [1]	$	306,189,718
Long Credit[2]		103,906,704
Liquid Credit Alternative[3]		165,551,893
Private Credit Alternative[4]		3,114,332
Real Estate Liquid Credit[5]		15,330,199
Private Equity[6]		1,906,770
Private Real Estate[7]		11,576,075
Total Invested Assets		**607,575,691**
Senior Secured Facility Borrowings[8]		(55,000,000)
Other Balances[9]		(1,692,313)
Limited Partner Net Asset Value at December 31, 2016	**$**	**550,883,378**

(1) Hedge Funds - This strategy seeks capital appreciation by allocating its assets among a variety of discretionary sub-advisers with experience managing non-traditional or "alternative" investment strategies.

(2) Long Credit - The primary objective of this strategy is to protect principal and generate superior risk-adjusted returns by investing in various forms of senior secured debt obligations, including senior secured loans, senior secured floating-rate notes, and senior secured notes and bonds.

(3) Liquid Credit Alternative - The primary objective of this strategy is to generate superior risk-adjusted returns by investing in public and private opportunities, primarily in North America and Western Europe.

(4) Private Credit Alternative – This strategy primarily focuses on making privately negotiated mezzanine investments. The strategy focuses on providing capital to upper middle market companies and private equity sponsors in connection with leveraged buyouts ("LBOs"), mergers and acquisitions, recapitalizations, growth financings and other corporate transactions.

(5) Real Estate Liquid Credit – This strategy focuses primarily on high yield lending on commercial real estate through new loan originations and purchases of legacy loans and securities, but may otherwise pursue a broad range of real estate related debt and non-controlling equity investments.

4. INVESTMENTS (Cont'd)

(6) Private Equity - This strategy can include investments in funds investing directly in energy, healthcare, industrial, financial services or retail / consumer and other private equity related investments.

(7) Private Real Estate – This strategy primarily invests in funds that invest directly in real estate, real estate investment trusts and other real estate related investments.

(8) Senior Secured Facility Borrowings – Relates to the Fund's borrowings under the Company's facility described in Note 7 "*Financing Arrangements*".

(9) Other Balances – Includes but is not limited to management fees accruals, performance based allocation to and ownership interest of the General Partner, cash, and other interest, general and administrative expenses.

There are no restrictions on the Company's ability to withdraw from the Fund, however, (i) the General Partner of the Fund may limit withdrawals as of any withdrawal date for legal, regulatory or contractual reasons, (ii) the ability to withdraw capital from the Company's capital account relating to any Fund investment that is illiquid by its terms will be limited and (iii) the ability to withdraw will be subject to the limitations on withdrawals imposed pursuant to the terms of the governing agreements of the underlying investments that the Fund holds.

Net Investment Income

The components of net investment income for the period ended December 31, 2016 were as follows:

Unrealized gains on Investments	$	9,883,378
Interest received on Cash and Cash Equivalents		8,884
Total	**$**	**9,892,262**

5. FAIR VALUE

U.S. GAAP establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

5. FAIR VALUE (Cont'd)

Financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination of fair values, as follows:

- Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in active markets (and actively traded) that the Company has the ability to access. The Company does not adjust the quoted price for these investments.

- Level 2 – Pricing inputs and other than quoted prices in active markets (and not actively traded) which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans where the fair value is based on observable inputs.

- Level 3 – Pricing inputs are unobservable for the financial instruments and include situations where there is little, if any, market activity for the financial instrument. Fair value is determined through the use of models or other valuation methodologies. The inputs into determination of fair value require significant management judgment of estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

Fair Value Option

The Company elected to carry its investments at fair value under the fair value option afforded by accounting guidance regarding the fair value option for financial assets and liabilities. Changes in fair value of investments accounted for using the fair value option are included in "Net investment income" in the Statement of Income. The primary reasons for electing the fair value option were to reflect the total returns generated on our portfolio in earnings on a timely basis as well as simplification and cost-benefit considerations.

As discussed under Note 4 *"Investments"* above, the Company's Investments balance at December 31, 2016 comprises of the investment in Blackstone Harrington Partners L.P. The fair value of this investment is determined using the reported Net Asset Value per share, or its equivalent, as a practical expedient. The Company may, as a practical expedient, estimate the fair value of the investment in the Fund based on the report NAV per share or its equivalent if the reported NAV of the Fund is calculated in a manner consistent with the measurement principles applied to investment companies, in accordance with Topic ASC 946, *"Financial Services – Investment Companies"* ("ASC 946"). In order to use the practical expedient, the Company has internal processes to independently evaluate the fair value measurement process utilized by the Fund to calculate the Fund's NAV in accordance with ASC 946.

5. FAIR VALUE (Cont'd)

Such internal process includes the evaluation of the Fund's process and related internal controls in place to estimate the fair value of its underlying investments that are included in the NAV calculation, performing ongoing operational due diligence, review of the Fund's audited financial statements, and ongoing monitoring of other relevant qualitative and quantitative factors. The fair value of the Fund is reported net of management fee and incentive allocations.

Under the guidance in Accounting Standards Update 2015-07, *"Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)"*, investments measured at NAV, as a practical expedient, are excluded from the fair value hierarchy.

The assets and liabilities of the Fund, which qualify as financial instruments under ASC Topic 825, *Financial Instruments*, are being carried at fair value. The section below discusses the securities managed by the Investment Manager within the Fund.

Investment in Blackstone Harrington Partners L.P.

As discussed under Note 4 "*Investments*", the Fund is invested across a number of different strategies. Within these strategies (levels as determined by the Fund), the Fund holds investments of 50.4% in Level 1, 16.9% in Level 2, 0.2% in Level 3 and 32.5% in Investment Funds that are valued at NAV, as a practical expedient. The Fund's techniques and processes to value the investments under the fair value hierarchy are noted below:

<u>Level 1 Valuation Techniques</u>

Financial instruments classified within Level 1 of the fair value hierarchy comprise money market funds and certain mutual funds. Investments in open-end registered investment companies are valued at the published daily quotation of their net asset value.

<u>Level 2 Valuation Techniques</u>

Financial instruments classified within Level 2 of the fair value hierarchy comprise debt instruments including bonds and corporate loans. The valuation techniques used to value financial instruments classified within Level 2 of the fair value hierarchy are as follows:

- Bonds and loans are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments.

5. FAIR VALUE (Cont'd)

Level 3 Valuation Techniques

In the absence of observable market prices, management values its investments using valuation methodologies applied on a consistent basis. For some investments, minimal market activity may exist; management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include loans. Such investments are valued using quotations from reputable dealers or pricing services.

Financial Instruments Disclosed, But Not Carried, at Fair Value

The fair value of financial instruments accounting guidance also applies to financial instruments disclosed, but not carried, at fair value, except for certain financial instruments, including insurance contracts.

The carrying values of cash and cash equivalents, certain other assets and accounts payable approximated their fair values at December 31, 2016, due to their respective short maturities. As these financial instruments are not actively traded, their fair values are classified as Level 2.

6. COMMITMENTS AND CONTINGENCIES

(a) Concentrations of Credit Risk

Credit Risk Aggregation

The Company monitors and manages the aggregation of credit risk on a Group-wide basis allowing us to consider exposure management strategies for individual countries, regions, sectors and any other relevant inter-dependencies. The creditworthiness of counterparty is evaluated by the Company, taking into account credit ratings assigned by independent agencies.

Credit risk aggregation is also managed through monitoring of overlaps in underwriting, financing and investing activities.

The assets that potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents, our investments portfolio and reinsurance premiums receivable balances, as described below:

Cash and Cash Equivalents

In order to mitigate concentration and operational risks related to cash and cash equivalents, we utilize only well-established highly-rated financial institutions and money-market funds.

6. COMMITMENTS AND CONTINGENCIES (Cont'd)

Investments

Our investment portfolio is managed by our Investment Manager in accordance with the investment guidelines set-out in the Investment Management Agreement. The Investment Management Agreement provides for the limitation of the credit risk through specific investment portfolio diversification requirements, investment concentration limitations as well as detailed liquidity provisions. At December 31, 2016, the Fund was in compliance with the requirements of the Investment Management Agreement.

Premiums Receivable Balances

The Company manages its credit risk in its reinsurance relationships by transacting with counterparties that it considers financially sound. For all of our reinsurance contracts we have the contractual rights to offset premiums receivable with corresponding payments for losses and loss expenses. These contractual rights contribute to the mitigation of credit risk, as does our monitoring of aged receivable balances. In light of these mitigating factors, and considering that a significant portion of our premiums receivable are not currently due based on the terms of the underlying contracts, we do not utilize specific credit quality indicators to monitor our premiums receivable balance. We did not record any bad debts expense charge in the period ended December 31, 2016.

(b) Legal Proceedings

From time to time, as is common in the insurance industry, we may subject to routine legal proceedings, including arbitrations, arising in the ordinary course of business. These legal proceedings generally relate to claims asserted by or against us in the ordinary course of reinsurance operations; estimated amounts payable under such proceedings are included in the reserve for losses and loss expenses in our Balance Sheet. At December 31, 2016, we are not party to any legal proceedings.

(c) Employment and Other Arrangements

At December 31, 2016, the Company has entered into employment agreements with its executive officers. Such employment arrangements provide for compensation in the form of base salary, annual bonus, participation in the Company's employee benefit programs and the reimbursements of expenses.

(d) Other Commitments

Please refer to Note 12 "*Related Party Transactions*" for details on the commitments under the Services Agreement and the Investment Management Agreement.

7. FINANCING ARRANGEMENTS

Credit Facilities

On July 6, 2016, the Company entered into an aggregate $208.0 million credit facility arrangement with Societe Generale S.A., New York branch (the "Credit Facility"). The facility expires on June 30, 2019. The aggregate commitment available under the Credit Facility is set to automatically increase on certain pre-agreed future dates up to $375.0 million available from April 1, 2018. The purpose of the Credit Facility is to provide senior secured borrowing facilities to the Fund, to provide a revolving loan facility to the Company and to provide a secured letter of credit facility for the use by the Company to support its reinsurance obligations. The Credit Facility is secured by the Company's investment in the Fund and is subject to certain covenants. These covenants include certain liquidity requirements with regards to Fund's investments, credit limits based on the fair value of the Fund and certain restrictions on the composition of the Fund's investment portfolio.

At December 31, 2016, the letters of credit outstanding under the Credit Facility totaled $ 41.5 million. The Company did not have any debt outstanding under this facility. In addition, the Fund directly borrowed $55.0 million under the terms of the Credit Facility. Interest expense relating to the Fund's borrowings is shown as part of the "Net investment income" in the Statement of Income.

Harrington Re has deferred initial set-up costs relating to the Credit Facility of $1.0 million and is subsequently amortizing the deferred costs over the term of the borrowing arrangements. During the period ended December 31, 2016, the total interest expense incurred by the Company including the Company's loan facility financing costs, interest costs relating to the letter of credit facilities and the amortization of the initial set-up costs was $0.9 million.

8. SHAREHOLDER'S EQUITY

Common Shares

The authorized, issued and outstanding share capital of the Company at December 31, 2016 consists of 1,000,000 common shares with a par value of $1.00 per share.

9. SHARE-BASED COMPENSATION

Under our Board approved share-based compensation plan, the Parent grants stock options to eligible employees of the Company. On July 1, 2016, 579,725 stock options were granted to employees of the Company. Half of the stock options were granted with service period vesting conditions only. The vesting of the other half of the stock option grants is dependent on the meeting of a requisite service period and of specified performance conditions.

All stock options granted have a vesting period of 3 years with 33% of the grants vesting annually. The annual vesting of the performance-based stock grants is based upon the achievement of the established performance criteria during the applicable performance period. All stock options expire ten years from the date of the grant. During the period ended December 31, 2016, the Company recognized $0.2 million as an expense relating to share-based compensation.

10. RETIREMENT PLANS

For purposes of providing employees with retirement benefits, the Company maintains a self-directed defined contribution retirement plan. Contributions are based on the participants' eligible compensation. For the period ended December 31, 2016, the Company expensed approximately $0.03 million related to this retirement plan.

11. INCOME TAXES

Harrington Re is incorporated under the laws of Bermuda and, under current Bermuda law, is not required to pay any taxes in Bermuda on income or capital gains. We have received an assurance from the Minister of Finance in Bermuda that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits, income, gain or appreciation on any capital asset, or any tax in the nature of estate duty or inheritance tax, such tax will not be applicable to the Company until March 31, 2035.

The Company does not consider itself to be engaged in trade or business in the United States and intends to conduct its operations in a manner that will not cause it to be treated as engaged in a trade or business in the United States and, therefore, does not expect to be required to pay U.S. federal income taxes other than the U.S. excise tax on reinsurance premiums.

The United States imposes an excise tax on insurance and reinsurance premiums paid to non-U.S. insurers or reinsurers with respect to risks located in the United States. The rate of tax, unless reduced by an applicable U.S. tax treaty, is one percent for all reinsurance premiums. The Company incurs federal excise taxes on certain of its reinsurance transactions. Such amounts are reflected as acquisition expenses in the Company's Statement of Income.

FASB guidance regarding the accounting for uncertainty in income taxes prescribes a "more likely than not" threshold for the financial statement recognition of a tax position taken or expected to be taken in a tax return, assuming the relevant tax authority has full knowledge of all relevant information. The amount recognized represents the largest amount of tax benefit that is greater than 50% likely of being ultimately realized. A liability is recognized for any benefit claimed, or expected to be claimed, in a tax return in excess of the benefit recorded in the financial statements, along with any interest and penalty (if applicable) on the excess. The Company recognizes interest and penalties relating to unrecognized tax benefits in the provision for income taxes. Changes in recognition or measurement are reflected in the period in which the change in judgement occurs.

As of December 31, 2016, the Company's total unrecognized tax benefits, including interest and penalties, were $nil.

12. RELATED PARTY TRANSACTIONS

In June 2016, AXIS Capital Holdings Limited, through its wholly-owned subsidiary, AXIS Ventures Limited, invested $100.0 million and acquired 18.1% of the Parent's common equity. The investment was subsequently increased to 19.0% of the Parent's common equity. Under the shareholders' agreement dated July 1, 2016 (the "Shareholders' Agreement") as long as the Services Agreement is in place and AXIS Capital retains a shareholding in the Parent, AXIS Capital has the right to appoint a director to the Company's Board of Directors.

Harrington Re has engaged AXIS Reinsurance Managers Limited, a wholly-owned subsidiary of AXIS Capital, to act as the liability manager pursuant to a long term services agreement dated July 1, 2016. The Liability Manager manages the day-to-day underwriting activities of the Company subject to the provisions of the Services Agreement and the oversight of the Board of Directors of the Company. The Services Agreement also provides for ARM to provide certain other services to the Company, including claims handling, actuarial, risk management and information technology support as specified in the agreement. The Services Agreement has limited termination provisions and is set to initially expire on June 30, 2025, provided, however, that the term is set to automatically renew for successive three-year periods following such initial term unless the Company or the Liability Manager gives written notice of cancellation at least two years prior to the end of the then current term.

In return for its services, ARM receives fees from the Company, which include underwriting fees, an underwriting expense reimbursement fee and profit commissions, as well as a reinsurance services fee as a reimbursement for the additional services provided to the Company.

In June 2016, the Blackstone Group, through its wholly-owned subsidiary, together with investment entities formed for certain senior professionals and employees of the Blackstone Group, have in total acquired 9.9% of the Parent's common equity. Under the Shareholders Agreement, as long as the Investment Management Agreement is in place and the Blackstone Group retains a shareholding in the Parent, the Blackstone Group has the right to appoint a director to the Company's Board of Directors.

Pursuant to an Investment Management Agreement, BMAA serves as the investment manager of the assets of the Company that are invested in the Fund. The Company is the sole limited partner of the Fund. The Fund seeks to achieve attractive risk-adjusted returns through a portfolio of diversified, primarily alternative, investments. Pursuant to the Investment Management Agreement, the Investment Manager provides certain administrative and investment management services to the Fund, including the investigation, evaluation, selection, allocation, negotiation, structuring, commitment to, monitoring of and disposition of (including allocation of the Fund's assets among investment strategies). The Investment Management Agreement has limited termination provisions and is set to initially expire on the earlier of (i) the liquidation of the Fund and (ii) June 30, 2025, provided, however, that the term is set to automatically renew for successive three-year periods following such initial term unless the Company or the Investment Manager gives written notice of cancellation at least two years prior to the end of the then current term.

12. RELATED PARTY TRANSACTIONS (Cont'd)

Pursuant to the Letter Agreement, the Investment Manager provides (i) certain reporting on the Fund's investment portfolio to the Company's management and the Board and (ii) assistance and support to the Company's management in connection with the Investment Manager's management of the Fund's portfolio by providing certain supplemental reporting, data, analyses and other support (as mutually agreed) with respect to the Fund.

In return for its investment services, the Investment Manager receives a management fee from the Fund and the General Partner receives a performance fee from the Fund.

Certain directors and executive officers of AXIS Capital and certain management and senior professionals of the Blackstone Group own common shares of the Parent.

During the period ended December 31, 2016, the Company exclusively wrote reinsurance business with various entities in the AXIS Capital group for property and casualty risks on a quota share basis. The related statement of income and balance sheet account balances for these transactions, including the related ARM fees, for the period ended December 31, 2016 were as follows:

Statement of Income items:	
Gross premiums written	$ 154,432,522
Net premiums earned	53,378,303
Losses and loss expenses	39,224,533
Acquisition costs	18,725,063
General and administrative expenses	266,892
Balance Sheet items:	
Reinsurance balances receivable	79,313,011
Deferred acquisition costs	38,137,814
Prepaid expenses	505,271
Reserve for losses and loss expenses	37,903,889
Unearned premiums reserve	$ 101,054,219

13. STATUTORY FINANCIAL INFORMATION

Harrington Re is registered as a Class 4 insurer under the Insurance Act 1978, amendments thereto and Related Regulations of Bermuda. Under the Insurance Act, the Company is required to annually prepare and file a statutory financial return which includes statutory financial statements, a capital and solvency return and audited financial statements with the Bermuda Monetary Authority.

At the time of filing its statutory financial statements, Harrington Re is also required to deliver to the BMA a declaration of compliance, in such form and with such content as may be prescribed by the BMA, declaring whether or not Harrington Re has, with respect to the 2016 financial year (i) complied with all requirements of the minimum criteria applicable to it; (ii) complied with the minimum margin of solvency as at its financial year end; (iii) complied with the applicable enhanced capital requirements as at its financial year end; and (iv) observed any limitations, restrictions or conditions imposed upon issuance of its license, if applicable.

The Insurance Act provides that the value of the statutory assets of an insurer must exceed the value of its statutory liabilities by an amount greater than its prescribed minimum solvency margin ("MSM").

The MSM that must be maintained by Harrington Re with respect to its general business is the greater of (i) $100 million, or (ii) 50% of net premiums written (with a credit for reinsurance ceded not exceeding 25% of gross premiums) or (iii) 15% of net loss and loss expense provisions and other insurance reserves or (iv) 25% of the ECR (as defined below) as reported at the end of the relevant year.

Harrington Re is also required to maintain available statutory economic capital and surplus at a level equal to or in excess of its enhanced capital requirement ("ECR") which is established by reference to either the Bermuda Solvency Capital Requirement ("BSCR") model or an approved internal capital model, provided that the ECR shall at all times be an amount equal to, or exceeding the margin of solvency. The BSCR model is a standardized statutory risk-based capital model developed by the BMA which is used to measure the risk associated with Harrington Re's assets, liabilities and premiums. In 2016, the BMA implemented an Economic Balance Sheet ("EBS") framework which was used as the basis to determine the ECR. The required and available statutory economic capital and surplus as at December 31, 2016 in the table below are based on this EBS framework:

At December 31, 2016:

Required statutory capital and surplus	$	179,342,254
Available statutory capital and surplus	$	505,711,846

Harrington Re is required to calculate and submit the ECR to the BMA annually. Following receipt of the submission of Harrington Re's ECR, the BMA has the authority to impose additional capital requirements or capital add-ons, if it deems necessary. If an insurer fails to maintain or meet its ECR, the BMA may take various degrees of regulatory action. At December 31, 2016, the Company was in compliance with all solvency requirements of the Insurance Act.

13. STATUTORY FINANCIAL INFORMATION (Cont'd)

Harrington Re is also required under the Insurance Act to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities for general business. As of December 31, 2016, the Company met the minimum liquidity ratio requirement.

The Company's statutory net income for the period ended December 31, 2016 was $0.4 million. Statutory accounting differs from U.S. GAAP in the reporting of certain items such as deferred acquisition costs and prepaid expenses.

Harrington Re is prohibited from declaring or paying a dividend if it is in breach of its MSM, ECR or minimum liquidity ratio or if the declaration or payment of such dividend would cause such a breach. Where an insurer fails to meet its MSM or minimum liquidity ratio on the last day of any financial year, it will be prohibited from declaring or paying any dividends during the next financial year without the approval of the BMA.

In addition, Harrington Re is prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial year's statutory balance sheet) unless it files (at least seven days before payment of such dividends) with the BMA an affidavit signed by at least two directors (one of whom must be a Bermuda resident director if any of the insurer's directors are resident in Bermuda) and the principal representative stating that it will continue to meet its solvency margin and minimum liquidity ratio. The maximum dividend Harrington Re could pay, without a signed affidavit, having met its relevant margins, is approximately $132.7 million.

The Bermuda Companies Act 1981 further limits Harrington Re's ability to pay dividends and make distributions from contributed surplus to its Parent if there are reasonable grounds for believing that: (a) Harrington Re is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of Harrington Re's assets would thereby be less than the aggregate of its liabilities. Harrington Re did not pay any dividends or make any distributions to its Parent during the period ended December 31, 2016.

14. SUBSEQUENT EVENTS

The Company has completed its subsequent events evaluation for the period subsequent to the balance sheet date of December 31, 2016 through April 27, 2017, the date these financial statements were available to be issued, and concluded that there are no subsequent events requiring recognition or disclosure.