Financial Condition Report, Canopius Reinsurance AG

(Previously Sompo Japan Canopius Reinsurance AG)

April 2018

canopius

Document Approval

Approved By	Date
Reviewed by the Audit Committee	19.04.2018
Board of Directors	25.04.2018

Contact Details

Patrick Schumacher
(Document Owner)

Chief Executive Officer
Freigutstrasse 16, 8002 Zürich
+41 44 533 2336
Patrick.schumacher@canopius.com

Canopius Reinsurance AG
Freigutstrasse 16
CH-8002 Zurich
Switzerland

T +41 44 533 2340
F +41 44 533 2341
D +41 44 533 2348
www.canopius.com

Table of Abbreviations

BMA:	Bermuda Monetary Authority
EU WS:	European Windstorm
FAL:	Funds At Loyds
GDPR:	General Protection Regulation
HIM:	High Losses
IBF:	Incurred Bornhuetter Ferguson
ICS:	Internal Control System
IEULR:	Initial Expected Ultimate Loss Ratio
ITD:	Incurred Claims to Date
MBO:	Management Buy Out
NA WS:	North Atlantic Windstorm
ORSA:	Own Risk and Solvency Assessment
RBC:	Risk Bearing Capital
SCO:	Swiss Code of Obligation
SC Re:	Sompo Japan Canopius Reinsurance AG
Sompo Canopius AG:	Sompo Canopius Group
Sompo Holdings, Inc:	Sompo
SST:	Swiss Solvency Test
TC:	Target Capital
TVaR:	Tail Value at Risk
ULR:	Ultimate Loss Ratio
US EQ:	US Earthquake
YOA:	Years of Account

Table of Contents

Management Summary

In 2017, Sompo Japan Canopius Reinsurance AG ('SC Re' or the 'Company') was a reinsurance company 100% owned by Sompo Canopius AG incorporated in Switzerland ("Sompo Canopius Group"). Sompo Holdings, Inc. ("Sompo") was the ultimate controlling party owning 100% of Sompo Canopius Group.

The core of SC Re strategy lied in the formation of an aligned global reinsurance underwriting culture with key business segments in property, marine, casualty, aviation and retro business from Sompo Canopius Group.

As of 9 March 2018, the management buyout (MBO) to Centerbridge was completed and the name was changed from Sompo Japan Canopius Reinsurance AG to Canopius Reinsurance AG. The Canopius Group, including Canopius Reinsurance AG, will operate as an independent company with its own management, strategy, underwriting and overall concept.

This report (with exception of chapter 7) was written reflecting the company set-up of 2017, under the ownership of the Sompo Canopius Group.

The financial result for 2017 is mainly affected by the very high catastrophe losses in the USA, caused by Hurricanes Harvey, Irma and Maria and California Wildfire shortly before the end of the year, supplemented by additional claims incurred as a result of the discounting Ogden interest rate adjustments for lump-sum payments for personal injury claims confirmed by the UK court. While the losses are high in absolute terms they fell within the modelled range of outcomes. SC Re's result reflects the composition of its book which largely consists of high margin but volatile nat cat business.

The company reports an annual loss of CHF 69.2m with a balance sheet total of CHF 757.4m. The total reported shareholder equity at year-end of CHF 433.2m, representing a percentage of 57.2% of total assets, is still at a very comfortable level.

The gross written premiums in the amount of CHF 105.0m (USD 107.8m) are mainly attributable to the Property CHF 90.5m (USD 92.9) and Casualty CHF 18.4m (USD 18.9m) lines of business. The annual loss can be attributed to the very poor property underwriting result of CHF 142.7m (USD 146.5m), which was affected by the natural catastrophes described above in the USA (More details can be found in the completed and attached template "Performance Solo RV").

SC Re's risk management strategy is aimed at: maintaining SC Re's financial strength, safeguarding the reputation of SC Re and Sompo Canopius Group, enabling SC Re to protect and generate sustainable shareholder value. The primary tool for measuring and quantifying risks at the legal-entity level is the internal risk modelling framework developed for the Swiss Solvency Test (SST) and based on the Sompo Canopius Group capital model. In addition, SC Re's monitors its business through a number of key risk indicators for insurance-, market-, credit-, liquidity- and operational risk.

1 A. Business Activities

SC Re is a Financial Market Supervisory Authority of Switzerland ('FINMA') regulated Swiss reinsurance company undertaking global reinsurance business through its Zurich based head office and branch in Bermuda.

1.1 Group Information

Sompo Japan Canopius Reinsurance AG ('SC Re' or the 'Company'), incorporated and registered in Switzerland, is a reinsurance company 100% owned by Sompo Canopius AG incorporated in Switzerland ("Sompo Canopius Group"). Sompo Holdings, Inc. ("Sompo") is the ultimate controlling party owning 100% of Sompo Canopius Group.

1.2 Branches

SC Re maintains a branch office in Bermuda. The branch offices in Singapore and US have been closed before year end 2017.

1.3 External Auditors

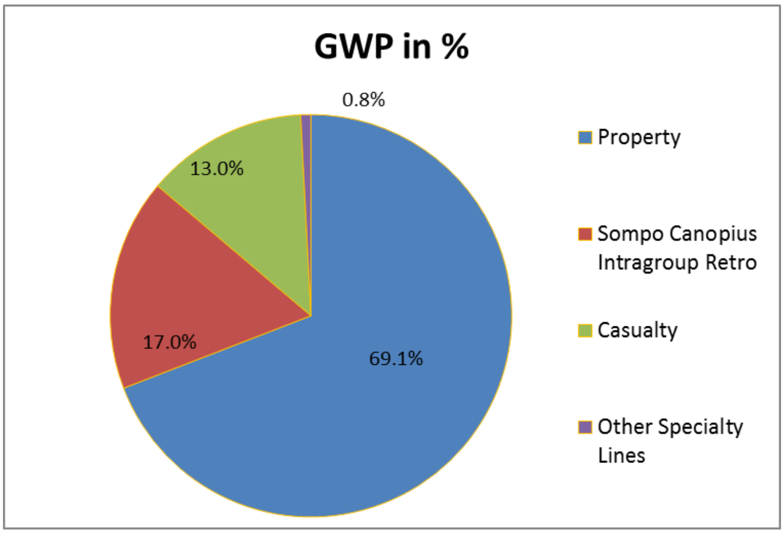
Ernst & Young Ltd is the financial and regulatory auditor for 2017.

1.4 Strategy, Objectives, Key Business Segments

The reinsurance market continues to be characterised by wealth of capital and fierce competition. Reinsurance has been a buyer's market for many years and rate increases – despite the 2017 cat losses – are very modest and not reversing the soft market. Profitable customer accounts and business areas are under even greater pressure. Price is the most important distinguishing feature, leaving little room for expansion. In such an environment, underwriting discipline and cost control are essential to secure results.

In 2017, the key Business Segments were:

Property, Casualty, Other Speciality Lines and Retro from Sompo Canopius Group.



1.5 Significant Unusual Events

The management buyout to Centerbridge is completed by the 9th March 2018 and the name changes from Sompo Japan Canopius Reinsurance AG to Canopius Reinsurance AG. The Canopius Group, including Canopius Reinsurance AG, will operate as an independent company with its own management, strategy, underwriting and overall concept.

At the end of February 2017, the discount rates for lump-sum payments for personal injury claims in the United Kingdom (Ogden) were revised by a court from an earlier positive rate of 2.5% to a negative rate of 0.75%. This change had a significant impact on the provisions for personal injury claims, which we have under existing internal quota shares with syndicate 958 from previous years.

The natural catastrophe reinsurance business written by SC Re went through a very eventful year. The US hurricane season in particular caused very high losses (HIM). Additional damage was caused by the largest open fire in the history of the state of California, which took place in December.

Funds at Lloyds (FAL) have massively increased the amount of funds required by its members. At the beginning of December 2017 SC Re contributed CHF 106.9m pledged assets to cover the funds required by the syndicate.

2 B. Performance

2.1 Premiums, Costs, Claims

In the past financial year 2017 SC Re was affected by the natural catastrophe events in the US and thus no longer able to repeat the successful results of last year. The company reports an annual loss of CHF 69.2m with a balance sheet total of CHF 757.4m. The total reported shareholder equity at year-end of CHF 433.2m, representing a percentage of 57.2% of total assets, is still at a very comfortable level.

The costs incurred were higher than planned due to additional one-off start-up and closure costs for the Singapore and USA branches. While gross written premiums increased by CHF 13.9m, (from CHF 93.6m to CHF 107.5m) net earned premiums decreased by CHF 37.2m (from CHF 131.1m to CHF 93.9m). The underwriting margin dropped by CHF 84.6m, well below the previous year's value (CHF 19.6m in 2016).

The underwriting provisions at year-end amounted to CHF 254.2m. This corresponds to a coverage ratio of 271% (160% in 2016). The technical result was negative at CHF 79.0m (CHF 1.2m in 2016), a significant deterioration compared to the previous year.

The administration costs in 2017 amounted to CHF 13.9m, which corresponds to an administrative cost ratio of 14.8% (13.9% in 2016). The high cost ratio is mainly due to additional one-off set-up and liquidation costs of the Singapore and US branch and the strategic realignment of the company.

2.2 Comparison with Previous Reporting Period

The financial result for 2017 is mainly affected by the very high catastrophe losses in the USA, caused by Hurricanes Harvey, Irma and Maria and California Wildfire shortly before the end of the year, supplemented by additional claims incurred as a result of the discounting Ogden interest rate adjustments for lump-sum payments for personal injury claims confirmed by the UK court.

For the quantitative comparison we refer to the attached financial statements.

2.3 Quantitative Template “Performance Solo RV”

We refer to the attached completed template “Performance Solo RV”.

2.4 Investment Income and Expenses, Comparison with Previous Reporting Period and Remarks

For the quantitative disclosure, we refer to the attached financial statements, note 16 and 17.

2.4.1 Income from investments

This position includes interest and dividends received, direct income from fixed income securities, realized gains on sales of investments and book gains from investments. The decrease of CHF 6.2m as compared to prior year is mainly due to:

- Decrease of interest received on the Weston loan, and interest/dividend received on fixed income securities, deposits and other investments.
- Lower realized gains on sales of investments.

2.4.2 Expenses from investments

This position includes realized losses from foreign currency investments and book losses from fixed income securities.

2.5 Profits and Losses recognised directly in Equity

There were no profits and losses recognised directly in equity.

2.6 Other Material Income and Expenses during the Reporting Period

There were no other material income or expenses during the reporting period.

3 C. Corporate Governance and Risk Management

3.1 Composition of Board of Directors and Management

The Board of Directors is composed of the following members:

Chairman	Michael Watson
Directors	Nigel Frudd David Broome Hans Künzle Yoshitaka Abe Masahiko Saito (until May 2017)

Changes compared to the reporting period 2016 are: New member Yoshitaka Abe and leaving of Masahiko Saito.

In 2017, the Executive Board was composed of the following members:

Chief Executive Officer	Markus Eugster
Chief Financial Officer	Patrick Schumacher
Chief Underwriting Officer	Jamie Wakeling
Chief Operating Officer	Sylva de Fluiter

Yoshitaka Abe changed from the Executive Board to the Board of Directors. No other changes in the Executive Board compared to the reporting period 2016.

3.2 Risk Management System, Risk Strategies, Methods, Processes

The careful selection and underwriting of insurance risks is at the core of SC Re's business model. The Company deploys a variety of risk management tools, processes and functions to manage its operational and financial risks, and seeks to optimize the balance between risks taken and earnings opportunities.

SC Re's risk management strategy is aimed at:

- Maintaining SC Re's financial strength
- Safeguarding the reputation of SC Re and the Group
- Enabling SC Re to protect and generate sustainable shareholder value

The two main elements of SC Re's risk management approach are:

- A system of internal controls aimed at avoiding and reducing undesired risk
- Regular analysis and measurement (quantification) of risks

The primary tool for measuring and quantifying risks at the legal-entity level is the internal risk modelling framework developed for the Swiss Solvency Test (SST) and based on the Group capital model. Furthermore, an ORSA is being performed at least on a yearly basis.

Risks are identified and classified according to their potential exposure to one or to a combination of the following risk types: insurance, market, credit, operational, liquidity, reputational and strategic risks.

3.2.1 Risk evaluation and measurement

The evaluation and quantitative measurement of the risks are documented in the quarterly Internal Risk Report and in the ORSA report.

Risk is defined as the possibility of a future deviation from a predefined goal, which can, individually or cumulatively; significantly affect the financial situation of SC Re.

SC Re determines the economic capital required to absorb losses from risks crystallising by using the stochastic internal risk model as developed for the SST. The economic risk capital corresponds to the 99% tail value at risk (TVaR) over a one-year time horizon. This represents an estimate of the expected annual loss likely to occur with a frequency of less than once in one hundred years.

3.3 Risk Management, Internal Audit and Compliance Function

Risk management, internal audit and compliance function are outsourced to Canopius Service Ltd., London (part of Sompo Canopius Group).

The internal audit is subordinated to the Board of Directors of SC Re. In accordance with the instructions issued by the SC Re Board, it reports directly to it.

The risk management and compliance functions are members of the Group Risk Committee with direct reporting line to the SC Re CEO.

The risk management, compliance and internal audit functions are important elements of SC Re's governance and control framework which relies to the three line of defence model. Each function is led by an experienced and knowledgeable individual who is deemed by SC Re to be fit and proper and SC Re has ensured appropriate resources are in place.

3.4 Material Changes

In 2017, there were no material changes to the Risk Management, Internal Audit and Compliance function.

3.5 Internal Control System

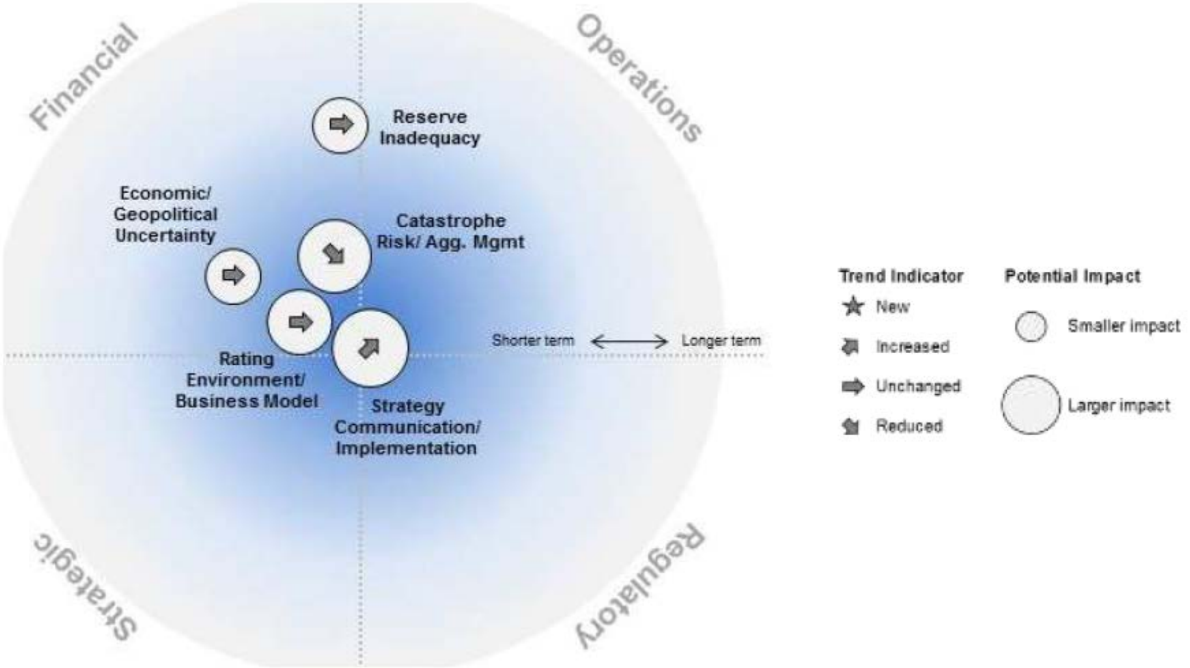
SC Re has a holistic approach to the Internal Control System (ICS) and its application is a continuous process, mainly based on the segregation of duties. The ICS is adjusted periodically to reflect changes in the business and control environment.

SC Re adheres to the Group framework of regulations and policies.

4 D. Risk Profile

4.1 Qualitative and Quantitative Information by Risk Categories

Top Risks are reviewed quarterly, together with any current or planned management action to mitigate exposure where appropriate. The chart below shows the Top Risks reported to the Group Risk Committee and the Board in November 2017.



The management buyout announcement was generally regarded as positive but there remained some uncertainty, particularly in relation to future strategy and leadership of SC Re. Given that SC Re's strategic mandate has been challenged and changed in 2017 there is a risk that staff are tired of continuous change and uncertainty. As a consequence of this potential risk, management has addressed the issue with the Board and a retention plan was agreed for SC Re's key financial, claims and compliance functions.

The rating environment has previously been challenging due to the excess capital and capacity in the reinsurance and insurance capital markets. Whilst a small increase in reinsurance rates have been seen at the 1 January 2018 renewals, this is no longer directly relevant due to the change in strategy.

Economic and geopolitical uncertainty remains high. The investment portfolio performed well in 2017 but market conditions remain difficult and the outlook is subject to multiple risks. Market and investment risks will continue to be monitored closely.

SC Re's risk profile and any changes between 1 January 2017 and 31 December 2017 have been analysed by risk category as per the ERM Framework. Details relating to the management of each risk category are described in detail in the associated risk policies.

4.2 Insurance Risk

Insurance risk is defined as risk of loss arising from inherent uncertainties as to the occurrence, amount and timing of insurance liabilities and premiums. This is further broken down into three main sub categories; Premium, Reserving and Catastrophe risk.

For the quantitative information we refer to chapter 7.2 Target Capital.

4.2.1 Premium risk

Premium risk relates to future claims, and originates from claims sizes being greater than expected, differences in timing of claims payments from expected, and differences in claims frequency from those expected.

During 2017, the underwriting environment remained challenging and premium income was below plan. SC Re stopped writing any third party business during Q4 as per the strategy for 2018 to only write Group internal quota share business.

4.2.2 Reserving risk

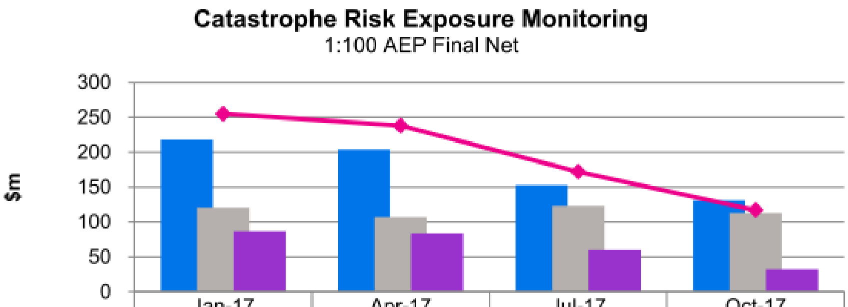
Reserve risk relates to incurred claims i.e. existing claims (including IBNR and IBNER), and originates from claim sizes being greater than expected, differences in timing of claims payments from expected, and differences in claims frequency from those expected.

4.2.3 Catastrophe risk

Catastrophe risk relates to a single or series of events, of major magnitude, usually over a short period, leading to significant deviation in actual claims from the total expected claims.

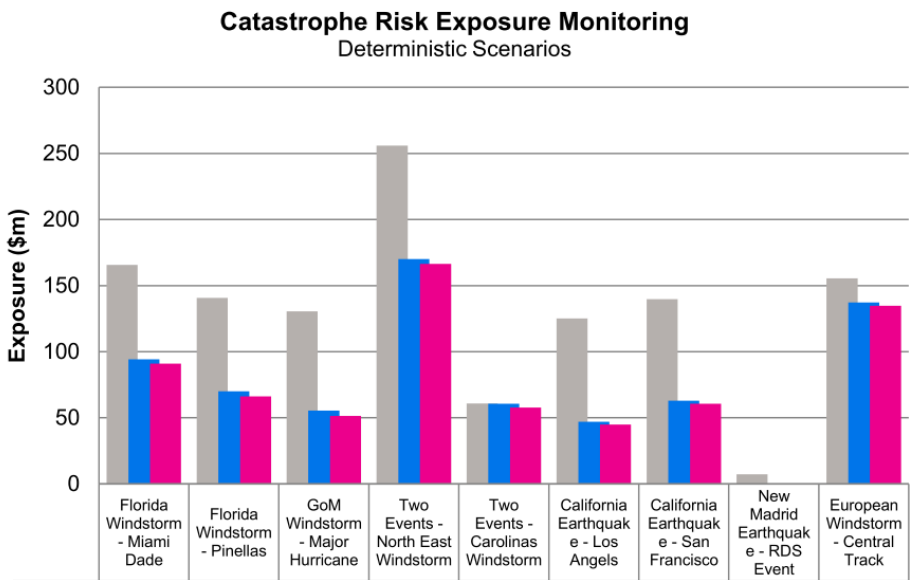
SC Re benefits from sophisticated catastrophe modelling and aggregate management services provided by the Group Catastrophe Management team. Catastrophe risk is calculated using RMS RiskLink adjusted to reflect the Group view of risk for North Atlantic Hurricane, US Earthquake and European Extra Tropical Cyclone Perils.

Detailed catastrophe risk exposures are prepared and reported on a quarterly basis. The chart below provides an overview of SC Re's catastrophe risk exposures during 2017.



	Jan-17	Apr-17	Jul-17	Oct-17
NA WS	218	204	153	131
EU WS	121	107	123	113
US EQ	87	84	60	32
All Peril	255	238	172	117

As the chart shows, North Atlantic Windstorm ('NA WS') was the primary driver of the catastrophe exposure with European Windstorm ('EU WS') and US Earthquake ('US EQ') the other contributing perils. Catastrophe risk exposures have been reducing during 2017.



	Florida Windstorm - Miami Dade	Florida Windstorm - Pinellas	GoM Windstorm - Major Hurricane	Two Events - North East Windstorm	Two Events - Carolinas Windstorm	California Earthquake - Los Angels	California Earthquake - San Francisco	New Madrid Earthquake - RDS Event	European Windstorm - Central Track
Gross	165,732	140,633	130,459	255,873	60,884	125,198	139,816	7,218	155,552
Net	94,225	69,978	55,455	170,160	60,604	46,964	62,858	30	137,238
Final Net	90,949	66,212	51,512	166,482	57,830	44,973	60,635	30	134,847

In addition to the probabilistic measures of catastrophe risk, SC Re has also considered exposures to certain deterministic scenarios. These are used as part of the Group's exposure monitoring and aggregate management activities. The table above sets out exposures to these scenarios, which are based on Lloyd's Realistic Disaster Scenarios (2017 specification).

4.3 Credit Risk

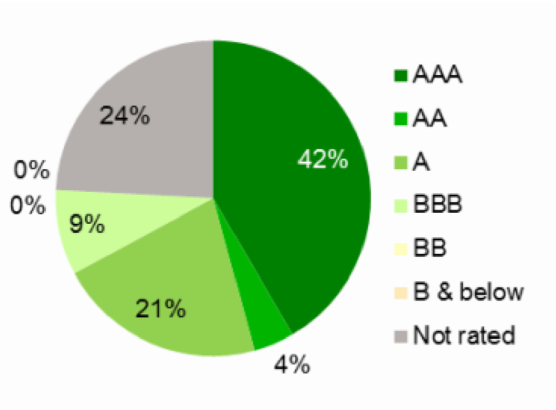
Credit risk is defined as the financial loss, if counterparty fails to perform its financial obligations or fails to perform them in a timely fashion. Counterparties include reinsurers, brokers, coverholders, reinsured clients, and investment counterparties.

For the quantitative information we refer to chapter 7.2 Target Capital.

4.3.1 Investment credit risk

Credit risk within the investment portfolio is managed through research performed by outsourced investment managers whose activities are monitored by the internal investment team and the Group Investment Committee. Investment guidelines are established which are designed to mitigate risk by ensuring appropriate diversification of holdings.

Portfolio breakdown as at 31 December 2017:



4.3.2 Reinsurance credit risk

Reinsurance credit risk emanates from the use of reinsurance, which can increase risk-bearing capacity and protect against severe catastrophe exposures. SC Re retains most of the written business so its reinsurance credit risk is not material. There is no SC Re specific reinsurance programmes, however for some classes SC Re is endorsed onto the Group programmes.

The Group Reinsurance Security Committee criteria specify a range of benchmarks and limits that include credit risk related aspects namely a minimum S&P rating of 'A-'and a minimum of £100million of shareholders' funds, unless otherwise approved. The Group Finance Committee regularly reviews reinsurance debtors by reference to the age of the debt.

4.3.3 Other credit risk

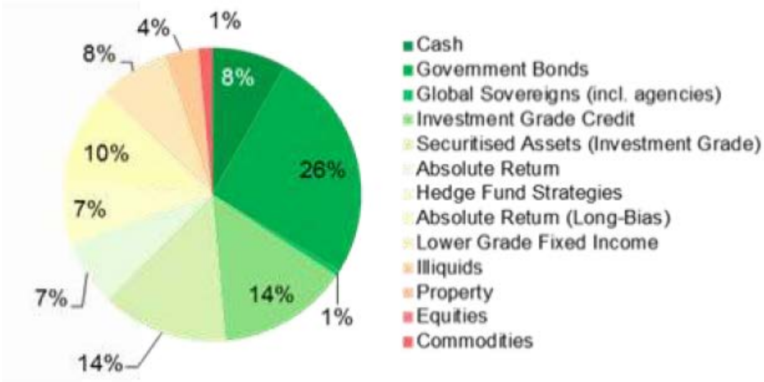
Credit risk in respect of other intermediaries is managed by the credit management function. To transact business with SC Re intermediaries must first comply with internal guidelines that include having a satisfactory credit rating and to have in place a terms of business agreement. The position is monitored through on-going review of the amount of debt outstanding to terms.

The Group Finance Committee regularly reviews inwards premiums debtors by reference to the age of the debt.

4.4 Market Risk

Market risk is defined as a risk of loss resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. This is further broken down into five subcategories namely; interest rate risk, spread risk, concentration risk, currency risk and equity and other asset risk.

The portfolio breakdown below illustrates the split of all SC Re holdings by asset class as at end of Q4.



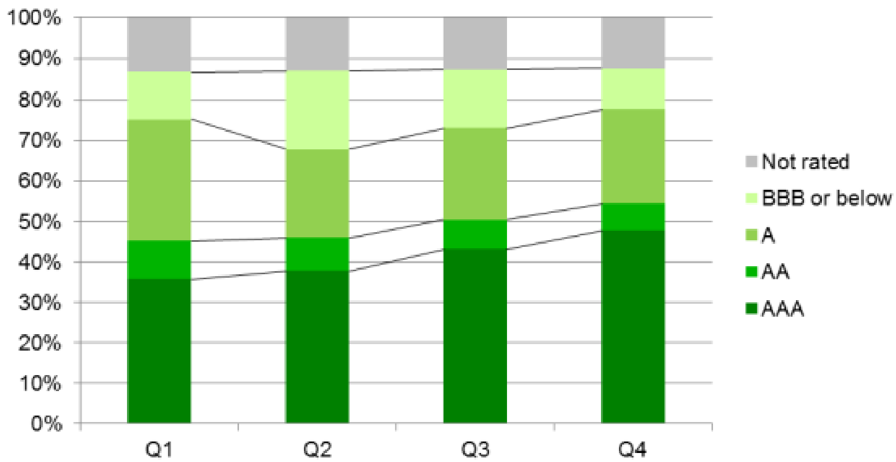
Market risk indicators are monitored regularly and reported to the Group Risk Committee on a quarterly basis. There were no breaches of risk tolerances during 2017 as shown in the table below.

Risk	Risk measure	Risk tolerance	Q1	Q2	Q3	Q4
Investment risk	VaR (3 years, 99.5%)	6.75%	2.5%	2.4%	2.8%	3.0%
Interest rate risk	Interest rate duration	3 Years	1.6	1.6	1.6	1.4
Credit spread risk	Credit spread duration	3 Years	1.3	1.4	1.4	1.5
Currency risk	Net currency exposure	< 1% NAV	✓	✓	✓	✓

For the quantitative information we refer to chapter 7.2 Target Capital.

4.4.1 Investment credit risk

Credit risk within the investment portfolio is managed through research performed by outsourced investment managers whose activities are monitored by the internal investment team and the Group Investment Committee. Investment guidelines are designed to mitigate risk by ensuring appropriate diversification of holdings.



The graph above illustrates the high credit quality of the investment portfolio with 50% or more credit is held in ‘A’ or above rated assets. This ratio has increased throughout 2016. Not rated assets mainly relate to Hedge Fund strategies (c. 6% of total assets), other unrated funds (c. 5%) and very small equity holdings (<2%).

4.4.2 Reinsurance credit risk

Reinsurance credit risk emanates from the use of reinsurance which can increase risk-bearing capacity and protect against severe catastrophe exposures. SC Re retains most of the written business so the reinsurance credit risk is not material. There is no SC Re specific reinsurance programmes, however for some classes SC Re is endorsed onto the Group programmes.

The Group Reinsurance Security Committee criteria specify a range of benchmarks and limits that include credit risk related aspects namely a minimum S&P rating of 'A-'and a minimum of £100million of shareholders' funds, unless otherwise approved.

The Group Finance Committee regularly reviews reinsurance debtors by reference to the age of the debt.

4.4.3 Other credit risk

Credit risk in respect of other intermediaries is managed by the credit management function. To transact business with SC Re intermediaries must first comply with internal guidelines that include having a satisfactory credit rating and to have in place a terms of business agreement. The position is monitored through on-going review of the amount of debt outstanding to terms. The Group Finance Committee regularly reviews inwards premiums debtors by reference to the age of the debt.

4.5 Liquidity Risk

Liquidity risk is defined as the risk of being unable to realise investments and other assets in order to settle financial obligations as they fall due. In order to avoid this risk, SC Re ensures that sufficient financial resources are available to meet liabilities as they fall due.

SC Re ensures through various sources that liquidity constraints do not affect their clients or creditors, as this would have significant regulatory and reputational impact.

The liquidity profile for SC Re remained very strong during 2017 with over 95% of assets maintained throughout the year and available within 7 days.

Whilst SC Re continues to maintain a strong liquidity position, liquidity risk has temporarily been prudently assessed as 'Amber' until all Group contractual agreements are agreed and in place.

4.6 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. SC Re also considers risks relating to losses, of any nature, arising in or from membership of a corporate group.

Operational risk is not modelled or quantified within the Internal Model and therefore this section is analysed on a qualitative basis. The overall risk profile for operational risk was considered to be 'amber' during 2017. This assessment was primarily based on the continued uncertainty regarding the future of the company and its staff

4.6.1 People risk

People risk was heightened following the Endurance acquisition and the announcement of the MBO of Canopius Group. SC Re and Group management have worked out a retention plan for key financial, claims and compliance staff. Due to SC Re's change of strategy for 2018 and onwards, both the CEO and COO have decided to resign from their functions as of 31 January 2018. The Board has approved the respective agreements.

As of 1 February 2018, the former CFO assumed the dual responsibility of the COO and CEO roles, with the CFO role being allocated to the incumbent Chief Actuary (Europe). The Zurich based underwriting team transferred to Canopius Europe Limited and writes any third party business through Lloyd's Syndicate 4444. The Bermuda based senior underwriter has been promoted to CUO and will focus on intra-group retrocession business.

4.6.2 Process risk

SC Re has adopted the group approach for a number of group processes. Whilst this has been appropriate and successfully implemented in most cases, SC Re's COO continues to liaise with Group counterparties to remediate certain issues identified. Outsourcing of key functions and processes remains a high risk due to the level of change and uncertainty within the wider Group.

Due to changes in the personnel of the Group Finance team during 2017, documentation, including entity specific process maps, need reviewing and updating to ensure there are clear accountabilities and responsibilities between the entity and Group.

4.6.3 Systems risk

'Navigator' is the underwriting system, which was developed specifically for SC Re. This is a different system to that used by other Group entities. Since its implementation in 2015, a number of improvements have been rolled out and certain technical issues have been resolved. The underwriting system is not directly linked to the cashflow system and therefore manual workarounds are required, which increase the risk of human error. This is being closely monitored to avoid errors and will be reviewed in the future as part of any group system review.

With the announcement of the MBO, the Group has decided to put on hold planned systems investments. Current processes in place are sufficient to appropriately administer the current business. This will be reviewed as part of the MBO.

4.6.4 Physical risk

The Business Continuity Plan is up to date and has been tested during 2017 with no material concerns. As per FINMA requirements, there is an additional local data server located in Zurich, which mirrors the main server located in London.

4.6.5 Regulatory risk

Regulatory risk is managed through regular monitoring and reviewing of regulatory requirements with local in-house and third party support in all territories and regular contact with regulators. Specifically this includes FINMA and the Bermuda Monetary Authority ('BMA') for the Bermuda branch. SC Re Executive Management has established close and professional contacts with both FINMA and the BMA allowing them to pro-actively address company and market related issues.

During 2017, a gap analysis for Risk Management was submitted for the BMA equivalent ORSA requirements.

4.6.6 Risk events

There were no material risk events during 2017.

4.7 Strategic Risk

Strategic risk is defined as making inappropriate business decisions, implementing decisions poorly, or being unable to adapt to changes in the operating model. This includes risks associated with the appropriateness of business strategy in the face of current and future political, commercial, legislative and economic environments.

Similarly to Operational risk, Strategic risk is not modelled or quantified within the Internal Model. From a qualitative perspective, the risk profile for SC Re is prudently rated 'amber' due to the substantial Group organisational and management changes in 2016 and 2017.

Strategic risk has reduced following the Board's decision in September 2017 that SC Re will focus on intra-group business only. SLAs have been established between SC Re and the Group to establish clear lines of responsibility, to allow continuous monitoring of this risk. Following the sale of Sompo Canopius Group, the SLA's will be reviewed with respect to content and scope, given the new strategic focus.

There is a risk of rating agency downgrade for SC Re as evidenced by the fact that both A.M. Best and S&P have put SC Re's rating on watch with negative outlook. The negative outlook is driven by the lowered strategic importance of SC Re within the Canopius Group and the end of the continued parental support from Sompo at closing of the MBO transaction.

4.7.1 Emerging risk

SC Re operates within an ever-changing business environment, which is influenced by many factors. This environment may affect the current and future risk profile of SC Re and certain issues may be significant but may not yet be fully understood. Emerging risks currently being monitored for SC Re include:

IFRS 17 – Changes to international accounting standards effective for balance sheets opening as early as 1 January 2020. Changes in regulation are considered to be significant and will require a complex implementation project. A cross functional working group has been established to ensure appropriate application across the group.

Climate Change – Links have been identified between rising temperatures and the frequency and intensity of extreme weather. This could have implications for the accuracy of Catastrophe Risk models. We continue to review external vender models and the latest scientific research to inform our own Canopius view of risk.

Cloud Risk Accumulation – Increased reliance on cloud services potentially poses a threat from an underwriting standpoint. It is possible that a single event could lead to considerable losses in business interruption and liability policies. This is being actively monitored by the Exposure Management team and “Cloud Service Provider Hack” has been added to the 2018 list of scenarios.

GDPR – General Data Protection Regulation will apply in the EU from 25 May 2018. The regulation places an increased number of requirements to organisations to demonstrate data protection compliance and high fines for non-compliance could apply. Given the nature of SC Re’s business and future strategy, GDPR is considered a low risk but the Group Data Protection Officer is leading a project across the whole Group to implement all new regulatory requirements, where applicable.

Marine Aggregation – Value concentrations in marine insurance are at an all-time high due to increased foreign trade volumes and vessel sizes. Explosions in the port of Tianjin highlight how difficult it is to calculate aggregations in this market. There is an opportunity to make use of technology to understand the tail risk. Lloyd’s Realistic Disaster Scenarios were updated in 2016 to include two new marine scenarios. Cambridge Centre for Risk Studies partnered with Lloyd’s Innovation to review these scenarios and found that they were appropriate given the marine landscape. We will continue to monitor potential exposures.

5 E. Valuation

5.1 Assets

5.1.1 Value of Assets by Asset Class

The value of assets by asset class as at 31/12/2017 is:

		Balance sheet excluding Encumbered Assets at FAL		
$'000s	Initial Statutory balance sheet value	Statutory balance sheet value	Valuation differences	Market consistent value
Assets:				
Other Intangible assets	1,440	1,440	-	1,440
Thereof government bonds	155,908	74,211	- 5	74,207
thereof corporate bonds	77,496	45,771	-	45,771
Loans	13,734	13,734	-	13,734
Investment funds Bonds	74,447	28,195	-	28,195
Investment funds Money-market	2,495	2,495	-	2,495
Investment funds Mixed	99,633	10,021	-	10,021
Investment funds Alternative investments	15,727	-	-	-
Currency related instruments	-	-	-	-
Structured products	70,009	49,121	-	49,121
Asset-backed securities (ABS)	78,170	19,594	-	19,594
Other receivables from insurance business	85,077	85,077	-	85,077
Receivables from insurance companies (incl. deposits)	44,662	44,662	-	44,662
Receivables from participations and shareholders	7,062	7,062	-	7,062
Other receivables from other debtors	1,569	1,569	-	1,569
Tangible fixed assets	68	68	-	68
Cash	34,253	29,148	-	29,148
Accrued interest and rents	-	-	-	-
Other accrual and deferral items**	4,145	4,145	- 4,145	-
Total Assets*	**765,895**	**416,315**	**- 4,150**	**412,165**
Liabilities:				
UPR	18,174	18,174	- 12	18,162
Liabilities arising from the insurance business	293,503	293,503	- 25,591	267,913
Bonds/loans of a debt and equity nature	7,908	7,908	-	7,908
Liabilities from derivative financial instruments	422	422		422
Non-actuarial provisions	- 502	- 502	-	- 502
Accrual and deferral	8,015	8,015	-	8,015
Total Liabilities	**327,521**	**327,521**	**- 25,602**	**301,919**
Total Equity	**438,374**	**88,794**	**21,453**	**110,247**

*The Total Assets on the Statutory Balance Sheet is $765.9m. Following the encumbering of $349.6m of assets at FAL, the total amount is brought to $416.3m

** The DAC is removed from the market consistent balance sheet

Summary assets movements:

Assets	Statutory	Market Consistent
Q4 2017	$ 765.9m	$ 761.7m
Encumbered Assets	$ 349.6m	$ 349.6m
Q4 2017 SST 2018	$ 416.3m	$ 412.2m

.

5.1.2 Valuation Basis, Methods and Key Assumptions

All SC Re assets are measured at their fair value. All cash and short-term deposits with an original maturity of three months or less are considered as cash equivalents and valued at cost which approximates their fair value.

Market Value of SC Re Investment assets is CHF 572.6m (USD 587.6m) which is 76.7% of Total Assets Market Value. 39.7% of investments are held in Fixed income Bonds, 32.7% invested in various Funds and 25.2% in securitized assets:

	Market Value ($ '000s)	Market Value (%)
Loans	13,734	2.3%
Governement Bonds	155,903	26.5%
Corporate Bonds	77,496	13.2%
Investment Funds	192,302	32.7%
Structured products	70,009	11.9%
Instruments	0	0.0%
Asset-backed securities (ABS)	78,170	13.3%
Total Investments	**587,614**	**100.0%**

5.1.3 Quantitative and Qualitative Explanatory Notes

Investment assets are measured under SCO (Swiss Code of Obligations) for statutory accounts on an amortised cost basis and therefore for the Mark to Market balance sheet adjustments have been made to the value of Investment assets removing the effect of amortisation and adding Unrealised Gains, the balancing entry was made to the value of the Retained Earnings.

Deferred Acquisition Costs were removed from market consistent balance sheet in line with SST guidelines. A 10% margin was added to the market consistent claims provision to allow for Risk Margin and Liability Adequacy Test.

5.2 Value of Provisions for Insurance Obligations

Provisions for insurance obligations of SC Re consist of intra-group run-off business and open market business. As at 01/01/2018 the reinsurance contracts covering the reserves of Syndicate 4444 and CUS were commuted and so have been excluded from these Provisions. The reinsurance contracts covering the reserves of Syndicate 958 are due to be commuted during Q2 and therefore included within these Provisions. The overview of the claims provisions as of 01/01/2018 per business is as follows:

Claims Provisions	Gross	RI	Net
Intra-group Lloyd's quote share (958)	46.4	-	46.4
Intra-group Quota share from Canopius US	-	-	-
CRL Direct	3.4	-	3.4
Direct business reserves	134.2	0.2	134.1
Total	**184.0**	**0.2**	**183.9**

The gross and net of outward reinsurance estimates of the reserves per line of business as at 01/01/2018 are summarised below.

Net Provisions	Intra - group CRL direct	Intra-group Canopius US (CUS)	Intra-group Lloyds (958)	Direct Business	Total
Property	3.4	-	5.0	120.7	129.1
General Liability	-	-	36.2	4.1	40.3
Marine, Aviation and Transport	-	-	3.0	-	3.0
Motor	-	-	1.6	9.2	10.8
Financial Loss	-	-	0.4	-	0.4
Income Protection and Medical Expenses	-	-	0.2	-	0.2
Total	**3.4**	**-**	**46.4**	**134.1**	**183.9**

5.2.1 Unearned Premium Reserves

Unearned Premium Reserves	Gross	RI	Net
Intra-group Lloyd's quote share (958)	0.1	-	0.1
Intra-group Canopius US	-	-	-
Direct business	17.8		17.8
Total	**17.9**	**-**	**17.9**

As at 01/01/2018 (excludes Syndicate 4444)

There is CHF 17.4m (USD 17.8m) of unearned premium from open market direct business written during 2017 and a small amount from the intra group contracts.

5.2.2 Other technical provisions

There are no other technical provisions being held for SC Re.

5.3 Valuation Basis, Methods and Key Assumptions

The gross ultimate claims can be split into four main categories: non-event claims, event claims, catastrophe load in respect of unearned exposures (catastrophe load) and specific IBNR, which could be in respect of known large losses or known un-entered reserves. The non-event claims have been projected using chain ladder projections on both paid and incurred figures. In some cases, for more developed years, we have used the current attritional incurred claims to date (ITD) as the ultimate. For less developed years, an Incurred Bornhuetter-Ferguson (IBF) method has been used; the initial expected ultimate loss ratio (IEULR) is selected by giving consideration to the ultimate loss ratios (ULR) for prior years of account (YOA) and to the trends in both premium rates and claims inflation.

Specific IBNRs are provided by the claims department. These are discussed with the relevant underwriters, actuarial reserving team and SC Re's responsible actuary.

The outward reinsurance premiums and recoveries as estimated are then subtracted from gross to derive the net premiums and claims respectively.

5.4 Quantitative and Qualitative Explanatory Notes

The basis of the calculation of the technical provisions is best estimate. This means there is no margin or additional reserves being held in association with the SC Re business. The calculation is derived according to SC Re's best view at the time of reserves estimation. To arrive at the market consistent value of the reserves, the best estimate reserves are discounted using unpaid loss reserves projected cash flows (payment patterns) and appropriate zero-coupon bond yield curves from the FINMA.

The technical provisions are calculated on a gross and net of outward reinsurance basis.

The total initial reserves modelled are CHF 179.2m (USD 183.9m) undiscounted and CHF 167.6m (USD 172m) on a discounted basis (vs CHF 174.7m and CHF 169.4m in 2017).

For the Market Value Margin SC Re uses the FINMA standard model with the following equation:

$$Market\ Value\ Margin = Cost\ of\ Capital\ x \Sigma[TargetCapital(t)runoff\ x\ 1(1+rt)t]Tt=1$$

Where $\mathrm{Target\ Capital}(t)_{\mathrm{runoff}}$ is the 1-year SST Target Capital for year t, which captures the run-off risk. The rt term is the risk free yield at time t.

6 F. Capital Management

6.1 Goals, Strategy and Time Horizon for Capital Planning

SC Re maintains a high level of capital adequacy, which fully satisfies its regulatory and rating capital requirements. The capital structure has been designed to deliver a strong investment return whilst maintaining liquidity and financial flexibility in order to achieve management's underwriting, investment and strategic plans.

SC Re is domiciled in Switzerland and regulated by FINMA. As such, at least once a year SC Re is required to provide FINMA with SST calculation to demonstrate its capital strength. The SST calculation measures a (re)insurance company's risks in order to define the minimum amount of capital, which must be maintained. The ratio of available capital ('Risk Bearing Capital') to the capital requirement ('Target Capital') must at all times be equal to or greater than 100%. SC Re's SST Ratio is 134.6% (123.4% restated 1 December 2017). The current information about solvency (RBC, TC) is identical to the information which it was submitted to FINMA and is still subject to regulatory audit.

SC Re currently maintains a branch office in Bermuda. The branch offices in Singapore and US have been closed before year end 2017. These branch offices were not considered separate legal entities for regulatory purposes. The SST calculation and ratio set out above are inclusive of the risks and capital of this branch. There are no applicable local capital requirements in Bermuda. However, the Bermudan branch maintains the majority of the surplus assets of SC Re and, as a result, is highly solvent.

SC Re, both by itself and through its parent company, continually monitors the level of capital adequacy of the Swiss company and its branch. If at any time management, believe there will be deterioration in SC Re's capital which would negatively affect its capital adequacy or ability to meet its regulatory and rating capital requirements, they will reduce the level of risk in their underwriting, investment and strategic plans.

6.2 Structure, Level and Quality of the Equity Capital

The equity is composed by the share capital, legal capital reserves, legal retained earnings, voluntary retained earnings and organisational fund. The shareholders equity of CHF 100'000'000 is composed by 100'000'000 at a nominal value of CHF 1.

11. Statement of changes in equity
in CHF

	Share capital	Legal capital reserves	Free reserves		Retained earnings	Currency conversion difference	Total equity
			General reserves	Organisation fund *			
As at 01.01.2016	**100,000,000**	**50,000,000**	**284,510,000**	**7,888,000**	**43,938,947**	**-294,561**	**486,042,386**
Appropriation of earnings							
Dividend payments	-	-	-	-	-	-	-
Allocation to free reserves	-	-	-	-2,491,072	2,491,072	-	-
Profit for the year	-	-	-	-	16,427,654	-	16,427,654
Currency conversion differences	-	-	-	-	-303,657	15,961,013	15,657,356
As at 31.12.2016	**100,000,000**	**50,000,000**	**284,510,000**	**5,396,928**	**62,554,016**	**15,666,452**	**518,127,396**
Appropriation of earnings							
Dividend payments	-	-	-	-	-	-	-
Allocation to free reserves	-	-	-	-2,097,608	2,097,608	-	-
Profit for the year	-	-	-	-	-69,233,305	-	-69,233,305
Currency conversion differences	-	-	-	-	-	-15,666,452	-15,666,452
As at 31.12.2017	**100,000,000**	**50,000,000**	**284,510,000**	**3,299,320**	**-4,581,681**	**-**	**433,227,639**

* Set-up Organization fund in 2015 CHF 10,000,000 (USD 10,000,000)

6.3 Material Changes

The main changes in the equity are:

1) Recognition of the loss
2) Compensation of the conversion difference

6.4 Quantitative and Qualitative Explanatory Notes

The total discrepancy between the equity capital reported in the annual report and the difference between the assets and liabilities based on a market-consistent valuation, as used for solvency purposes amounts to CHF 20.8m (USD 21.4m):

Investment assets are measured under SCO for statutory accounts on an amortised cost basis and therefore for the Mark to Market balance sheet adjustments have been made to the value of Investment assets removing the effect of amortisation and adding Unrealised Gains, the balancing entry was made to the value of the Retained Earnings. The net result is not significant.

Deferred Acquisition Costs (CHF -4.0m) were removed from market consistent balance sheet in line with SST guidelines. A 10% margin CHF 18.3m (USD 18.8m) was added to the market consistent claims provision to allow for Risk Margin and Liability Adequacy Test.

7 G. Solvency

The 2018 SST ratio for CRe has been calculated at 134.6%.

As can been seen in the table below this is the result of 2 offsetting movements. Firstly, further CRe assets were placed at Funds at Lloyds (FAL) for S4444 which reduced the RBC down to $108.8m and the TC for 2018 was recalculated for 2018 and reduced considerably from $300.8m to $83.4m. Given the 2017 Target Capital (TC) remained unchanged the SST ratio reduced to 123.4% (as notified to FINMA). Then further SC Re assets were placed at FAL for S4444 which reduced the RBC down to CHF 106.0m (USD 108.8m) and the TC for 2018 was calculated and reduced considerably from CHF 293.1m (USD 300.8m) to CHF 81.3m (USD 83.4m).

2018 SST			2017 SST Resubmission			2017 SST Submitted		
RBC	TC	SST ratio	RBC	TC	SST ratio	RBC	TC	SST ratio
$ 108.8m	$ 83.4m	134.6%	$ 368.4m	$ 300.8m	123.4%	$ 509.7m	$ 300.8m	172.4%

Risk-Bearing Capital, Target Capital and SST ratios (RBC-RM)/(TC-RM), ($m)

Despite the considerable reduction the SST ratio is still at a comfortable level. The high SST ratio of 333.9% for 2016 was due to the first year of operation where excess capital had been provided to allow flexibility to achieve a best case plan.

The outcome of 2018 SST ratio is the result of the agreed sale of Canopius Group, management has determined that the strategic purpose of SC Re has changed and that the entity will cease underwriting open market reinsurance business at the end of 2017 and commence underwriting reinsurance of other Canopius Group entities, specifically Flectat. The group reinsurance arrangement is a 60% quota share of Flectat with a maximum exposure equal to a 60% share of the Flectat undiversified Lloyd's ECA requirement This has been accounted for in the SST by reducing the RBC by the maximum exposure. The TC is unaffected by this reinsurance arrangement.

The current information about solvency (RBC, TC) is identical to the information which it was submitted to FINMA and is still subject to regulatory audit.

7.1 Solvency Model

SC Re uses FINMA's standard model for Reinsurance, StandRe, for the calculation of the Insurance risk element of the target capital for the SST in 2018. The StandRe model for SC Re only captures the reserving risk as all modelled business was written in previous underwriting years.

A standard model is used for aggregation of Insurance risk with other risk elements.

The FINMA standard model methodology and parameterisation is used to quantify Market Risk for SC Re's SST Target Capital. This is appropriate because the asset and liability portfolios held by SC Re are fairly simple and their risk drivers are straightforward. With the SST standard model approach, SC Re's Market Risk is estimated by applying the various shocks specified by FINMA to each of the securities held in the portfolio.

7.2 Target Capital

The TC is comprised of an insurance risk expected shortfall of CHF 61.3m (USD 62.9m), driven by Treaty Property Reserve Risk, a standalone Market Risk element of CHF 12.6m (USD 12.9m), mostly driven by sensitivities to USD interest rates and spread risk, an expected profit of CHF 0.8m (USD 0.8m), only from investment income as no written business, non-RI Credit Risk of CHF 9.7m (USD 9.9m) and a Market Value Margin of CHF 9.8m (USD 10.1m).

	Expected Shortfall		
Item	2018 SST	2017 SST	Difference
Insurance Risk	62.9	277.8	(214.9)
Market Risk	12.9	31.6	(18.7)
Insurance & Market risk	64.2	279.5	(215.3)
...+Scenarios	64.2	280.5	(216.3)
Expected tec. Result	-	(5.2)	5.2
Expected fin. Result	(0.8)	(2.2)	1.4
Other Credit Risk	9.9	15.6	(5.6)
MVM	10.1	12.1	(2.0)
TC	83.4	300.8	(217.3)

Break down of TC ($m)

The TC decrease of CHF 211.8m (USD 217.3m) is due to the decrease in insurance risk of CHF 209.4m (USD 214.9m) driven by massively reduced catastrophe exposure as no new business was written in 2018.

Other notable changes include:

- reduced Market Risk (as assets reduced to cover FAL)
- a reduction in the expected result of CHF 6.4m (USD 6.6m)
    - CHF 5.1m (USD 5.2m) of technical result as no business written in 2018
- Market Value Margin decreased CHF 1.9m (USD 2.0m)

7.2.1 Market Risk and Insurance Risk

On a standalone basis reserving risk has an expected shortfall of CHF 59.5m (USD 61.1m) which is driven by Treaty Property reserves on the 2017 US wind season. IE2 scenarios add another CHF 24.7m (USD 25.3m) of expected shortfall but this mostly diversifies with reserve risk which gives an expected shortfall for insurance risk (reserving risk + IE2 scenarios) of CHF 61.3m (USD 62.9m).

Market risk has a standalone expected shortfall of CHF 12.6m (USD 12.9m) which diversifies away with Insurance risk at a rate of 15% giving a combined Insurance and Market Risk of CHF 62.6m (USD 64.2m). The financial results from underwriting and investments offset the shortfall by a mere CHF 0.8m (USD 0.8m). The aggregation with the scenarios is not included as part of the StandRe calculation. Non RI Credit Risk and the MVM increase the target capital by an additional CHF 19.7m (USD 20.1m) which results in a target capital of CHF 81.2m (USD 83.4m).

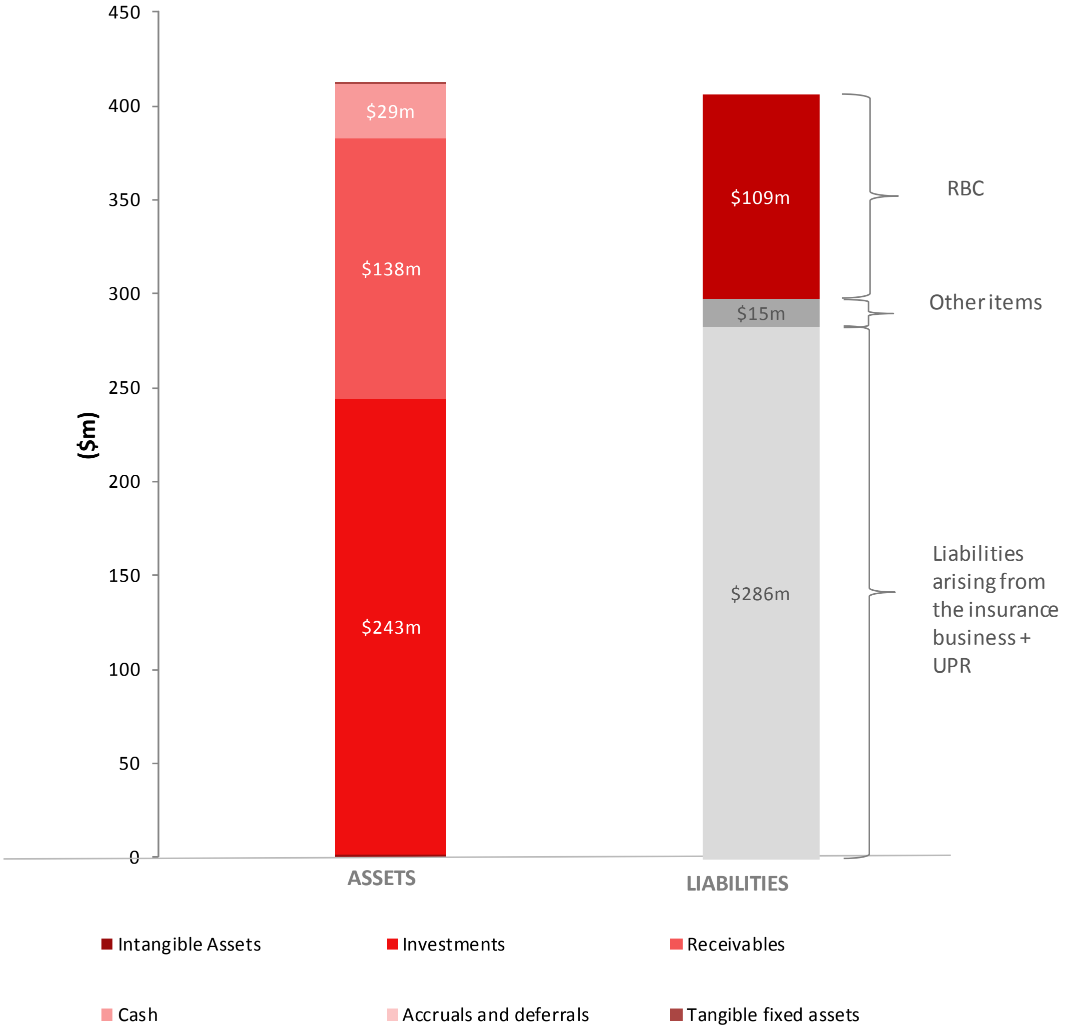
Looking at the diversified components of the TC it can be seen that Insurance risk makes up 74% of the total with Other Credit Risk making up most of the remaining.

On a diversified basis insurance risk has an expected shortfall of CHF 60.2m (USD 61.8m) which is 93% Reserve risk and 7% IE2 scenarios. Market risk makes up CHF 2.3m (USD 2.4m) of the TC which is a 2.9%. The other elements of the TC are non-diversifying and are as above.

7.3 Risk-bearing capital

The RBC for SC Re as at 31/12/2017 is CHF 106.0m (USD 108.8m) (vs CHF 496.7m at 31/12/2016). This is made up of total assets of CHF 401.7m (USD 412.2m), less total liabilities of CHF 293.8m (USD 301.5m), less a further CHF 1.3m (USD 1.4m) of deductions for intangible assets.

Overview of the Economic Balance sheet



The RBC has reduced by CHF 390.6m (USD 400.9m) due to a CHF 85.6 (USD 87.8m) increase in liabilities mostly following the 2017 US windstorm season as well as a CHF 306m (USD 314m) reduction in assets mostly due to placements to FAL.

Appendix

A. Auditor Report and Financial Statements

B. Performance Solo RV 2017

Report of the statutory auditor

with financial statements as of 31 December 2017 of

Sompo Japan Canopius Reinsurance AG, Zürich

Building a better
working world

Ernst & Young Ltd
Maagplatz 1
P.O. Box
CH-8010 Zurich

Phone +41 58 286 31 11
Fax +41 58 286 30 04
www.ey.com/ch

To the General Meeting of

Sompo Japan Canopius Reinsurance AG, Zürich

Zurich, 25 April 2018

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Sompo Japan Canopius Reinsurance AG, which comprise the balance sheet, income statement and notes, for the year ended 31 December 2017.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance 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 the internal control system relevant to the entity's preparation 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 entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, 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 financial statements for the year ended 31 December 2017 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Christian Fleig
Licensed audit expert
(Auditor in charge)

Kerry Herholdt
CA (SA)

Enclosures

- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of available earnings

canopius

Financial Statement of Sompo Japan Canopius Reinsurance AG

Management report

Overview including competition, supply and demand

In the past financial year 2017, Sompo Japan Canopius Reinsurance AG (SCRe) was affected by the natural catastrophe events in the US and thus no longer able to repeat the successful results of last year. The company reports an annual loss of CHF 69.2m with a balance sheet total of CHF 757.4m. The total reported shareholder equity at year-end of CHF 433.2m, representing a percentage of 57.2% of total assets, is still at a very comfortable level.

The financial result for 2017 is mainly affected by the very high catastrophe losses in the USA, caused by Hurricanes Harvey, Irma and Maria and California Wildfire shortly before the end of the year, supplemented by additional claims incurred as a result of the discounting Ogden interest rate adjustments for lump-sum payments for personal injury claims confirmed by the UK court. While the losses are high in absolute terms they fell within the modelled range of outcomes. SCRe's result reflects the composition of its book which largely consists of high margin but volatile nat cat business.

The costs incurred were higher than planned due to additional one-off start-up and closure costs for the Singapore and USA branches. While gross written premiums increased by CHF 13.9m, net earned premiums decreased by CHF 37.2m. The underwriting margin dropped by CHF 84.6m, well below the previous year's value (CHF 19.6m in 2016). The reason for this is the exceptionally high burden from natural catastrophes already mentioned above, which is also reflected in the very high combined ratio of 184% (86% in 2016).

As in previous years, 2017 was characterized by a challenging market environment, with SCRe continuing to focus its underwriting on maintaining profitability and adhering to reliable, prudent and selective underwriting principles. The Bermuda branch generated more signed premiums as in the previous year (CHF 84.2m compared to CHF 71.6m in 2016) despite the difficult environment. Due to the ongoing management buyout negotiations, it was decided at the beginning of the year that SCRe would not write any new business in Singapore and the US. At the end of the third quarter, licenses for both locations were returned due to the high running costs and the decision to close the Singapore and US branches.
The Zurich branch signed roughly the same European business as last year (CHF 23.4m compared to CHF 22.0m in 2016).

The integration of the global group reinsurance business into SCRe was halted due to the ongoing management buyout. This extraordinary event required SCRe to interact with FINMA frequently as well as with other relevant supervisory authorities such as Delaware, BMA and MAS.

The underwriting provisions at year-end amounted to CHF 254.2m. This corresponds to a coverage ratio of 271% (160% in 2016). The technical result was negative at CHF 79.0m (CHF 1.2m in 2016), a significant deterioration compared to the previous year.

The administration costs in 2017 amounted to CHF 13.9m, which corresponds to an administrative cost ratio of 14.8% (13.9% in 2016). The high cost ratio is mainly due to additional one-off set-up and liquidation costs of the Singapore and US branch and the strategic realignment of the company. Direct costs were additionally burdened by reallocated Group expenses resulting from the outsourcing of services to the Group.

At the end of the year SCRe held investments with a carrying amount of CHF 614.6m. The current income from investments amounted to CHF 12.4m, which was in the same range as last year with CHF 12.8m. In a difficult investment environment, this results in a return on investment of 2.0% (2.0 % in 2016).

The Board of Directors will not propose a dividend to the Annual General Meeting.

Staff

In 2017, SCRe employed an average of 12 full-time equivalents (FTE), reduced from 12.3 FTE at the beginning of the year to 7.7 FTE at year-end. The main driver behind this reduction was the transfer of SCRe's underwriting team (4 employees) to Canopius Europe Ltd. Zurich Branch in December 2017.

Vision, Strategy and Strategic Priorities

The reinsurance market continues to be characterised by wealth of capital and fierce competition. Reinsurance has been a buyer's market for many years and rate increases – despite the 2017 cat losses – are very modest and not reversing the soft market. Profitable customer accounts and business areas are under even greater pressure. Price is the most important distinguishing feature, leaving little room for expansion. In such an environment, underwriting discipline and cost control are essential to secure results.

Extraordinary events

The management buyout to Centerbridge is completed by the 9th March 2018 and the name changes from Sompo Japan Canopius Reinsurance AG to Canopius Reinsurance AG. The Canopius Group, including Canopius Reinsurance AG, will operate as an independent company with its own management, strategy, underwriting and overall concept.

At the end of February 2017, the discount rates for lump-sum payments for personal injury claims in the United Kingdom (Ogden) were revised by a court from an earlier positive rate of 2.5% to a negative rate of 0.75%. This change had a significant impact on the provisions for personal injury claims, which we have under existing internal quota shares with syndicate 958 from previous years.

The natural catastrophe reinsurance business written by SCRe went through a very eventful year. The US hurricane season in particular caused very high losses (HIM). Additional damage was caused by the largest open fire in the history of the state of California, which took place in December.

Funds at Lloyds (FAL) have massively increased the amount of funds required by its members. At the beginning of December 2017 SCRe contributed CHF 106.9m pledged assets to cover the funds required by the syndicate. The assets pledged by SCRe to Funds at Lloyds (FAL) on behalf of the Syndicate are indemnified by Flectat Limited at market conditions.

Risk management

Due to the volatile nature of reinsurance business, and the potential for significant losses, SCRe has a dedicated risk policy and maintains a tight risk management system. The features of this risk management system are explained in more detail in the attached Financial Statement under the Note section (n) Information on risk assessment. All events and effects of 2017 are in line with expectations.

Outlook

Going forward SCRe will cease to write open market business and serve exclusively as a captive reinsurer for Canopius Group. The strategy of the group foresees a premium volume of CHF 511.6m compared to CHF 107.6m in 2017. This is to be achieved by drawing internal quota share treaties with Syndicate 4444. Thus, the strategic orientation of SCRe will focus on internal transactions for the time being. Even after the management buyout, Sompo Holdings Inc. will maintain the parental guarantee for the reinsurance business assumed by SCRe until the end of 2017 until the final settlement of all reserves.

Watson, Michael
Chairman of the Board of Directors

Schumacher, Patrick
Chief Executive Officer

Financial Statement of Sompo Japan Canopius Reinsurance AG

Balance sheet as at 31 December

in CHF

Assets	Notes	2017	2016
Investments	1	580,720,184	581,884,292
Fixed-interest securities		377,102,924	419,855,359
Equity shares		15,542,242	-
Derivative financial instruments	9	-	768,726
Other investments	2	188,075,018	161,260,207
Cash and cash equivalents	1	33,850,492	57,885,709
Tangible assets	3	66,783	1,041,852
Intangible assets	3	1,423,564	2,686,011
Reinsurance technical provisions non-life	4	486,128	959,838
Deferred acquisition costs		4,096,360	2,324,800
Receivables from reinsurance operations	5	127,730,060	100,314,265
Other receivables	6	7,478,904	1,938,311
Accrued income and prepaid expenses	7	1,551,042	1,569,762
Total assets		**757,403,517**	**750,604,840**

Liabilities and equity		2017	2016
Technical provisions non-life	4	254,193,694	209,315,093
Payables from reinsurance operations	8	57,523,277	4,520,759
Other liabilities	9	9,236,607	16,562,608
Accrued expenses and deferred income	10	3,222,300	2,078,984
Total liabilities		**324,175,878**	**232,477,444**
Share capital		100,000,000	100,000,000
Legal capital reserves		50,000,000	50,000,000
Free reserves		287,809,320	289,906,928
Retained earnings		-4,581,681	62,554,016
Currency conversion difference		-	15,666,452
Total equity	11	**433,227,639**	**518,127,396**
Total liabilities and equity		**757,403,517**	**750,604,840**

Income statement
in CHF

	Notes	2017	2016
Gross premium written		107,575,697	93,678,593
Premiums ceded to reinsurers	12	-10,716,910	-1,903,837
Net premiums written		**96,858,787**	**91,774,756**
Change in unearned premium reserves	13	-2,827,519	39,344,003
Change in reinsurers' share of unearned premium reserves	13	-43,720	79,376
Net premiums earned		**93,987,548**	**131,198,135**
Total technical income		**93,987,548**	**131,198,135**
Gross claims and claim expenses paid		-61,990,561	-51,773,795
Reinsurer's share of claims and claim expenses		529,733	648,717
Change in technical provisions	13	-78,708,378	-33,199,673
Change in reinsurers' share of technical provisions	13	-403,029	-123,662
Net claims and claim expenses incurred		**-140,572,234**	**-84,448,413**
Direct commissions and underwriting expenses	14	-18,505,600	-27,253,777
Administrative expenses	15	-13,891,946	-18,280,712
Net acquisition costs and administrative expenses		**-32,397,546**	**-45,534,490**
Total technical expenses		**-172,969,780**	**-129,982,903**
Total technical result		**-78,982,232**	**1,215,232**
Income from investments	16	19,959,913	26,201,166
Expenses from investments	17	-7,542,177	-13,440,685
Net income from investments		**12,417,736**	**12,760,482**
Other financial expenses		-258,045	-481,346
Operating income / loss		**-66,822,541**	**13,494,367**
Other income	18	2,020,003	2,942,722
Other expenses		-	-
Currency translation adjustments		-4,088,723	-
Profit / loss before tax		**-68,891,261**	**16,437,090**
Direct tax		-342,044	-9,435
Profit / Loss		**-69,233,305**	**16,427,654**

Cash flow statement
in CHF

Cash flows from operating activities	Notes	2017	2016
Profit / (Loss) before tax		-68,891,261	16,437,090
P&L average/closing rate differences		629,315	624,054
Net fair value losses/(gain) on investments including FX		1,060,722	-
(Increase)/Decrease in debtors, prepayments and accrued income		-38,012,148	5,709,781
Increase/(Decrease) in creditors		-3,868,955	-19,410,280
Increase in net claims and unearned premium reserves		104,103,905	-47,084,652
Depreciation of property and equipment		931,945	-1,041,850
Amortisation of intangible assets		1,151,274	-759,036
Currency translation adjustment losses		4,088,723	-
Net cash inflow from operating activities		**1,193,521**	**-45,524,893**
Income tax paid		-342,044	-9,435
Net cash from operating activities		**851,477**	**-45,534,328**
Cash flows from investing activities			
Purchase less sales of financial assets		-22,490,819	20,017,392
Other		-	-
Net cash used in investing activities		**-22,490,819**	**20,017,392**
Cash flows from financing activities			
Proceeds from issue of shares		-	-
Purchase of own shares		-	-
Dividend payments		-	-
Net cash from financing activities		-	-
Cash flows for the financial year		**-21,639,342**	**-25,516,937**
Change of cash and cash equivalent in the financial year			
Balance at the beginning of the financial year		57,885,709	80,900,396
Exchange rate difference on cash and cash equivalents		-2,395,875	2,502,250
Balance at the end of the financial year		33,850,492	57,885,709
Net change during the financial year		**-21,639,342**	**-25,516,937**

Financial Statement of Sompo Japan Canopius Reinsurance AG

Notes to the Financial Statement

The following notes are an integral part of the income statement and balance sheet for the period 1 January to 31 December 2017.

1. General information

Sompo Japan Canopius Reinsurance AG ("SCRe"), incorporated and registered in Switzerland, is a reinsurance company 100% owned by Sompo Canopius AG ("Group"). Sompo Holdings, Inc. is the ultimate controlling party owning 100% of Sompo Canopius AG.

2. Basis of presentation

SCRe presents its financial statements in accordance with Swiss law. The latest version of the Swiss Code of Obligations has been applied effective from 23 November 2015 (date of incorporation of SC Re).

All amounts in this financial statement including the notes are shown in Swiss Francs (CHF), pursuant to Art. 958d, paragraph 3, CO, unless otherwise specified.

3. Summary of significant accounting policies

(a) Foreign currency translation

As is common practice in the international reinsurance business, accounts are denominated in the original currencies. For the purposes of the balance sheet, translations are made into USD at year-end exchange rates; income statement amounts are translated at the relevant quarterly exchange rates. The resulting exchange-rates differences are recognised in the income statement. Net non-realised gains derived from foreign-currency translation are reserved.

The presentation currency of this financial statement is CHF. Assets and liabilities are translated at year-end exchange rate of USD/CHF 0.98826; Income statement is translated at the average exchange rate of 0.9979; Equity is kept at historical exchange rates.

During 2017, a 2015 currency translation error (CHF 1.06m) was identified. This was corrected in the current year profit and loss.

(b) Current assets

Receivables and deposits represent debtors with fixed or determinable settlement amounts. Appropriate allowances for estimated irrecoverable amounts are recognised in the Income Statement when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms.

(c) Investments

Fixed-interest securities are valued at amortised cost less required impairments. The annual amortisation amount is recognised as current income.

Equity investments and investment funds are valued at the lower of cost or market value.

(d) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value at year end. Fair values are determined by reference to quoted market prices for similar instruments and using appropriate valuation techniques, including discounted cash flow and options pricing models. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. For derivatives not formally designated as a hedging instrument, changes in the fair value are recognised immediately in the income statement. All derivatives are carried as assets if the fair value is positive and as liabilities if the fair value is negative.

(e) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less. These assets are readily convertible into known amounts of cash.

(f) Net technical provisions

Unearned premiums, the provision for outstanding claims and other technical provisions are based on information supplied by cedants. Final calculations conducted internally may result in the original reported provisions being adjusted. Additional provisions are created based on estimates for claims incurred but not yet reported.

(g) Premium and claim portfolio movements

Premiums consist of premium portfolio inflows and outflows and claims paid consist of the corresponding claims portfolio inflows and outflows.

(h) Taxation

The tax expense represents the sum of current tax.

Current tax is determined based on the taxable profit or loss for the year and adjustments to tax payable or recoverable on prior years' profits or losses. The taxable profit or loss differs from the profit or loss before tax as reported in the income statement because it excludes items of income or expense that may be taxable or deductible in other years or are expected never to be taxable or deductible. The Company's liability or asset for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Other provisions for taxes include liabilities relating to taxes on income and capital at year-end as well as estimated income tax on years that have not yet been assessed for tax purposes.

(i) Shareholders information

SCRe's shareholder is Sompo Canopius AG (incorporated in Zürich) holding 100% of the shares.
The share capital consists of 100 million shares, each with a nominal value of CHF 1.

(k) Parental guarantee

SCRe benefits from a parental guarantee issued by Sompo Japan Nipponkoa Insurance Inc. in Japan (the "Guarantor") on any obligations deriving from reinsurance policies:

- The obligations of the Guarantor under the guarantee ranks pari passu with all other unsecured and unsubordinated indebtedness of the Guarantor.
- The guarantee is unconditional and payable on first demand.

(l) Rating

- Standard & Poor's: A+ «Outlook under review»
- AM Best: A «Outlook under review»

(m) Undisclosed reserves

There are no undisclosed reserves.

(n) Information on risk assessment

Governance and responsibilities

The Board of Directors is responsible for the risk management principles and policies, as well as for approving the overall risk tolerance. The operational risk processes are delegated to an independent risk function that is responsible for risk assessment, reporting and escalation.

SCRe's risk management function is fully embedded in the Group risk management framework. One of the objectives of an efficient Internal Control System (ICS) is to promote and enhance the risk and control culture at SC Re in all areas and at all levels. All staff is instructed to proactively report deficiencies and risks in their areas of activity to enable timely action to be taken to remedy them.

Risk management objectives and methodology

The careful selection and underwriting of insurance risks is at the core of SCRe's business model. The Company deploys a variety of risk management tools, processes and functions to manage its operational and financial risks, and seeks to optimize the balance between risks taken and earnings opportunities.

SCRe's risk management strategy is aimed at:

- Maintaining SCRe's financial strength
- Safeguarding the reputation of SC Re and the Group
- Enabling SC Re to protect and generate sustainable shareholder value

The two main elements of SCRe's risk management approach are:

- A system of internal controls aimed at avoiding and reducing undesired risk
- Regular analysis and measurement (quantification) of risks

The primary tool for measuring and quantifying risks at the legal-entity level is the internal risk modelling framework developed for the Swiss Solvency Test (SST) and based on the Group capital model.

Risk identification

Risks are identified and classified according to their potential exposure to one or to a combination of the following risk types: insurance, market, credit, operational, liquidity, reputational and strategic risks.

The majority of SCRe's risk and control activities are in the area of underwriting risks, focusing on the correct assessment of risk, exposure, price, wording and guidelines.

Risk evaluation and measurement

The evaluation and quantitative measurement of the risks are documented in the quarterly Internal Risk Report.

Risk is defined as the possibility of a future deviation from a predefined goal, which can, individually or cumulatively; significantly affect the financial situation of SCRe.

SCRe determines the economic capital required to absorb losses from risks crystallising by using the stochastic internal risk model as developed for the Swiss Solvency Test (SST). The economic risk capital corresponds to the 99% tail value at risk (TVaR) over a one-year time horizon. This represents an estimate of the expected annual loss likely to occur with a frequency of less than once in one hundred years.

Internal Control System (ICS)

SCRe has a holistic approach to the ICS and its application is a continuous process, mainly based on the segregation of duties. The ICS is adjusted periodically to reflect changes in the business and control environment.

SCRe adheres to the Group framework of regulations and policies.

There are no other facts requiring disclosure under Art. 663b CO.

Financial Statement of Sompo Japan Canopius Reinsurance AG

Disclosures and explanations on balance sheet items

1. Investments
in CHF

Duration	Cash and cash equivalents	Other investments *	Derivative financial instruments	Fixed-interest securities	Equity shares	Total
2017						
Less than one year	33,850,492	2,465,805	-	13,729,238	-	50,045,535
Between one and two years	-	-	-	47,963,339	-	47,963,339
Between two and five years	-	-	-	180,432,559	-	180,432,559
Over five years	-	13,572,985	-	134,977,788	-	148,550,773
Other non-dated instruments	-	172,036,229	-	-	15,542,242	187,578,471
	33,850,492	188,075,018	-	377,102,924	15,542,242	614,570,676

Duration	Cash and cash equivalents	Other investments *	Derivative financial instruments	Fixed-interest securities	Equity shares	Total
2016						
Less than one year	57,885,709	27,298,366	768,726	27,196,315	-	113,149,116
Between one and two years	-	-	-	57,906,550	-	57,906,550
Between two and five years	-	-	-	187,060,347	-	187,060,347
Over five years	-	14,146,731	-	147,692,146	-	161,838,877
Other non-dated instruments	-	119,815,110	-	-	-	119,815,110
	57,885,709	161,260,207	768,726	419,855,359	-	639,770,001

Level	Cash and cash equivalents	Other investments *	Derivative financial instruments	Fixed-interest securities	Equity shares	Total
2017						
Level 1	33,850,492	89,931,580	-	230,653,968	15,542,242	369,978,283
Level 2	-	98,143,438	-	146,448,956	-	244,592,394
	33,850,492	**188,075,018**	**-**	**377,102,924**	**15,542,242**	**614,570,676**

	Cash and cash equivalents	Other investments *	Derivative financial instruments	Fixed-interest securities	Equity shares	Total
2016						
Level 1	57,885,709	68,352,560	-	301,326,524	-	427,564,793
Level 2	-	92,907,647	768,726	118,528,836	-	212,205,209
	57,885,709	**161,260,207**	**768,726**	**419,855,359**	**-**	**639,770,001**

Rating	2017	2016
AAA	62,047,941	76,498,449
AA	207,255,722	258,063,007
A	92,270,801	112,339,872
BBB	51,735,804	58,468,435
<BBB	-	-
not rated	201,260,408	134,400,238
	614,570,676	**639,770,001**

* Details of the Other investments in notes 2

2. Other investments

in CHF

	2017	2016
Holdings in collective investment schemes	172,036,230	119,850,882
Investments in senior secured loans	13,572,985	14,146,731
Deposits with credit institutions	2,465,804	27,262,594
	188,075,018	**161,260,207**

3. Tangible and intangible assets

in CHF

	2017	2016
Property and equipment	112,732	113,162
Revaluation of assets under constructions *	-	950,393
Depreciation property and equipment	-45,949	-21,703
	66,783	**1,041,852**
Intangible assets	3,416,094	3,359,017
Depreciation intangible assets	-1,992,530	-673,007
	1,423,564	**2,686,011**

* Capital expenses for IT related items which have not gone in live production

Schedule of amortisation	Start period	Asset life
Tangible assets		
Furniture	01/2016	5 years
Computers and Communication	01/2016	3 years
Intangible assets		
IT programmes and interfaces technical accounting	01/2016	3 years

4. Technical provisions non-life

in CHF

2017	Gross	Retro	Net
Unearned premium reserve	17,960,751	-35,682	17,925,069
Claims outstanding			
Reported	96,975,218	-273,152	96,702,066
IBNR	118,579,924	-177,294	118,402,630
ULAE	2,094,292	-	2,094,292
AVO risk margin	18,583,509	-	18,583,509
	254,193,694	**-486,128**	**253,707,566**

2016	Gross	Retro	Net
Unearned premium reserve	16,981,898	-82,391	16,899,507
Claims outstanding			
Reported	90,271,051	-404,076	89,866,975
IBNR	82,759,089	-473,371	82,285,718
ULAE	404,043	-	404,043
AVO risk margin	18,899,011	-	18,899,011
	209,315,093	**-959,838**	**208,355,254**

5. Receivables from reinsurance operations

in CHF

	2017	2016
Debtors arising out of reinsurance operations	43,651,708	27,632,761
Insurance receivables out of group operations*	84,040,544	72,648,531
Other debtors	37,808	32,973
	127,730,060	**100,314,265**

* Receivables in respect of other affiliated companies belonging to the Sompo Canopius Group

6. Other receivables

in CHF

	2017	2016
Receivables from group undertakings *	6,978,994	1,938,311
Other debtors	499,909	-
	7,478,904	**1,938,311**

* Affiliated companies belonging to the Sompo Canopius Group

7. Accrued income and prepaid expenses
in CHF

	2017	2016
Prepayments	61,601	-
Accruals	1,489,441	1,569,762
	1,551,042	**1,569,762**

8. Payables from reinsurance operations
in CHF

	2017	2016
Creditors arising out of reinsurance operations	-351,088	61,962
Insurance payables out of direct operations*	53,204,160	25,283
Accruals profit commissions	4,670,205	4,433,514
	57,523,277	**4,520,759**

* Payables in respect of other affiliated companies belonging to the Sompo Canopius Group

9. Other liabilities
in CHF

	2017	2016
Liabilities due to group undertakings *	971,479	5,049,429
Tax liabilities	32,111	-142,163
Investment Straddler	7,815,646	11,613,978
Derivative financial instruments	417,371	-
Other creditors	-	41,364
	9,236,607	**16,562,608**

* Affiliated companies belonging to the Sompo Canopius Group

10. Accrued expenses and deferred income
in CHF

	2017	2016
Deferred income	807,270	1,070,529
Accruals	2,415,030	1,008,455
	3,222,300	**2,078,984**

11. Statement of changes in equity

in CHF

	Share capital	Legal capital reserves	Free reserves: General reserves	Free reserves: Organisation fund *	Retained earnings	Currency conversion difference	Total equity
As at 01.01.2016	100,000,000	50,000,000	284,510,000	7,888,000	43,938,947	-294,561	486,042,386
Appropriation of earnings							
Dividend payments	-	-	-	-	-	-	-
Allocation to free reserves	-	-	-	-2,491,072	2,491,072	-	-
Profit for the year	-	-	-	-	16,427,654	-	16,427,654
Currency conversion differences	-	-	-	-	-303,657	15,961,013	15,657,356
As at 31.12.2016	100,000,000	50,000,000	284,510,000	5,396,928	62,554,016	15,666,452	518,127,396
Appropriation of earnings							
Dividend payments	-	-	-	-	-	-	-
Allocation to free reserves	-	-	-	-2,097,608	2,097,608	-	-
Profit for the year	-	-	-	-	-69,233,305	-	-69,233,305
Currency conversion differences	-	-	-	-	-	-15,666,452	-15,666,452
As at 31.12.2017	100,000,000	50,000,000	284,510,000	3,299,320	-4,581,681	-	433,227,639

* Set-up Organization fund in 2015 CHF 10,000,000 (USD 10,000,000)

Disclosures and explanations on income statement items

12. Premiums ceded to reinsurers

in CHF

	2017	2016
Ordinary retrocessions	-812,753	-1,903,837
Industry loss warranty (ILW)	-9,904,158	-
	-10,716,910	**-1,903,837**

13. Changes in technical provisions non-life

in CHF

2017	**Gross**	**Retro**	**Net**
Unearned premium reserve	-2,827,519	-43,720	-2,871,239
Claims outstanding			
Reported	-22,712,112	-114,164	-22,826,276
IBNR	-53,819,178	-288,865	-54,108,043
ULAE	-1,705,810	-	-1,705,810
AVO risk margin	-471,277	-	-471,277
	-81,535,896	**-446,749**	**-81,982,645**

2016	**Gross**	**Retro**	**Net**
Unearned premium reserve	39,344,003	79,376	39,423,379
Claims outstanding			
Reported	-8,758,766	-376,269	-9,135,034
IBNR	-5,844,276	252,607	-5,591,669
ULAE	-389,287	-	-389,287
AVO risk margin	-18,207,344	-	-18,207,344
	6,144,330	**-44,287**	**6,100,044**

14. Changes in direct commissions and underwriting expenses

in CHF

	2017	2016
Acquisition costs, brokerage and commissions	-17,064,008	-15,588,851
Profit commissions	37,033	-4,502,061
Changes in deferred acquisition costs	-1,515,817	-7,162,865
Other underwriting costs	37,192	-
	-18,505,600	**-27,253,777**

15. Administrative expenses
in CHF

	2017	2016
Personnel expenses	-6,528,609	-5,768,772
Travel	-193,802	-310,574
Premises, assets and IT	-3,063,057	-1,823,256
Professional fees	-1,543,880	-1,560,302
Recharges & Reclassification	-2,396,112	-8,366,721
Other operating expenses	-166,486	-451,088
	-13,891,946	-18,280,712

16. Income from investment
in CHF

2017	Income	Realized gains	Unrealized gains	Total
Fixed-interest securities	10,014,690	1,850,003	6,045,421	17,910,114
Equity shares	459,609	-	-	459,609
Derivative financial instruments	-	52,217	-	52,217
Investments in senior secured loans	1,372,537	-	-	1,372,537
Deposits with credit institutions	159,166	-	-	159,166
Other	6,271	-	-	6,271
	12,012,272	1,902,220	6,045,421	19,959,913

2016	Income	Realized gains	Unrealized gains	Total
Fixed-interest securities	9,644,743	3,952,320	9,897,257	23,494,320
Equity shares	194,504	-	-	194,504
Derivative financial instruments	-	1,044,883	6,607	1,051,490
Investments in senior secured loans	1,194,894	-	-	1,194,894
Deposits with credit institutions	265,958	-	-	265,958
Other	-	-	-	-
	11,300,099	4,997,203	9,903,864	26,201,166

17. Expenses from investment
in CHF

2017	Expenses	Realized losses	Unrealized losses	Total
Fixed-interest securities	-	-4,079,153	-2,330,140	-6,409,293
Equity shares	-	-	-	-
Derivative financial instruments	-	-	-104,872	-104,872
Management fees and expenses	-1,028,012	-	-	-1,028,012
	-1,028,012	**-4,079,153**	**-2,435,013**	**-7,542,177**

2016	Expenses	Realized losses	Unrealized losses	Total
Fixed-interest securities	-	-6,894,023	-6,010,589	-12,904,612
Equity shares	-	-	-	-
Derivative financial instruments	-	-	-	-
Management fees and expenses	-536,073	-	-	-536,073
	-536,073	**-6,894,023**	**-6,010,589**	**-13,440,685**

18. Other income
in CHF

	2017	2016
Profit/Loss on exchange	1,824,603	2,395,229
Other income	195,400	547,494
	2,020,003	**2,942,722**

Other notes to the financial statement

19. Audit fees
in CHF

	2017	2016
Audit fees	-175,754	-241,219
	-175,754	**-241,219**

20. Total amount of collaterals provided for third-party liabilities
in CHF

	2017	2016
Facilities (LOC, pledged accounts, etc.)	9,349,740	40,914,490
Funds at Lloyds	106,916,470	-
	116,266,210	**40,914,490**

Barclays has granted a credit facility of up to CHF 19,958,000 (USD 20,000,000)

21. Full-time equivalents

	2017	2016
Average number of full-time equivalents	12	14
	12	**14**

Proposal for the appropriation of distributable earnings

in CHF

	Notes	2017	2016
Retained earnings carried forward	11	62,554,016	43,635,290
Profit / Loss		-69,233,305	16,427,654
Distributable earnings		**-6,679,289**	**60,062,944**

Proposal of the Board of Directors:

Distributable earnings	-6,679,289	60,062,944
Transfer to Legal capital reserves	-	-
Transfer to Organisation fund	2,097,608	2,491,072
Dividend payments	-	-
Amount carried forward	**-4,581,681**	**62,554,016**

Financial situation report: quantitative template "Performance Solo Reinsurance"

Currency: USD
Amounts stated in millions

		Total	Personal accident	Health	Motor	Marine, aviation, transport	Property	Casualty	Miscellaneous
		Reporting year	Reporting year	Reporting year	Reporting year	Reporting year	Reporting year	Reporting year	Reporting year
1	Gross premiums	107.8	-2.6	-	1.7	-0.2	92.9	18.9	-2.9
2	Reinsurers' share of gross premiums	-10.7	-	-	-	-	-10.6	-0.1	-
3	Premiums for own account (1 + 2)	97.1	-2.6	-	1.7	-0.2	82.3	18.8	-2.9
4	Change in unearned premium reserves	-2.9	0.3	-	0.1	1.6	-6.5	0.7	0.9
5	Reinsurers' share of change in unearned premium reserves	-	-	-	-	-	-	-	-
6	Premiums earned for own account (3 + 4 + 5)	94.2	-2.3	-	1.8	1.4	75.8	19.5	-2.0
7	Other income from insurance business	-	-	-	-	-	-	-	-
8	**Total income from underwriting business (6 + 7)**	94.2	-2.3	-	1.8	1.4	75.8	19.5	-2.0
9	Payments for insurance claims (gross)	-62.1	-0.9	-	-3.2	-8.1	-30.2	-18.6	-1.1
10	Reinsurers' share of payments for insurance claims	-	-	-	-	-	-	-	-
11	Change in technical provisions	-78.9	-0.1	-	-1.2	6.6	-101.9	16.9	0.8
12	Reinsurers' share of change in technical provisions	0.1	-	-	-	0.1	0.1	-0.1	-
13	Change in technical provisions for unit-linked life insurance	-	-	-	-	-	-	-	-
14	Expenses for insurance claims for own account (9 + 10 + 11 + 12 + 13)	-140.9	-1.0	-	-4.4	-1.4	-132.0	-1.8	-0.3
15	Acquisition and administration expenses	-	-0.1	-	-0.1	-0.8	-14.5	-3.5	0.5
16	Reinsurers' share of acquisition and administration expenses	-							
17	Acquisition and administration expenses for own account (15 + 16)	-18.5	-0.1	-	-0.1	-0.8	-14.5	-3.5	0.5
18	Other underwriting expenses for own account	-	-	-	-	-	-	-	-
19	**Total expenses from underwriting business (14 + 17 + 18) (non-life insurance only)**	-159.4	-1.1	-	-4.5	-2.2	-146.5	-5.3	0.2
20	Investment income	20.0							
21	Investment expenses	-7.6							
22	**Net investment income (20 + 21)**	12.4							
23	Capital and interest income from unit-linked life insurance	-							
24	Other financial income	0.2							
25	Other financial expenses	-0.2							
26	**Operating result (8 + 14 + 17 + 18 + 22 + 23 + 24 + 25)**	-52.8							
27	Interest expenses for interest-bearing liabilities	-							
28	Other income	1.8							
29	Other expenses	-13.9							
30	Extraordinary income/expenses	-							
31	**Profit / loss before taxes (26 + 27 + 28 + 29 + 30)**	-69.1							
32	Direct taxes	-0.4							
33	**Profit / loss (31 + 32)**	-69.5							

(As the amounts are stated in USD, currency translation amount loss in CHF is missing)

Financial situation report: quantitative template "Market-consistent Balance Sheet Solo"

Currency: USD
Amounts stated in millions

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
Market-consistent value of investments	Real estate	0	0.0	0
	Shareholdings	0	0.0	0
	Fixed-income securities	273.7	-40.3	233.4
	Loans	13.7	0.0	13.7
	Mortgages	0	0.0	0
	Equities	0	15.7	15.7
	Other investments	276.3	48.4	324.7
	Collective investment schemes	142.4	34.1	176.5
	Alternative investments	0	0.0	0
	Other investments	133.9	14.3	148.2
	Total investments	563.7	23.8	587.5
	Financial investments from unit-linked life insurance	0	0.0	0
	Receivables from derivative financial instruments	0.8	-0.8	0
Market-consistent value of other assets	Cash and cash equivalents	56.1	-21.8	34.3
	Receivables from insurance business	98.2	31.6	129.8
	Other receivables	1.5	0.0	1.5
	Other assets	5.6	0.1	5.7
	Total other assets	7.1	0.1	7.2
Total market-consistent value of assets	Total market-consistent value of assets	725.9	32.9	758.8
Best estimate liabilities (BEL)	Best estimate of provisions for insurance liabilities			
	Direct insurance: life insurance business (excluding ALV)	0.0	0.0	0.0
	Direct insurance: non-life insurance business	0.0	0.0	0.0
	Direct insurance: health insurance business	0.0	0.0	0.0
	Direct insurance: unit-linked life insurance business	0.0	0.0	0.0
	Direct insurance: other business	0.0	0.0	0.0
	Outward reinsurance: life insurance business (excluding ALV)	0.0	0.0	0.0
	Outward reinsurance: non-life insurance business	0.0	0.0	0.0
	Outward reinsurance: health insurance business	0.0	0.0	0.0
	Outward reinsurance: unit-linked life insurance business	0.0	0.0	0.0
	Outward reinsurance: other business	0.0	0.0	0.0
	Reinsurers' share of best estimate of provisions for insurance liabilities			
	Direct insurance: life insurance business (excluding ALV)	0.0	0.0	0.0
	Direct insurance: non-life insurance business	-196.0	-43.4	-239.4
	Direct insurance: health insurance business	0.0	0.0	0.0
	Direct insurance: unit-linked life insurance business	0.0	0.0	0.0
	Direct insurance: other business	0.0	0.0	0.0
	Outward reinsurance: life insurance business (excluding ALV)	0.0	0.0	0.0
	Outward reinsurance: non-life insurance business	0.0	0.0	0.0
	Outward reinsurance: health insurance business	0.0	0.0	0.0
	Outward reinsurance: unit-linked life insurance business	0.0	0.0	0.0
	Outward reinsurance: other business	0.0	0.0	0.0
Market-consistent value of other liabilities	Non-technical provisions	0.0	0.0	0.0
	Interest-bearing liabilities	0.0	0.0	0.0
	Liabilities from derivative financial instruments	0.0	0.0	0.0
	Deposits retained on ceded reinsurance	0.0	0.0	0.0
	Liabilities from insurance business	0.0	0.0	0.0
	Other liabilities	-17.7	-51.6	-69.3
Total BEL plus market-consistent value of other liabilities	Total BEL plus market-consistent value of other liabilities	-213.7	-95.0	-308.7
	Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	512.2	-62.1	450.1

Financial situation report: quantitative template "Solvency Solo"

Currency: USD
Amounts stated in millions

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
		in USD millions	in USD millions	in USD millions
Derivation of RBC	Market-consistent value of assets minus total from best estimate liabilities plus market-consistent value of other liabilities	509.7		108.8
	Deductions	0.0		-
	Core capital	509.7		108.8
	Supplementary capital	0.0		-
	RBC	509.7	-400.9	108.8

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
		in USD millions	in USD millions	in USD millions
Derivation of target capital	Underwriting risk	302.9		62.9
	Market risk	31.6		12.9
	Diversification effects	-54.9		- 11.6
	Credit risk	15.6		9.9
	Risk margin and other effects on target capital	5.6		9.3
	Target capital	300.8	- 217.4	83.4

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
		in %	in %	in %
SST ratio	RBC-RM / TC-RM	172.4	- 37.8	134.6