

Financial Condition Report  
Canopus Reinsurance AG  
April 2019

# Document Approval

Approved By	Date
Board of Directors	23.04.2019

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## Table of Abbreviations

CRe:	Canopus Reinsurance AG
FAL:	Funds At Lloyds
Flectat:	Flectat Limited
FMIA:	Financial Market Infrastructure Act
Group:	Canopus AG
ICS:	Internal Control System
PRA:	Prudential Regulation Authority
RBC:	Risk Bearing Capital
RCSA:	Risk Control Self Assessment
RISC:	Reinsurance Security Committee
SCO:	Swiss Code of Obligation
Sompo:	Sompo Japan Nipponkoa Insurance
SST:	Swiss Solvency Test
TC:	Target Capital
TVaR:	Tail Value at Risk
VaR:	Value at Risk
YOA:	Year of Account

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## Management Summary

Canopus Reinsurance AG (CRe) (Name changed in March 2018 from Sompo Japan Canopus Reinsurance AG to Canopus Reinsurance AG) forms part of Canopus Group owned by a private equity consortium led by Centerbridge Partners, L.P. CRe is embedded in the Group management structure and corporate governance framework. CRe is supported by Group functions to optimise operations through defined Service Level Agreements (SLA). Between May 2014 and March 2018, Canopus Group was owned by Sompo Japan Nipponkoa Insurance, Inc. (Sompo), an 'A+' rated company and one of the top three Japanese P&C insurers. In September 2017, Sompo agreed to the sale of the Canopus Group to a private equity consortium led by Centerbridge. The deal completed in March 2018.

At the end of 2017 the strategic purpose of CRe was re-evaluated and the entity ceased writing underwriting open market reinsurance business and commenced underwriting reinsurance of other Canopus Group entities. CRe's two branches in Singapore and the US were closed in 2017 and both licences rendered. No business was written in either of the closed branches during their existence. Therefore, starting in 2018, CRe exclusively operated as a Group internal reinsurance carrier. The Swiss office did not underwrite any business. All intra-group reinsurance treaties have been underwritten through the Bermuda branch.

The financial result for 2018 is mainly affected by very high catastrophe losses in the USA caused by the California Wildfire and the proportionately allocated losses from the new 60% quota share contract written in 2018 with Flectat Limited (Flectat), a Canopus Group company. While the losses are high in absolute terms, they fell within the modelled range of outcomes. CRe's result reflects the composition of its book, which largely consists of high margin but volatile NatCat business.

The company reports an annual loss of CHF 38.3m. At the same time, the balance sheet total increased by CHF 63.2m to CHF 820.6m. At year's end, the recorded shareholder equity of CHF 397m remained at a high level comparable to the previous year. In relation to the balance sheet total, the shareholder equity was 48.4% compared with 57.2% in the preceding year.

CRe's risk management strategy is aimed at maintaining CRe's financial strength, safeguarding the reputation of CRe and the Group and enabling CRe to protect and generate sustainable shareholder value. Therefore the two main elements of CRe's risk management approach are a system of internal controls aimed at avoiding and reducing undesired risk and 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.

# 1 A. Business Activities

## 1.1 Group Information

CRe, incorporated and registered in Switzerland, is a reinsurance company owned fully by Canopius AG (Group). Fortuna Holdings Ltd. is the ultimate controlling party owning 100% of the Group.

## 1.2 Branches

CRe maintains a branch office in Bermuda.

## 1.3 External Auditors

Ernst & Young Ltd is the financial and regulatory auditor for 2018.

## 1.4 Strategy, Objectives, Key Business Segments

The protracted soft market conditions, which have shaped the business environment of the Company and the Group in recent history, have alleviated following the 2017 and 2018 catastrophes. Even though, rate increases have been more moderate than initially expected, the ongoing market softening appears to have halted. However, with significant political and economic uncertainties, vulnerabilities to a shock still exist. Inflation spikes, increasing levels of protectionism and the return to volatility in equity and bond prices, all pose significant risks to stability.

The risks to economic growth remain significant not least because of UK's decision to leave the European Union ("Brexit"). EU membership and access to the single market has enabled underwriters at Lloyd's to underwrite insurance and reinsurance from all of the other member states on a cross-border basis. The underwriters operate under a "passport" system, which allows them to conduct business throughout the EU while being regulated and supervised by the Prudential Regulation Authority ("PRA").

In 2018 the key Business Segment of CRe was exclusively operating as a Group internal reinsurer.

## 1.5 Significant Unusual Events

The management buyout to Centerbridge was completed on March 9, 2018 and the name changed from Sampo Japan Canopius Reinsurance AG to Canopius Reinsurance AG. The Group, including Canopius Reinsurance AG, is operating as an independent company with its own management, strategy, underwriting and overall concept.

All remaining quota share contracts from previous years with the Group were commutated. This concerns the internal quota share contracts with Syndicate 4444 and Syndicate 958 and the quota share contract with Everest Re. The termination of these contracts resulted in a gain of CHF 5.5m from the discounting effect.

Funds at Lloyds (FAL) have again increased the amount of funds required by its members since last year. By the end of December 2018, CRe contributed CHF 367.4m pledged assets to cover the funds required by the Group to support its interest in the 2019 Year of Account (YOA) of Syndicate 4444. The additional assets pledged by CRe to FAL on behalf of the Syndicate are indemnified by Flectat Limited at market conditions. Even after this transaction, the calculation of CRe's SST ratio still shows a comfortable level of over 120% with the assumption that the target capital is still the same as at the beginning of the year. However, it can be assumed that the target capital at the end of the year was considerably lower than at the beginning of the year, as no new business was written and the exposure decreased in the course of the year.

## 2 B. Performance

### 2.1 Premiums, Costs, Claims

In the previous financial year, CRe was again affected by natural catastrophe events in the USA. The company reports an annual loss of CHF 38.3m. At the same time, the balance sheet total increased by CHF 63.2m to CHF 820.6m. At year's end, the recorded shareholders' equity of CHF 397m remained at a high level comparable to the previous year. In relation to the balance sheet total, the shareholders' equity was 48.4% compared with 57.2% in the preceding year.

The costs incurred were higher than planned due to additional restructuring costs for the re-domiciliation of the company from Zurich to Bermuda. Gross written premiums increased by CHF 233.8m and the underwriting margin increased by CHF 63.4m, well above the previous year's value (CHF-65.1m in 2017). The reason for this increase is the new 60% quota share contract with Flectat. The combined ratio dropped from 184% in 2017 to 121% in the reporting period.

The administration costs in 2018 amounted to CHF 42.2m, which corresponds to an administrative cost ratio of 19.9% (14.8% in 2017). The high cost ratio is mainly due to additional one-off re-domiciliation costs and the strategic realignment of the company. Direct costs were additionally burdened by reallocated Group expenses resulting from outsourcing of services to the Group.

### 2.2 Comparison with Previous Reporting Period

The financial result for 2018 is mainly affected by very high catastrophe losses in the USA caused by the California Wildfire and the proportionately allocated losses from the new 60% quota share contract written in 2018 with Flectat Limited ("Flectat"), a company of the Group. While the losses are high in absolute terms, they fell within the modelled range of outcomes. CRe's result reflects the composition of its book, which largely consists of high margin but volatile NatCat business.

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

### 2.3 Comments on Quantitative Template "Performance Non-Life Solo"

We refer to the attached completed template "Performance Solo RV".

#### 2.3.1 Income from underwriting business

**Gross premium written** includes the premium from external and intra-group quota share contracts:

- Gross premium (external): Total Gross premium 2018 was CHF 13.4m compared to CHF 89.4m in 2017. This decrease primarily pertains to management decision to cease writing new business in anticipation of internal restructuring plans, including the re-domiciliation of the entity to Bermuda, hence a natural decrease in underwriting activities during 2018.
- Gross premium (Intra-group QS): Flectat QS, which incepted during 2018, increased the intra-group gross written premiums from CHF 18.4m in 2017 to CHF 327.9m in 2018.

**Net premiums earned** include the unearned portion of reinsurance contracts that were written and increased by CH 117.6m compared to the previous year. The main part of the increase with CHF -148.4m is descending from the intra-group quota share Flectat, which incepted during 2018.

#### 2.3.2 Expenses from underwriting business

**Gross claims paid and claim expenses paid** increased by 41.9% compared to 2017. This increase is due to paid claims regarding major loss events such as the hurricanes Harvey, Irma and Maria at the end of 2017.

**Reinsurer's share of claims and claims expenses** decreased by 96% to 0 in 2018. This decline is driven by the decrease in ordinary retrocessions (-94.4%) in comparison with 2017.

**Change in technical provisions** is primarily driven by the significant increase in UPR together with a change in loss reserves for future claims due to the hurricanes Harvey, Irma and Maria in 2017.

**Acquisition costs and underwriting expenses** consist of commissions, brokerage, profit commission, and other variable costs that relate to the successful securing of new contracts and the renewing of existing contracts. These costs decreased significantly by 92.4% compared to 2017.

These differences can be explained through the decline in business activity due to the decision of re-domiciliation to Bermuda.

**Administrative expenses** have increased in 2018, mainly due to the increase in the recharge & reclassification expenses. The recharge & reclassification expenses pertain to costs invoiced from intra-group companies. Due to the inception of the intra-group Flectat quota share in 2018 the recharging of costs has increased, as this amount is calculated based on a percentage of intra-group business.

### **2.3.3 Net investment income**

We refer to chapter 2.4.1 and 2.4.2

### **2.3.4 Other income and expenses**

We refer to the attached financial statements note 19.

### **2.3.5 Profit / Loss**

The company reports an annual loss of CHF 38.3m. This financial result for 2018 is mainly affected by very high catastrophe losses in the USA caused by the California Wildfire and the proportionately allocated losses from the new 60% quota share contract written in 2018 with Flectat.

## **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 17 and 18.

### **2.4.1 Income from investments**

This position includes interest and dividend received, direct income from fixed income securities, realized gains on sales of collective investments and book gains from collective investments. The position remained relatively stable year on year.

### **2.4.2 Expenses from investments**

This position includes realized losses from foreign currency investments and book losses from fixed income securities. For the current period this amount pertains to unrealized losses, of which CHF 11m are related to fixed-interest securities, realized losses of which CHF 5.6m is related to fixed-interest securities and lastly CHF 1.5m is pertained to management fees and expenses of the investments.

## **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	David Broome Hans Künzle Paul Meader

The following changes were recorded compared to the reporting period 2017:

- Paul Jonathan Meader joining as a new member
- Leaving of Yoshitaka Abe and Nigel Frudd.

In 2018, the Executive Board was composed of the following members:

Chief Executive Officer	Patrick Schumacher
Chief Financial Officer	Igor Mastromonaco
Chief Underwriting Officer	Charles Craigs

Changes in the structure compared to the reporting period 2017 are:

- Charles Craigs as new Chief Underwriting Officer
- Integrating the position Chief Operating Officer into the Chief Executive Officer position.

### 3.2 Risk Management System, Risk Strategies, Methods, Processes

The careful selection and underwriting of insurance risks is at the core of CRe'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 earning opportunities.

CRe's risk management strategy is aimed at:

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

The two main elements of CRe'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 SST and based on the Group capital model.

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.

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

CRe 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 the Group. CRe has defined the scope of internal structures and processes, responsibilities and segregation of duties between risk management, compliance and internal control system within a three lines of defence model. The Board has overall responsibility for reviewing the effectiveness of the systems of risk management, compliance and internal control and implements important enhancements in a timely manner. The Directors are aware that such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or financial loss

The internal audit of the Group reports to the Board of Directors of CRe, in accordance with the instructions issued by the CRe Board. It has the duties and responsibilities defined by the board. The risk management and compliance function report directly to the CRe CEO.

The risk management, compliance and internal audit functions are important elements of CRe'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 CRe to be fit and proper and CRe ensures that appropriate resources are in place.

### **3.4 Material Changes**

In 2018, there were no material changes to the Risk Management, Internal Audit and Compliance functions.

### **3.5 Internal Control System**

CRe 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.

CRe adheres to the Group framework of regulations and policies.

## 4 D. Risk Profile

### 4.1 Qualitative and Quantitative Information by Risk Categories

CRe's risk profile and internal control environment are monitored through the processes underlying the ERM Framework. These are structured around the Group's Risk Universe, the inventory of all types of risk that are identified as inherent in business strategies and objectives.

Both qualitative and quantitative risk assessment methods are used to develop a holistic view of the risk profile. Where possible, objective risk measures and Key Risk Indicators are developed.

### 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

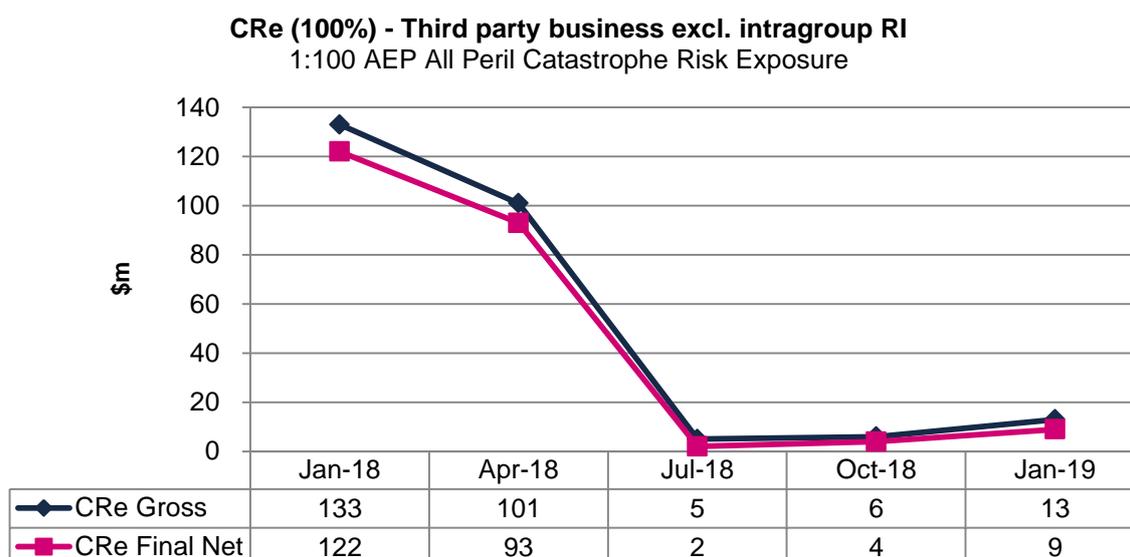
Non-cat experience across both 2016 and 2017 YOA has seen CHF 1m more claims than expected in the quarter. Over the year, the net underwriting result deteriorated by CHF 2.6m.

#### 4.2.2 Reserving risk

Underlying reserving processes continue to be reviewed and enhanced. The quarterly deterioration in 2018 is due to the inclusion of 2018 event recoveries from the protection of the Group's US Insurance account, all in relation to the Californian Camp Wildfire. The improvement in the quarter of 2017 is predominantly on the Bermuda Property Retro class and follows reductions of CHF 3m on the 2017 calendar year events.

#### 4.2.3 Catastrophe risk

Given CRe's strategy, catastrophe risk has been a key driver of risk and capital. Ineffective aggregate management has therefore been considered a top risk, albeit one which is considered to be well mitigated through a strong and embedded control framework. The chart below shows how third party exposure to Catastrophe risk has reduced to near zero. The exposure generated through the Fleclat Quota share arrangement is monitored quarterly against a Board approved risk limit.



The table below shows the catastrophe risk exposure for CRe as at 31 December 2018.

Basis	Peril	Perspective	Limit	Inforce Position	Capacity Remaining
1 in 100 AEP	All Peril	Final Net Loss (C Re paper specific losses + 60% of S4444 FLECTAT share)	\$250m	\$195m	\$55m

The reinsurance programmes involved all satisfied underwriting requirements for profit margin and risk appetite so presented an attractive proposition for CRe to underwrite. The CRe Board delegated authority for the underwriting of this portfolio to the CUO. CRe only underwrote for clients who had a previous relationship with the Group and no new clients were to be accepted. The pricing and aggregation analysis was performed using the Group's view of risk.

### 4.3 Credit Risk

Credit risk is defined as the financial loss, if the counterparty fails to perform its financial obligations or fails to perform them in a timely fashion.

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

#### 4.3.1 Reinsurance counterparty credit risk

The Reinsurance Security Committee (RISC) is responsible for vetting, approving and monitoring syndicate reinsurance exposures and has to approve all Reinsurance security. Other than collateralised arrangements, security will generally be Standard & Poor's (S&P) rated 'A-' or better. Exposures relating to entities without S&P ratings are reviewed and approved individually. These entities may have a rating from another rating agency and/ or collateral in place.

CRe retains most of the written business so its reinsurance credit risk is not material. There is no CRe specific reinsurance programme, however for some classes CRe is endorsed into the Group programme.

#### 4.3.2 Other counterparty credit risk

Credit risk in respect of other intermediaries is outsourced to the Group. To transact business with CRe, intermediaries must first comply with internal guidelines that include having a satisfactory credit rating and having a term of business agreement in place. Once approved, brokers are monitored for changes to their credit ratings with downgrades automatically notified to the Finance Management team.

Other Counterparty Credit Risk is considered to be low as the main exposure comes through the intra-group Flectat Quota Share agreement.

### 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: investment strategy risk, investment asset risk, investment credit risk, interest rate risk and foreign exchange risk.

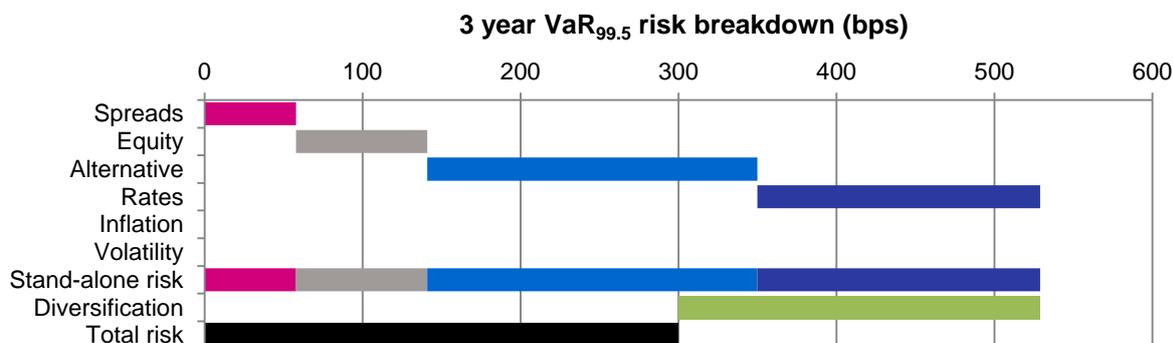
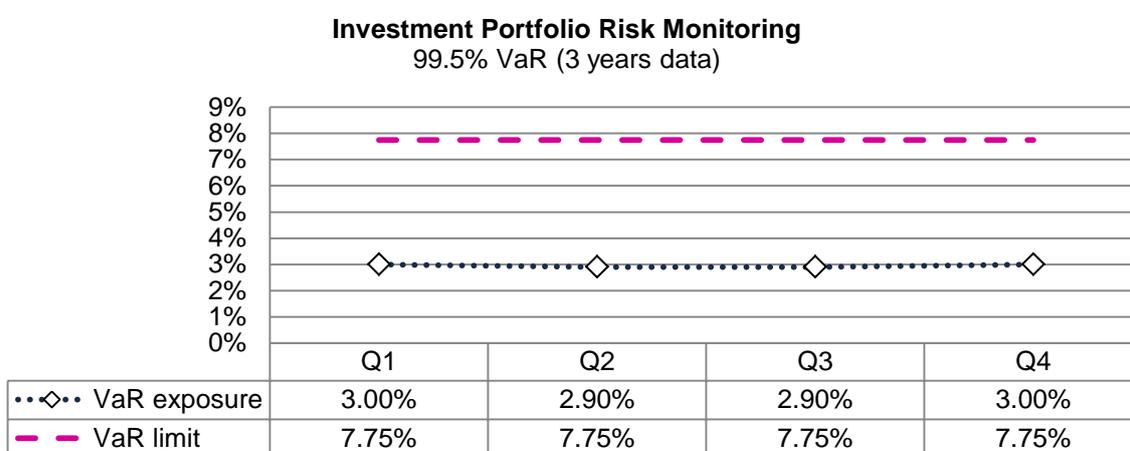
The portfolio breakdown below illustrates the split of all CRe holdings by asset class as at end of Q4. Total funds under management were CHF 538m.

Market risk indicators are monitored regularly and reported to the Board on a quarterly basis. There were no breaches of risk tolerances during 2018 as shown in the table below.

Risk	Risk measure	Risk tolerance	Q1	Q2	Q3	Q4
Investment risk	VaR (3 years, 99.5%)	7.75%	3%	2.9%	2.9%	3.1%
Interest rate risk	Interest rate duration	3 Years	1.7	2.0	1.9	1.4
Credit spread risk	Credit spread duration	3 Years	1.5	1.6	1.5	1.4

Uncertainties have increased, given the prospect of a withdrawal of monetary stimulus, trade concerns and continuing political uncertainty in the Eurozone. Whilst Interest rate risk was the main contributor to portfolio risk (e.g. US rates rises) it provided income and diversification.

The chart below shows how the VaR risk measure has tracked throughout 2018.



#### 4.4.1 Foreign exchange risk

CRe has a low appetite for currency risk and does not speculate on future currency movements. The general approach is to identify exposures to currency exchange rate fluctuations and to take reasonable steps to hedge the risk of unacceptable loss. This is often achieved by holding assets in the same currency as the liabilities, but is also achieved by the use of derivatives.

Foreign exchange risk is being monitored particularly closely at the present time given uncertainties relating to Brexit which are causing volatility in financial markets.

As of January 2018 new Financial Market Infrastructure Act (FMIA) Derivatives Compliance legislation was introduced. CRe was unhedged from March until August 2018 as a result of not being able to place any hedges to ensure the new rules would not be breached. A few reporting requirements had to be implemented to ensure compliance and the CEO and CFO agreed that a breach of risk appetite was favoured over a regulatory breach. The mismatch led to CHF 3.6m of FX loss for 2018.

## 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, CRe ensures that sufficient financial resources are available to meet liabilities as they fall due. CRe ensures through various sources that liquidity constraints do not affect their clients or creditors, as this would have significant regulatory and reputational impact. Liquidity information is reported in monthly Treasury and Investment reports. These include the liquidity profile (available funds within various periods) and Strategic Asset Allocations, particularly the amount of funds held in liquid assets such as cash.

The liquidity profile for CRe remained strong during 2018 with over 95% of assets maintained throughout the year available within 7 days.

## 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. Operational risk is inherent in business operations and therefore considered an implicit cost of doing business. Where the Group can exercise choice is in the approach to mitigation through the internal control framework, whilst remaining mindful of the cost of additional controls relative to the inherent risk and expense base.

Operational risk does not contribute to profit because of that the focus is on risk mitigation.

### 4.6.1 Operational risk profile

The control environment is monitored through the Risk Control Self Assessment (RCSA) process. Where controls are not fully operating as intended, there are remedial actions with owners and target completion dates assigned.

A common finding throughout the RCSA process has been amber rated controls relating to operational processes that are manual and therefore inefficient and prone to human error. The 'vulnerable' control adequacy ratings for Processes Risk and Data Management Risk are examples of this. This is being reviewed as part of a Group initiative known as the 'full potential plan'. The Risk team is working to ensure known deficiencies are captured within enhancement work and also that there is a robust and controlled implementation of the enhanced operating models to minimise execution risk.

As described above, CRe is part of the Group and is therefore subject to Group risk. This is the risk of loss due to the impact of risk events, of any nature, arising in or from membership of a corporate Group. The primary risk drivers include shared resources across multiple locations dealing with different legal and regulatory jurisdictions, management/staff stretch and rating agency downgrade.

People Risk continues to be monitored closely in light of the domiciliation to Bermuda, whereby the Zurich based employees will depart from the entity. As expected, staff turnover figures are currently high due to the departure of other employees as part of the domiciliation project. Currently, there are five such employees. They are expected to continue in employment until the domiciliation is complete. Group HR is responsible for ensuring that all local FINMA requirements are fulfilled by the remaining employees.

### 4.6.2 Risk Events

Risk events are defined as losses or near misses resulting from Operational risks. Risk events could lead to a number of negative consequences such as financial loss, impact on customers, suppliers, staff or reputation, disruption to business processes and/ or break of regulatory or legal obligations.

Risk event analysis and reporting provides the Group with valuable information on the effectiveness of processes and controls. This can help identify where improvements may be required. By investigating the root cause of risk events, the Group can improve operational efficiency by reducing the risk of future occurrence and strengthening the internal control environment. Furthermore, risk event analysis provides challenges to risk and control owners during the RCSA process and analysis and helps to build assumptions that drive stress and scenario testing.

There were three events during 2018, two relating to processes and one due to external factors. All events were remediated in a timely manner and no financial loss was suffered as a result for two of the three events. However, as stated above, a loss was suffered relating to inability to hedge currency causing a FX mismatch.

## 5 E. Valuation

### 5.1 Limited liability quota share

Flectat is the capital provider of around 77%/83% of the Group's Syndicate 4444's 2018/2019 underwriting YOA. CRe write a 60% quota share of Flectat's share of Syndicate 4444's 2018 YOA and intend to do the same for the 2019 YOA, which has a contractual limit of liability equal to CHF 358m (USD 360m) plus the premiums payable under the contract.

The CHF 358m (USD 360m) limit of liability is fully collateralised with CRe's cash and investments, held in a trust account for the purpose of settling any and all liabilities of CRe under the contract, in excess of the premiums payable. This collateral will be held for the duration of the contract, which is anticipated to be 36 calendar months following inception (i.e. 31 December 2021). Holding these assets in trust effectively encumbers them, hence why CRe have chosen to exclude them and the modelled capital requirements of the contract from the SST.

Due to currency movements and updated market values the Assets held in FAL at 1.1.19 equal CHF 371m (USD 369m). There are also CHF 264m (USD 263m) of Assets held in relation to the 2018 quota share, which are matched by a similar amount of Liabilities. These have also been excluded from the SST calculation.

	Assets	Liability	RBC	Mvmt RBC
Total Swiss GaaP	\$825.2m	(\$425.6m)	\$399.6m	\$399.6m
- Flectat (IFRS basis)	\$262.8m	(\$318.7m)	\$455.5m	\$55.9m
- Assets @FAL	\$369.0m	-	\$86.5m	(\$369.0m)
- Swiss Gaap Margin	\$0.0m	(\$8.7m)	\$95.2m	\$8.7m
<b>Total Market Consistent</b>	<b>\$193.4m</b>	<b>(\$98.2m)</b>	<b>\$95.2m</b>	

## 5.2 Assets

### 5.2.1 Value of Assets by Asset Class

The value of assets by asset class as at 31/12/2018 is:

	Market Value	Market Value (%)
Intangible assets	\$0.0m	0%
Loans	\$0.0m	0%
Government Bonds	\$6.9m	4%
Corporate Bonds	\$20.4m	11%
Investment funds Bonds	\$16.8m	9%
Investment funds Money-market	\$18.7m	10%
Investment Other funds	\$19.4m	10%
Investment funds Alternative investments	\$0.0m	0%
Interest rate related instruments	\$0.0m	0%
Currency related instruments	\$0.0m	0%
Structured products	\$59.3m	31%
Asset-backed securities (ABS)	\$0.0m	0%
Other receivables from insurance business	\$0.0m	0%
Receivables from insurance companies (incl. deposits)	\$18.8m	10%
Other receivables from other debtors	\$7.3m	4%
Cash	\$25.8m	13%
Tangible fixed assets	\$0.0m	0%
Accrued interest and rents	\$0.0m	0%
Other accrual and deferral items	\$0.0m	0%
<b>Total Assets</b>	<b>\$193.4m</b>	<b>100%</b>

### 5.2.2 Valuation Basis, Methods and Key Assumptions

All CRE assets are measured in accordance with IFRS 13 principals and presented in the SST 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.

Value of CRE Investment assets is CHF 140.7m (USD 141.5m) which is 73% of Total Assets Market Value. 19% of the investments are held in Fixed Income Bonds, 39% invested in various Funds and 42% in securitized assets:

	Market Value	Market Value (%)
Loans	\$0.0m	0%
Government Bonds	\$6.9m	5%
Corporate Bonds	\$20.4m	14%
Investment funds	\$54.9m	39%
Structured products	\$59.3m	42%
Instruments	\$0.0m	0%
Asset-backed securities (ABS)	\$0.0m	0%
<b>Total Investments</b>	<b>\$141.5m</b>	<b>100%</b>

### 5.2.3 Quantitative and Qualitative Explanatory Notes

Investment assets are measured under SCO (Swiss Code of Obligations) for statutory accounts on an amortised cost basis. Therefore, 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 immaterial for 2019 SST and a 10% Swiss GAAP margin of CHF 8.7m (USD 8.7m) was removed from the claims provision to allow for Risk Margin and the Liability Adequacy Test

### 5.3 Value of Provisions for Insurance Obligations

The majority of reserves are held against third party business written directly by CRe during 2016 and 2017. There is also an immaterial amount for the intra-group run-off business of CRL Direct. In Q3 2018 the reinsurance contracts covering the reserves of Syndicate 958 were commuted and thus, have been excluded from the insurance risk calculation. The overall gross and net of outward reinsurance estimates of the reserves as at 01/01/2019 are summarised below.

	Gross	RI	Net
CRL direct	\$3.48m	\$0m	\$3.48m
Intra-group Canopus US (CUS)	\$3.75m	\$0m	\$3.75m
Direct Business	\$80m	-\$0.01m	\$80m
<b>Total</b>	<b>\$87.18m</b>	<b>-\$0.01m</b>	<b>\$87.19m</b>

The gross and net of outward reinsurance estimates of the reserves per line of business as at 01/01/2019 are summarised below.

Business Classes	Parameter Segments	CRL direct	Intra-group Canopus US (CUS)	Direct Business	Total
Property	Property_non-prop	\$3.5m	\$3.7m	\$70.4m	\$77.6m
General Liability	General liability_prop	\$0m	\$0m	\$1.2m	\$1.2m
Marine, Aviation and Transport	MAT_non-prop	\$0m	\$0m	\$0m	\$0m
Motor	Motor_non-prop	\$0m	\$0m	\$8.3m	\$8.3m
<b>Total</b>		<b>\$3.5m</b>	<b>\$3.7m</b>	<b>\$80.0m</b>	<b>\$87.2m</b>

#### 5.3.1 Unearned Premium Reserves

There are no unearned premiums.

#### 5.3.2 Other technical provisions

There are no other technical provisions being held for CRe.

### 5.4 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 as the ultimate. For less developed years, an Incurred Bornhuetter-Ferguson method has been used. The initial expected ultimate loss ratio is selected by giving consideration to the ultimate loss ratio for prior years of account and to the trends in both premium rates and claims inflation.

For the most immature years (generally, where incurred development is estimated to be less than 15% to 20% of the ultimate) an ultimate loss ratio approach has been used.

The unearned catastrophe load is calculated as follows. The unearned premium is based on the earning pattern of underlying policies, after making appropriate seasonal adjustments. This is multiplied by an IEULR for events which in most cases is derived from the relevant business plan which in turn was based on the estimated Annual Average Loss (AAL).

Updated AAL information is provided by the catastrophe modelling team for each quarter-end reserving exercise. This is used as the basis for all classes that have a catastrophe load within Treaty Property and Retro Property reserving groups. Specific IBNRs are provided by the claims department. These are discussed with the relevant underwriters, actuarial reserving team and CRe's responsible actuary.

## 5.5 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 CRe business. The calculation is derived according to CRe'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 87m (USD 87m) undiscounted and CHF 84m (USD 84m) on a discounted basis ( vs CHF 184m and CHF 178m in 2018).

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

$$\text{Market Value Margin} = \text{Cost of Capital} \times \sum_{t=1}^T [\text{TargetCapital}(t)_{\text{runoff}} \times 1(1+rt)^t]$$

Where  $\text{TargetCapital}(t)_{\text{runoff}}$  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  $t$ .

We refer to chapter 5.1 for further explanation of differences between SST values and statutory balance sheet values.

## 6 F. Capital Management

### 6.1 Goals, Strategy and Time Horizon for Capital Planning

CRe 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.

CRe is domiciled in Switzerland and regulated by FINMA. As such, at least once a year CRe 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', RBC) to the capital requirement ('Target Capital', TC) must at all times be equal to or greater than 100%. CRe's SST Ratio is 154.4% (134.6% the year before). 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.

CRe currently maintains a branch office in Bermuda. The branch offices in Singapore and US have been closed before year end 2017 (licence rendered in December 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 CRe and, as a result, is highly solvent. For 2019, CRe mostly operates as a group internal reinsurance carrier with all intra-group reinsurance treaties being underwritten through the Bermuda branch.

CRe has submitted an application for re-domination to FINMA on 1 October 2018. The company is on the verge of being re-domiciled to Bermuda.

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

	Share capital	Legal capital reserves	Free reserves		Retained earnings	Currency conversion difference	Total equity
			General reserves	Organisation fund *			
<b>As at 31.12.2016</b>	<b>100,000,000</b>	<b>50,000,000</b>	<b>284,510,000</b>	<b>5,396,928</b>	<b>62,554,016</b>	<b>15,666,452</b>	<b>518,127,396</b>
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
<b>As at 31.12.2017</b>	<b>100,000,000</b>	<b>50,000,000</b>	<b>284,510,000</b>	<b>3,299,320</b>	<b>-4,581,681</b>	<b>-</b>	<b>433,227,639</b>
Appropriation of earnings	-	-	-	-	-	-	-
Dividend payments	-	-	-	-	-	-	-
Allocation to free reserves	-	-	-	-1,539,341	1,539,341	-	-
Profit for the year	-	-	-	-	-38,293,769	-	-38,293,769
Currency conversion differences	-	-	-	-	-	2,399,666	2,399,666
<b>As at 31.12.2018</b>	<b>100,000,000</b>	<b>50,000,000</b>	<b>284,510,000</b>	<b>1,759,979</b>	<b>-41,336,109</b>	<b>2,399,666</b>	<b>397,333,536</b>

\* 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 27.0m (USD 27.9m):

Investment assets are measured under SCO for statutory accounts on an amortised cost basis and therefore 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 immaterial for 2019 SST and a 10% Swiss GAAP margin of CHF 8.7m (USD 8.7m) was removed from the claims provision to allow for Risk Margin and the Liability Adequacy Test.

We refer to chapter 5.1 for further explanation of difference between SST values and statutory balance sheet values.

## 7 G. Solvency

The 2019 SST Ratio for CRe has been calculated at 154% which compares to 135% SST ratio submitted in April 2018. The SST ratio is still at a comfortable level above the 100% minimum requirement from FINMA.

2019 SST			2018 SST		
RBC	TC	SST ratio	RBC	TC	SST ratio
\$95.2m	\$63.6m	154%	\$108.8m	\$83.4m	135%

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

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

### 7.1 Solvency Model

CRe uses FINMA's standard model for Reinsurance, StandRe, for the calculation of the Insurance risk element (along with an internal model NE component) of the target capital for the SST in 2019. Market and Credit risk are calculated using the standard SST template as in previous years. This is appropriate because the asset and liability portfolios held by CRe are fairly simple and their risk drivers are straightforward.

### 7.2 Target Capital

The chart and table below show how the Target Capital from the standalone risk measures and diversification effects is reached. Premium, reserving and IE2 risk percentages show the split of Insurance risk, the remaining percentages relate to the impact on the final TC.

	Premium Risk	Reserving risk	IE2 Risk	Insurance Risk	Market Risk	Expected tec. Result	Expected fin. Result	Scenarios	Credit risk	MVM	TC
Amount	\$0.8m	\$25.5m	\$25.7m	\$52.0m	\$5.3m	-\$1.3m	-\$1.5m	\$0.0m	\$3.6m	\$5.6m	\$63.6m
Percentage	2%	49%	49%	82%	8%	-2%	-2%	0%	6%	9%	100%

Break down of TC (\$m) Composition of the Target Capital (TC) by risk type - diversified

On a standalone basis reserving risk has an expected shortfall of CHF 38m (USD 38m) which is driven by Property non-proportional reserves from the 2017 US wind season. IE2 scenarios add another CHF 41m (USD 41m) of expected shortfall and the NE model produces an CHF 11m (USD 11m) shortfall for premium risk. There is CHF 38m (USD 38m) of diversification across insurance risk,

which provides an expected shortfall for insurance risk (reserving risk + IE2 scenarios + premium risk) of CHF 53m (USD 53m).

### 7.2.1 Market Risk and Insurance Risk

Market risk has a standalone expected shortfall of CHF 14m (USD 14m) which diversifies away with insurance risk at a rate of 16% giving a combined Insurance and Market Risk of CHF 57m (USD 57m). The financial results from underwriting and investments offset the shortfall by CHF 3m (USD 3m). The aggregation of the scenarios is not included as part of the StandRe calculation. Credit Risk and the market value margin increase the target capital by an additional CHF 9m (USD 9m) which results in a target capital of CHF 64m (USD 64m).

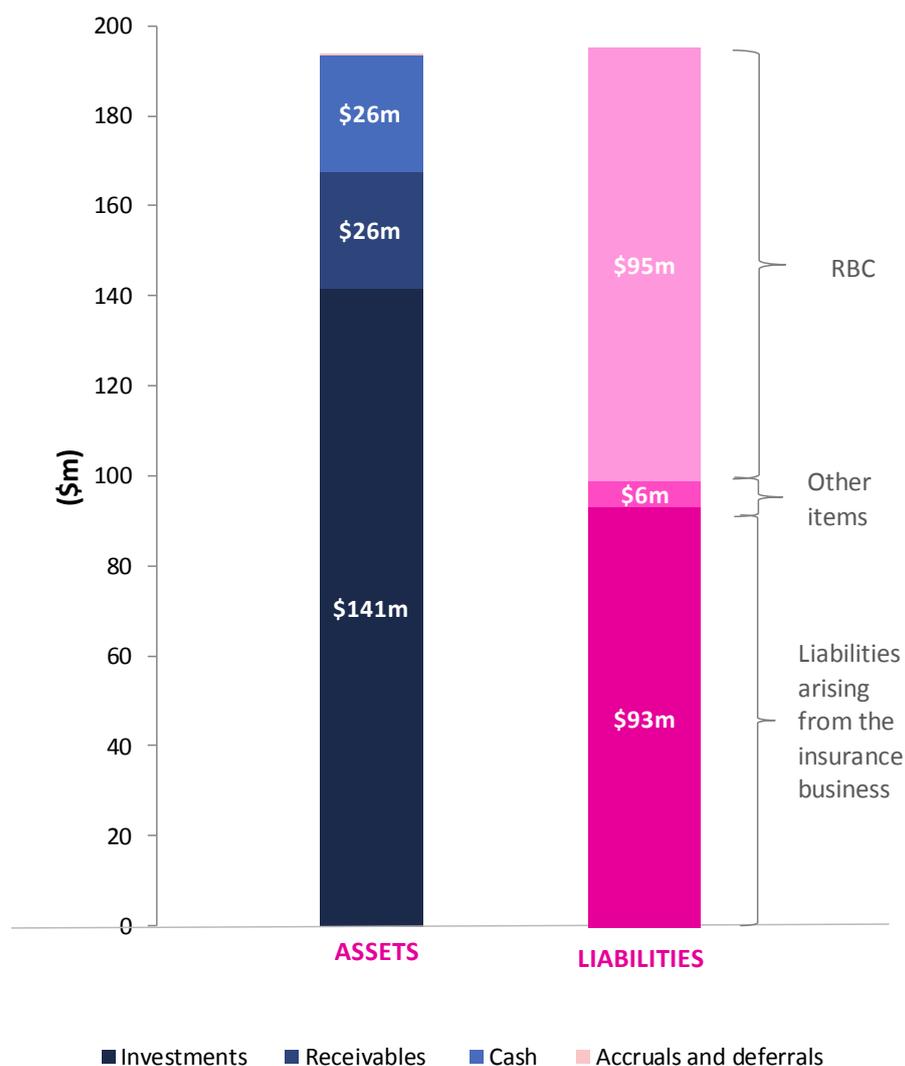
On a diversified basis, insurance risk has an expected shortfall of CHF 53m (USD 53m) which is 49% reserve risk, 2% premium risk and 49% IE2 scenarios. Market risk makes up CHF 5m (USD 5m) of the TC which is 8%. The other elements of the TC are non-diversifying and are as above.

Looking at the diversified components of the TC it can be seen that insurance risk makes up 82% of the total.

### 7.3 Risk-bearing capital

The RBC for CRe as at 31/12/2018 is CHF 96m (USD 95m) (vs CHF 106 m at 31/12/2017). This is made up of total assets of CHF 194m (USD 193m), less total liabilities of CHF 99m (USD 98m).

#### Overview of the Economic Balance sheet 31.12.2018



## 7.4 Appendix

### 7.4.1 Auditor Report and Financial Statements



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To the General Meeting of  
Canopus Reinsurance AG, Zurich

Zurich, 28 February 2019

#### **Report of the statutory auditor on the financial statements**

As statutory auditor, we have audited the accompanying financial statements of Canopus Reinsurance AG, which comprise the balance sheet, income statement and notes, for the year ended 31 December 2018.

##### **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 2018 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



Armin Imoberdorf  
(Qualified  
Signature)

Licensed audit expert  
(Auditor in charge)



Sergio Sardo  
(Qualified  
Signature)

US CPA

## Enclosures

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

## Financial Statement of Canopus Reinsurance AG

### Management report

#### Overview including competition, supply and demand

In the past financial year 2018, Canopus Reinsurance AG (CRe) was again affected by natural catastrophe events in the USA. The company reports an annual loss of CHF 38.3m. At the same time, the balance sheet total increased by CHF 63.2m to CHF 820.6m. At year's end, the recorded shareholder equity of CHF 397m also remained at a high level comparable to the previous year. In relation to the balance sheet total, the shareholder equity was 48.4% compared with 57.2% in the preceding year.

The financial result for 2018 is mainly affected by the very high catastrophe losses in the USA caused by the California Wildfire and the proportionately allocated losses from the new 60% quota share contract written in 2018 with Flectat Limited ("Flectat"), a Canopus Group company. While the losses are high in absolute terms, they fell within the modelled range of outcomes. CRe'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 restructuring costs for the re-domiciliation of the company from Zurich to Bermuda. Gross written premiums increased by CHF 233.8m and the underwriting margin increased by CHF 63.4m, well above the previous year's value (CHF -65.1m in 2017). The reason for this increase is the new 60% quota share contract with Flectat. The combined ratio dropped from 184% in 2017 to 121% in the reporting period.

Due to the ongoing re-domiciliation to Bermuda, it was decided that CRe would not write any new third party business in 2018. This extraordinary event required CRe to interact with FINMA and BMA frequently.

The administration costs in 2018 amounted to CHF 42.2m, which corresponds to an administrative cost ratio of 19.9% (14.8% in 2017). The high cost ratio is mainly due to additional one-off re-domiciliation costs 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, CRe held investments with a carrying amount of CHF 531.6m. The current income from investments amounted to CHF 4.3m, significantly lower than last year with CHF 12.4m. The main reason was the unexpected sharp rise in USD interest rates during the fourth quarter. In a still difficult investment environment, this results in a return on investment of 0.9% (2.0 % in 2017).

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

#### Staff

In 2018, CRe employed an average of 5.3 full-time equivalents (FTE), reduced from 6.3 FTE at the beginning of the year to 4.5 FTE at year-end. The main driver behind this reduction was the restructuring of the company in the course of the re-domiciliation.

## Vision, Strategy and Strategic Priorities

The protracted soft market conditions, which have shaped the business environment of the Company and the Group in recent history, have alleviated following the 2017 and 2018 catastrophes. Although rate increases have been more moderate than initially expected, the ongoing market softening appears to have halted. However, with significant political and economic uncertainties, vulnerabilities to a shock still exist. Inflation spikes, increasing levels of protectionism and the return to volatility in equity and bond prices, all pose significant risks to stability.

The risks to economic growth remain significant not least because of the UK's decision to leave the European Union ("Brexit"). EU membership and access to the single market has enabled underwriters at Lloyd's to underwrite insurance and reinsurance from all of the other member states on a cross-border basis. The underwriters operate under a "passport" system, which allows them to conduct business throughout the EU while being regulated and supervised by the Prudential Regulation Authority ("PRA").

## Extraordinary events

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

All remaining quota share contracts from previous years with the Group were commuted. This concerns the internal quota share contracts with Syndicate 4444 and Syndicate 958 and the quota share contract with Everest Re. The termination of these contracts resulted in a gain from the discounting effect of CHF 5.5m.

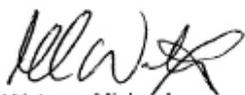
Funds at Lloyds (FAL) has again increased the amount of funds required by its members since last year. By the end of December 2018, CRe contributed CHF 367.4m pledged assets to cover the funds required by Canopus to support its interest in the 2019 Year of Account of Syndicate 4444. The additional assets pledged by CRe to FAL on behalf of the Syndicate are indemnified by Flectat Limited at market conditions. Even after this transaction, the calculation of CRe's SST ratio still shows a comfortable level of over 120% with the assumption that the target capital is still the same as at the beginning of the year. However, it can certainly be assumed that the target capital at the end of the year was considerably lower than at the beginning of the year, as no new business was written and the exposure decreased in the course of the year.

## Risk management

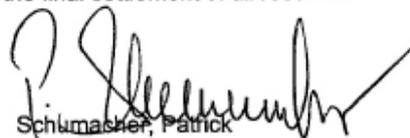
Due to the volatile nature of reinsurance business, and the potential for significant losses, CRe has a dedicated risk policy and maintains a tight risk management system. The features of this risk management system are explained in more detail in the attached Financial Statement under the Note section (n) Information on risk assessment. All events and effects of 2018 are in line with expectations.

## Outlook

Due to the strategic adjustment of the Canopus Group it was decided to relocate the headquarters of CRe to Bermuda. The relocation from Switzerland to Bermuda is in its final stages. In the future, CRe will primarily act as a captive reinsurer for the Canopus Group and will only selectively underwrite open market business. Thus, the strategic orientation of CRe will focus on internal transactions for the time being. Even after re-domiciliation of the company to Bermuda, Sompo Holdings Inc. will maintain the parental guarantee for the reinsurance business assumed by CRe 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

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# Financial Statement of Canopus Reinsurance AG

## Balance sheet as at 31 December

in CHF

<b>Assets</b>	Notes	2018	2017
Investments	1	505,055,216	580,720,184
Fixed-interest securities		273,906,954	377,102,924
Equity shares		13,799,705	15,542,242
Derivative financial instruments	9	-	-
Other investments	2	217,348,557	188,075,018
Cash and cash equivalents	1	26,778,812	33,850,492
Tangible assets	3	-	66,783
Intangible assets	3	-	1,423,564
Reinsurance technical provisions non-life	4	388,685	486,128
Deferred acquisition costs		12,383	4,096,360
Receivables from reinsurance operations	5	279,636,894	127,730,060
Other receivables	6	6,455,835	7,478,904
Accrued income and prepaid expenses	7	2,226,816	1,551,042
<b>Total assets</b>		<b>820,554,641</b>	<b>757,403,517</b>

## Liabilities and equity

		2018	2017
Technical provisions non-life	4	411,981,144	254,193,694
Payables from reinsurance operations	8	298,601	57,523,277
Other liabilities	9	7,935,317	9,236,607
Accrued expenses and deferred income	10	3,006,043	3,222,300
<b>Total liabilities</b>		<b>423,221,105</b>	<b>324,175,878</b>
Share capital		100,000,000	100,000,000
Legal capital reserves		50,000,000	50,000,000
Free reserves		286,269,979	287,809,320
Retained earnings		-41,336,109	-4,581,681
Currency conversion difference		2,399,666	-
<b>Total equity</b>	11	<b>397,333,536</b>	<b>433,227,639</b>
<b>Total liabilities and equity</b>		<b>820,554,641</b>	<b>757,403,517</b>




## Income statement

in CHF

	Notes	2018	2017
Gross premium written		341,338,343	107,575,697
Premiums ceded to reinsurers	12	-624,606	-10,716,910
<b>Net premiums written</b>		<b>340,713,737</b>	<b>96,858,787</b>
Change in unearned premium reserves	13	-129,036,289	-2,827,519
Change in reinsurers' share of unearned premium reserves	13	-39,930	-43,720
<b>Net premiums earned</b>		<b>211,637,517</b>	<b>93,987,548</b>
<b>Total technical income</b>		<b>211,637,517</b>	<b>93,987,548</b>
Gross claims and claim expenses paid		-87,927,864	-61,990,561
Reinsurer's share of claims and claim expenses		17,894	529,733
Change in technical provisions	13	-123,780,647	-78,708,378
Change in reinsurers' share of technical provisions	13	-64,071	-403,029
<b>Net claims and claim expenses incurred</b>		<b>-211,754,688</b>	<b>-140,572,234</b>
Direct commissions and underwriting expenses	14	-1,415,534	-18,505,600
Administrative expenses	15	-42,037,808	-13,891,946
<b>Net acquisition costs and administrative expenses</b>		<b>-43,453,342</b>	<b>-32,397,546</b>
<b>Total technical expenses</b>		<b>-255,208,030</b>	<b>-172,969,780</b>
<b>Total technical result</b>	16	<b>-43,570,513</b>	<b>-78,982,232</b>
Income from investments	17	23,333,777	19,959,913
Expenses from investments	18	-19,001,146	-7,542,177
<b>Net income from investments</b>		<b>4,332,630</b>	<b>12,417,736</b>
Other financial expenses		-127,498	-258,045
<b>Operating income / loss</b>		<b>-39,365,380</b>	<b>-66,822,541</b>
Other income and expenses	19	857,855	2,020,003
Currency translation adjustments		-	-4,088,723
<b>Profit / loss before tax</b>		<b>-38,507,525</b>	<b>-68,891,261</b>
Direct tax		213,755	-342,044
<b>Profit / Loss</b>		<b>-38,293,769</b>	<b>-69,233,305</b>




## Cash flow statement

in CHF

<b>Cash flows from operating activities</b>	<b>2018</b>	<b>2017</b>
Profit / (Loss) before tax	-38,507,525	-68,891,261
P&L average/closing rate differences	-273,059	629,315
Net fair value losses/(gain) on investments including FX	11,795	1,060,722
(Increase)/Decrease in debtors, prepayments and accrued income	-133,087,540	-38,012,148
Increase/(Decrease) in creditors	4,572,455	-3,868,955
Increase in net claims and unearned premium reserves	92,950,225	104,103,905
Depreciation of property and equipment	67,193	931,945
Amortisation of intangible assets	1,432,308	1,151,274
Currency translation adjustment losses	-	4,088,723
<b>Net cash inflow from operating activities</b>	<b>-72,834,148</b>	<b>1,193,521</b>
Income tax paid	213,755	-342,044
<b>Net cash from operating activities</b>	<b>-72,620,393</b>	<b>851,477</b>
<b>Cash flows from Investing activities</b>		
Purchase less sales of financial assets	65,340,799	-22,490,819
Other	-	-
<b>Net cash used in investing activities</b>	<b>65,340,799</b>	<b>-22,490,819</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	-	-
Purchase of own shares	-	-
Dividend payments	-	-
<b>Net cash from financing activities</b>	<b>-</b>	<b>-</b>
<b>Cash flows for the financial year</b>	<b>-7,279,594</b>	<b>-21,639,342</b>
<b>Change of cash and cash equivalent in the financial year</b>		
Balance at the beginning of the financial year	33,850,492	57,885,709
Exchange rate difference on cash and cash equivalents	207,913	-2,395,875
Balance at the end of the financial year	26,778,812	33,850,492
<b>Net change during the financial year</b>	<b>-7,279,593</b>	<b>-21,639,342</b>

# Financial Statement of Canopus 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 2018.

### 1. General information

Canopus Reinsurance AG ("CRe"), incorporated and registered in Switzerland, is a reinsurance company 100% owned by Canopus AG ("Group"). Fortuna Holdings Ltd. is the ultimate controlling party owning 100% of Canopus AG.

### 2. Basis of presentation

CRe 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 CRe).

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 0.99433; Income statement is translated at the average exchange rate of 0.98729; Equity is kept at historical exchange rates.

#### (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**

CRé's shareholder is Canopus 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**

CRé benefits from a parental guarantee issued by Sompo Holdings Inc. in Japan (the "Guarantor") on any obligations deriving from reinsurance policies for the year of accounts 2017 and 2018:

- 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) Undisclosed reserves**

There are no undisclosed reserves.

**(m) 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.

CRé'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 CRé 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 CRe'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.

CRe's risk management strategy is aimed at:

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

The two main elements of CRe'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 CRe'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 CRe.

CRe 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)**

CRe 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.

CRe adheres to the Group framework of regulations and policies.

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

## Financial Statement of Canopus 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
<b>2018</b>						
Less than one year	26,778,812	23,909,076	-	18,523,540	-	69,211,427
Between one and two years	-	-	-	60,209,838	-	60,209,838
Between two and five years	-	51,559,420	-	151,018,984	-	202,578,405
Over five years	-	-	-	44,154,592	-	44,154,592
Other non-dated instruments	-	141,880,062	-	-	13,799,705	155,679,766
	<b>26,778,812</b>	<b>217,348,557</b>	<b>-</b>	<b>273,906,954</b>	<b>13,799,705</b>	<b>531,834,028</b>
Duration	Cash and cash equivalents	Other investments *	Derivative financial instruments	Fixed-interest securities	Equity shares	Total
<b>2017</b>						
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
	<b>33,850,492</b>	<b>188,075,018</b>	<b>-</b>	<b>377,102,924</b>	<b>15,542,242</b>	<b>614,570,676</b>

Level	Cash and cash equivalents	Other investments *	Derivative financial instruments	Fixed-interest securities	Equity shares	Total
<b>2018</b>						
Level 1	26,778,812	117,393,355	-	163,443,159	13,799,705	321,415,031
Level 2	-	99,955,202	-	110,463,795	-	210,418,997
	<b>26,778,812</b>	<b>217,348,557</b>	<b>-</b>	<b>273,906,954</b>	<b>13,799,705</b>	<b>531,834,028</b>
Level	Cash and cash equivalents	Other investments *	Derivative financial instruments	Fixed-interest securities	Equity shares	Total
<b>2017</b>						
Level 1	33,850,492.26	89,931,580	-	230,653,968	15,542,242.48	369,978,283
Level 2	-	98,143,438.47	-	146,448,956	-	244,592,394
	<b>33,850,492</b>	<b>188,075,018</b>	<b>-</b>	<b>377,102,924</b>	<b>15,542,242</b>	<b>614,570,676</b>
Rating	2018	2017				
AAA	177,352,341	62,047,941				
AA	72,319,188	207,255,722				
A	112,086,887	92,270,801				
BBB	14,210,575	51,735,804				
<BBB	-	-				
not rated	155,865,037	201,260,408				
	<b>531,834,028</b>	<b>614,570,676</b>				

\* Details of the Other investments in notes 2

## 2. Other investments

in CHF

	2018	2017
Holdings in collective investment schemes	198,709,349	172,036,230
Investments in senior secured loans	-	13,572,985
Deposits with credit institutions	18,639,208	2,465,804
	<b>217,348,557</b>	<b>188,075,018</b>

## 3. Tangible and intangible assets

in CHF

	2018	2017
Property and equipment	-	112,732
Revaluation of assets under constructions *	-	-
Depreciation property and equipment	-	-45,949
	<b>-</b>	<b>66,783</b>
Intangible assets	-	3,416,094
Depreciation intangible assets	-	-1,992,530
	<b>-</b>	<b>1,423,564</b>

\* No tangible and intangible assets left

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

#### 4. Technical provisions non-life \*

in CHF

<b>2018</b>	<b>Gross</b>	<b>Retro</b>	<b>Net</b>
Unearned premium reserve	147,278,204	-	147,278,204
Claims outstanding			
Reported	106,238,429	-210,302	106,028,127
IBNR	119,493,616	-178,383	119,315,233
ULAE	1,518,063	-	1,518,063
AVO risk margin	37,452,832	-	37,452,832
	<b>411,981,144</b>	<b>-388,685</b>	<b>411,592,459</b>
<b>2017</b>	<b>Gross</b>	<b>Retro</b>	<b>Net</b>
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
	<b>254,193,694</b>	<b>-486,128</b>	<b>253,707,566</b>

\* 70% of 2018 Technical Provision results from Internal Quota Contracts with Canopus Group

#### 5. Receivables from reinsurance operations

in CHF

	<b>2018</b>	<b>2017</b>
Debtors arising out of reinsurance operations	17,725,557	43,651,708
Insurance receivables out of group operations*	261,911,337	84,040,544
Other debtors	-	37,808
	<b>279,636,894</b>	<b>127,730,060</b>

\* Receivables in respect of other affiliated companies belonging to the Canopus Group

#### 6. Other receivables

in CHF

	<b>2018</b>	<b>2017</b>
Receivables from group undertakings *	6,349,559	6,978,994
Other debtors	106,276	499,909
	<b>6,455,835</b>	<b>7,478,904</b>

\* Affiliated companies belonging to the Canopus Group

## 7. Accrued income and prepaid expenses

in CHF

	2018	2017
Prepayments	445,409.13	61,601
Accruals	1,781,406.83	1,489,441
	<b>2,226,816</b>	<b>1,551,042</b>

## 8. Payables from reinsurance operations

in CHF

	2018	2017
Creditors arising out of reinsurance operations	-	-351,088
Insurance payables out of direct operations *	-	53,204,160
Accruals profit commissions	298,601	4,670,205
	<b>298,601</b>	<b>57,523,277</b>

\* Payables in respect of other affiliated companies are now included in Receivables (see note 5)

## 9. Other liabilities

in CHF

	2018	2017
Liabilities due to group undertakings *	5,549,902	971,479
Tax liabilities	-	32,111
Investment Straddler	2,200,146	7,815,646
Derivative financial instruments	185,270	417,371
Other creditors	-	-
	<b>7,935,317</b>	<b>9,236,607</b>

\* Affiliated companies belonging to the Canopus Group

## 10. Accrued expenses and deferred income

in CHF

	2018	2017
Deferred income	549,314.63	807,270
Accruals	2,456,727.92	2,415,030
	<b>3,006,043</b>	<b>3,222,300</b>

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 *			
<b>As at 31.12.2016</b>	<b>100,000,000</b>	<b>50,000,000</b>	<b>284,510,000</b>	<b>5,396,928</b>	<b>62,554,016</b>	<b>15,666,452</b>	<b>518,127,396</b>
Appropriation of earnings	-	-	-	-	-	-	-
Dividend payments	-	-	-	-	2,097,608	-	-
Allocation to free reserves	-	-	-	-2,097,608	-69,233,305	-	-69,233,305
Profit for the year	-	-	-	-	-	-15,666,452	-15,666,452
Currency conversion differences	-	-	-	-	-	-	-
<b>As at 31.12.2017</b>	<b>100,000,000</b>	<b>50,000,000</b>	<b>284,510,000</b>	<b>3,299,320</b>	<b>-4,581,681</b>	<b>-</b>	<b>433,227,639</b>
Appropriation of earnings	-	-	-	-	-	-	-
Dividend payments	-	-	-	-	1,539,341	-	-
Allocation to free reserves	-	-	-	-1,539,341	-38,293,769	-	-38,293,769
Profit for the year	-	-	-	-	-	2,399,666	2,399,666
Currency conversion differences	-	-	-	-	-	-	-
<b>As at 31.12.2018</b>	<b>100,000,000</b>	<b>50,000,000</b>	<b>284,510,000</b>	<b>1,759,979</b>	<b>-41,336,109</b>	<b>2,399,666</b>	<b>397,333,536</b>

\* 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

	2018	2017
Ordinary retrocessions	-624,606	-812,753
Industry loss warranty (ILW)	-	-9,904,158
	<b>-624,606</b>	<b>-10,716,910</b>

### 13. Changes in technical provisions non-life

in CHF

2018	Gross	Retro	Net
Unearned premium reserve	-129,036,289	-39,930	-129,076,219
Claims outstanding			
Reported	-73,550,682	-64,071	-73,614,753
IBNR	-32,179,210	-	-32,179,210
ULAE	571,637	-	571,637
AVO risk margin	-18,622,391	-	-18,622,391
	<b>-252,816,936</b>	<b>-104,001</b>	<b>-252,920,937</b>
<b>2017</b>	<b>Gross</b>	<b>Retro</b>	<b>Net</b>
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
	<b>-81,535,896</b>	<b>-446,749</b>	<b>-81,982,645</b>

**14. Changes in direct commissions and underwriting expenses**  
in CHF

	<b>2018</b>	<b>2017</b>
Acquisition costs, brokerage and commissions	-5,781,535	-17,064,008
Profit commissions	4,366,001	37,033
Changes in deferred acquisition costs	-	-1,515,817
Other underwriting costs	-	37,192
	<b>-1,415,534</b>	<b>-18,505,600</b>

**15. Administrative expenses**  
in CHF

	<b>2018</b>	<b>2017</b>
Personnel expenses	-2,986,628	-6,528,609
Travel	-48,393	-193,802
Premises, assets and IT	-2,498,417	-3,063,057
Professional fees	-832,479	-1,543,880
Recharges & Reclassification	-35,236,547	-2,396,112
Other operating expenses	-435,344	-166,486
	<b>-42,037,808</b>	<b>-13,891,946</b>

16. Technical result by line of business  
in CHF

	2018	Property	Casualty	Marine, Aviation, Transport	Motor	Personal Accident	Health	Miscella- neous
Gross premium written	341,338,343	188,477,660	53,525,665	45,669,823	25,078,890	4,703,205	-	13,883,101
Premiums ceded to reinsurers	-624,606	-536,110	-88,497	-	-	-	-	-
<b>Net premiums written</b>	<b>340,713,737</b>	<b>197,941,550</b>	<b>53,437,168</b>	<b>45,669,823</b>	<b>25,078,890</b>	<b>4,703,205</b>	-	<b>13,883,101</b>
Change in unearned premium reserves	-129,036,289	-62,942,834	-21,935,075	-14,168,227	-15,397,601	-3,102,543	-	-11,490,009
Change in reinsurers' share of unearned premium reserves	-39,930	-2,808	-37,122	-	-	-	-	-
<b>Net premiums earned</b>	<b>211,637,517</b>	<b>134,995,908</b>	<b>31,464,971</b>	<b>31,501,596</b>	<b>9,681,289</b>	<b>1,600,661</b>	-	<b>2,393,092</b>
<b>Total technical income</b>	<b>211,637,517</b>	<b>134,995,908</b>	<b>31,464,971</b>	<b>31,501,596</b>	<b>9,681,289</b>	<b>1,600,661</b>	-	<b>2,393,092</b>
Gross claims and claim expenses paid	-87,927,864	-73,076,901	-8,624,413	-3,611,827	-2,496,976	-116,451	-	-1,295
Reinsurer's share of claims and claim expenses	17,894	11,089	-	6,804	-	-	-	-
Change in technical provisions	-123,780,647	-67,324,503	-18,114,258	-23,348,473	-9,233,245	-2,128,534	-	-3,631,634
Change in reinsurers' share of technical provisions	-64,071	-39,707	-0	-24,364	-	-	-	-
<b>Net claims and claim expenses Incurred</b>	<b>-211,754,688</b>	<b>-140,430,022</b>	<b>-26,738,671</b>	<b>-26,977,860</b>	<b>-11,730,221</b>	<b>-2,244,985</b>	-	<b>-3,632,929</b>
Direct commissions and underwriting expenses	-1,415,534	508,641	-1,912,941	-8,979	-2,255	-	-	-
<b>Net acquisition costs</b>	<b>-1,415,534</b>	<b>508,641</b>	<b>-1,912,941</b>	<b>-8,979</b>	<b>-2,255</b>	-	-	-
<b>Total technical expenses before admin expenses</b>	<b>-213,170,222</b>	<b>-139,921,381</b>	<b>-28,651,613</b>	<b>-26,986,839</b>	<b>-11,732,476</b>	<b>-2,244,985</b>	-	<b>-3,632,929</b>
<b>Total technical result before admin expenses</b>	<b>-1,532,705</b>	<b>-4,925,473</b>	<b>2,813,358</b>	<b>4,514,757</b>	<b>-2,051,187</b>	<b>-644,323</b>	-	<b>-1,239,837</b>
Admin expenses	-42,205,647	-	-	-	-	-	-	-
<b>Total technical result</b>	<b>-43,738,352</b>	-	-	-	-	-	-	-

## Disclosures and explanations on income statement items

### 12. Premiums ceded to reinsurers

in CHF

	2018	2017
Ordinary retrocessions	-624,606	-812,753
Industry loss warranty (ILW)	-	-9,904,158
	<b>-624,606</b>	<b>-10,716,910</b>

### 13. Changes in technical provisions non-life

in CHF

2018	Gross	Retro	Net
Unearned premium reserve	-129,036,289	-39,930	-129,076,219
Claims outstanding			
Reported	-73,550,682	-64,071	-73,614,753
IBNR	-32,179,210	-	-32,179,210
ULAE	571,637	-	571,637
AVO risk margin	-18,622,391	-	-18,622,391
	<b>-252,816,936</b>	<b>-104,001</b>	<b>-252,920,937</b>
<b>2017</b>	<b>Gross</b>	<b>Retro</b>	<b>Net</b>
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
	<b>-81,535,896</b>	<b>-446,749</b>	<b>-81,982,645</b>

**14. Changes in direct commissions and underwriting expenses**

in CHF

	2018	2017
Acquisition costs, brokerage and commissions	-5,781,535	-17,064,008
Profit commissions	4,366,001	37,033
Changes in deferred acquisition costs	-	-1,515,817
Other underwriting costs	-	37,192
	<b>-1,415,534</b>	<b>-18,505,600</b>

**15. Administrative expenses**

in CHF

	2018	2017
Personnel expenses	-2,986,628	-6,528,609
Travel	-48,393	-193,802
Premises, assets and IT	-2,498,417	-3,063,057
Professional fees	-832,479	-1,543,880
Recharges & Reclassification	-35,236,547	-2,396,112
Other operating expenses	-435,344	-166,486
	<b>-42,037,808</b>	<b>-13,891,946</b>

16. Technical result by line of business  
in CHF

	2018	Property	Casualty	Marine, Aviation, Transport	Motor	Personal Accident	Health	Miscella- neous
Gross premium written	341,338,343	198,477,660	53,525,665	45,669,823	25,078,890	4,703,205	-	13,883,101
Premiums ceded to reinsurers	-624,606	-536,110	-88,497	-	-	-	-	-
<b>Net premiums written</b>	<b>340,713,737</b>	<b>197,941,550</b>	<b>53,437,168</b>	<b>45,669,823</b>	<b>25,078,890</b>	<b>4,703,205</b>	-	<b>13,883,101</b>
Change in unearned premium reserves	-129,036,289	-62,942,834	-21,935,075	-14,168,227	-15,397,601	-3,102,543	-	-11,490,009
Change in reinsurers' share of unearned premium reserves	-39,930	-2,808	-37,122	-	-	-	-	-
<b>Net premiums earned</b>	<b>211,637,517</b>	<b>134,995,908</b>	<b>31,464,971</b>	<b>31,501,596</b>	<b>9,681,289</b>	<b>1,600,661</b>	-	<b>2,393,092</b>
<b>Total technical income</b>	<b>211,637,517</b>	<b>134,995,908</b>	<b>31,464,971</b>	<b>31,501,596</b>	<b>9,681,289</b>	<b>1,600,661</b>	-	<b>2,393,092</b>
Gross claims and claim expenses paid	-87,927,864	-73,076,901	-8,624,413	-3,611,827	-2,496,976	-116,451	-	-1,295
Reinsurers' share of claims and claim expenses	17,894	11,089	-	6,804	-	-	-	-
Change in technical provisions	-123,780,647	-67,324,503	-18,114,258	-23,348,473	-9,233,245	-2,128,534	-	-3,631,634
Change in reinsurers' share of technical provisions	-64,071	-39,707	-0	-24,384	-	-	-	-
<b>Net claims and claim expenses incurred</b>	<b>-211,754,688</b>	<b>-140,430,022</b>	<b>-26,738,671</b>	<b>-26,977,860</b>	<b>-11,730,221</b>	<b>-2,244,985</b>	-	<b>-3,632,929</b>
Direct commissions and underwriting expenses	-1,415,534	508,641	-1,912,941	-8,979	-2,255	-	-	-
<b>Net acquisition costs</b>	<b>-1,415,534</b>	<b>508,641</b>	<b>-1,912,941</b>	<b>-8,979</b>	<b>-2,255</b>	-	-	-
<b>Total technical expenses before admin expenses</b>	<b>-213,170,222</b>	<b>-139,921,381</b>	<b>-28,651,613</b>	<b>-26,986,839</b>	<b>-11,732,476</b>	<b>-2,244,985</b>	-	<b>-3,632,929</b>
<b>Total technical result before admin expenses</b>	<b>-1,532,705</b>	<b>-4,925,473</b>	<b>2,813,358</b>	<b>4,514,757</b>	<b>-2,051,187</b>	<b>-644,323</b>	-	<b>-1,239,837</b>
Admin expenses	-42,205,647	-	-	-	-	-	-	-
<b>Total technical result</b>	<b>-43,738,352</b>	-	-	-	-	-	-	-

**17. Income from investment**  
in CHF

<b>2018</b>	<b>Income</b>	<b>Realized gains</b>	<b>Unrealized gains</b>	<b>Total</b>
Fixed-interest securities	10,671,274	1,320,497	7,235,205	19,226,976
Equity shares	904,597	-	-	904,597
Derivative financial instruments	-	-	-	-
Investments in senior secured loans	1,421,301	-	-	1,421,301
Deposits with credit institutions	1,780,903	-	-	1,780,903
Other	-	-	-	-
	<b>14,778,075</b>	<b>1,320,497</b>	<b>7,235,205</b>	<b>23,333,777</b>

<b>2017</b>	<b>Income</b>	<b>Realized gains</b>	<b>Unrealized gains</b>	<b>Total</b>
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
	<b>12,012,272</b>	<b>1,902,220</b>	<b>6,045,421</b>	<b>19,959,913</b>

**18. Expenses from investment**  
in CHF

<b>2018</b>	<b>Expenses</b>	<b>Realized losses</b>	<b>Unrealized losses</b>	<b>Total</b>
Fixed-interest securities	-	-5,670,366	-11,260,926	-16,931,292
Equity shares	-	-	-	-
Derivative financial instruments	-	-437,858	-164,315	-602,173
Management fees and expenses	-1,467,682	-	-	-1,467,682
	<b>-1,467,682</b>	<b>-6,108,224</b>	<b>-11,425,241</b>	<b>-19,001,146</b>

<b>2017</b>	<b>Expenses</b>	<b>Realized losses</b>	<b>Unrealized losses</b>	<b>Total</b>
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
	<b>-1,028,012</b>	<b>-4,079,153</b>	<b>-2,435,013</b>	<b>-7,542,177</b>

**19. Other income and expenses**  
in CHF

	<b>2018</b>	<b>2017</b>
Profit/Loss on exchange	-5,240,323	1,824,603
Return on unwinding of commutation discount	5,424,880	
Other income	673,298	195,400
	<b>857,855</b>	<b>2,020,003</b>

## Other notes to the financial statement

### 20. Audit fees

in CHF

	2018	2017
Audit fees	-110,553	-175,754
	<u>-110,553</u>	<u>-175,754</u>

### 21. Total amount of collaterals provided for third-party liabilities

in CHF

	2018	2017
Facilities (LOC, pledged accounts, etc.)	28,938,502	9,349,740
Funds at Lloyds	364,833,662	106,916,470
	<u>393,772,163</u>	<u>116,266,210</u>

Barclays has granted a credit facility of up to CHF 20,733,090 (USD 21,000,000)

### 22. Full-time equivalents

	2018	2017
Average number of full-time equivalents	5	12
	<u>5</u>	<u>12</u>

## Financial Statement of Canopus Reinsurance AG

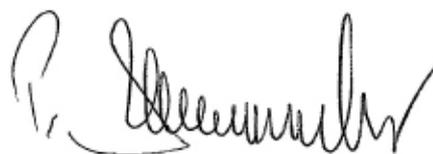
### Proposal for the appropriation of distributable earnings

in CHF

	Notes	2018	2017
Retained earnings carried forward	11	-4,581,681	62,554,016
Profit / Loss		-38,293,769	-69,233,305
<b>Distributable earnings</b>		<b>-42,875,450</b>	<b>-6,679,289</b>

#### Proposal of the Board of Directors:

Distributable earnings		-42,875,450	-6,679,289
Transfer to Legal capital reserves		-	-
Transfer to Organisation fund		1,539,341	2,097,608
Dividend payments		-	-
<b>Amount carried forward</b>		<b>-41,336,109</b>	<b>-4,581,681</b>



**Bericht über die Finanzlage: Quantitative Vorlage  
"Unternehmenserfolg Solo RV"**

Währung: USD  
Angaben in Millionen

	Total		Personal accident		Health		Motor		Marine, aviation, transport		Property		Casualty		Miscellaneous	
	Vorjahr	Berichts- jahr	Vorjahr	Berichts- jahr	Vorjahr	Berichts- jahr	Vorjahr	Berichts- jahr	Vorjahr	Berichts- jahr	Vorjahr	Berichts- jahr	Vorjahr	Berichts- jahr	Vorjahr	Berichts- jahr
1	107.8	345.7	2.6	4.8	-	-	1.7	25.4	0.2	46.3	92.9	201.0	18.9	54.2	2.9	14.1
2	-10.7	0.6	-	-	-	-	-	-	-	-	10.6	0.5	0.1	0.1	-	-
3	97.1	345.1	2.6	4.8	-	-	1.7	25.4	0.2	46.3	82.3	200.5	18.8	54.1	2.9	14.1
4	-2.9	130.7	0.3	3.1	-	-	0.1	15.6	1.6	14.4	6.5	63.8	0.7	22.2	0.9	11.6
5	0	31.9	-	-	-	-	-	-	-	-	-	0.0	-	31.9	-	-
6	94.2	214.3	2.3	1.6	-	-	1.8	9.8	1.4	31.9	75.8	136.7	19.5	31.9	2.0	2.4
7	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	94.2	214.3	2.3	1.6	-	-	1.8	9.8	1.4	31.9	75.8	136.7	19.5	31.9	2.0	2.4
9	-62.1	89.1	0.9	0.1	-	-	3.2	2.5	8.1	3.7	30.2	74.0	18.6	8.7	1.1	0.0
10	0	0.0	-	-	-	-	-	-	0.0	0.0	-	0.0	-	-	-	-
11	-78.9	125.4	0.1	2.2	-	-	1.2	9.4	6.6	23.7	101.9	68.2	16.9	18.4	0.8	3.7
12	0.1	0.1	-	-	-	-	-	-	0.1	0.0	0.1	0.0	0.1	-	-	-
13	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	-140.9	214.5	1.0	2.3	-	-	4.4	11.9	1.4	27.3	132.0	142.2	1.8	27.1	0.3	3.7
15	0	1.4	0.1	-	-	-	0.1	0.0	0.8	0.0	14.5	0.5	3.5	1.9	0.5	-
16	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	-18.5	1.4	0.1	-	-	-	0.1	0.0	0.8	0.0	14.5	0.5	3.5	1.9	0.5	-
18	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	-159.4	215.9	1.1	2.3	-	-	4.5	11.9	2.2	27.3	146.5	141.7	5.3	29.0	0.2	3.7
20	20.0	23.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	7.6	19.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	12.4	4.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
23	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
24	0.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
25	0.2	0.1	-	-	-	-	0.2	0.1	-	-	-	-	-	-	-	-
26	52.8	2.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
27	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
28	1.8	6.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29	13.9	48.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	69.1	39.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
32	0.4	0.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
33	69.5	38.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-

**Bericht über die Finanzlage: Quantitative Vorlage "Marktnahe Bilanz Solo"**

Währung: USD  
Angaben in  
Millionen

		Stichtag Vorperiode	Anpassungen Vorperiode	Stichtag Berichtsjahr
<b>Marktnahe Wert der Kapitalanlagen</b>	Immobilien	-	-	-
	Beteiligungen	-	-	-
	Festverzinsliche Wertpapiere	233.4	-	164.3
	Darlehen	13.7	-	-
	Hypotheken	-	-	-
	Aktien	15.7	-	13.9
	Übrige Kapitalanlagen	324.7	-	329.8
	Kollektive Kapitalanlagen	176.5	-	218.6
	Alternative Kapitalanlagen	-	-	-
	Sonstige Kapitalanlagen	148.2	-	111.2
	Total Kapitalanlagen	587.5	-	507.9
Finanzanlagen aus anteilgebundener Lebensversicherung	-	-	-	
Forderungen aus derivativen Finanzinstrumenten	-	-	-	
<b>Marktnahe Wert der übrigen Aktiven</b>	Flüssige Mittel	34.3	-	26.9
	Forderungen aus dem Versicherungsgeschäft	129.8	-	281.9
	Übrige Forderungen	1.5	-	8.2
	Sonstige Aktiven	5.7	-	-
	Total übrige Aktiven	7.2	-	8.2
<b>Total marktnahe Wert der Aktiven</b>	<b>Total marktnahe Wert der Aktiven</b>	<b>758.8</b>	<b>-</b>	<b>824.9</b>
<b>Bestmöglicher Schätzwert der Versicherungsverpflichtungen (BEL)</b>	Bestmöglicher Schätzwert der Rückstellungen für Versicherungsverpflichtungen			
	Direktversicherung: Lebensversicherungsgeschäft (ohne ALV)	-	-	-
	Direktversicherung: Schadenversicherungsgeschäft	-	-	-
	Direktversicherung: Krankenversicherungsgeschäft	-	-	-
	Direktversicherung: Anteilgebundenes Lebensversicherungsgeschäft	-	-	-
	Direktversicherung: Sonstiges Geschäft	-	-	-
	Aktive Rückversicherung: Lebensversicherungsgeschäft (ohne ALV)	-	-	-
	Aktive Rückversicherung: Schadenversicherungsgeschäft	-	-	-
	Aktive Rückversicherung: Krankenversicherungsgeschäft	-	-	-
	Aktive Rückversicherung: Anteilgebundenes Lebensversicherungsgeschäft	-	-	-
	Aktive Rückversicherung: Sonstiges Geschäft	-	-	-
	Anteile Rückversicherer am bestmöglichen Schätzwert der Rückstellungen für Versicherungsverpflichtungen			
	Direktversicherung: Lebensversicherungsgeschäft (ohne ALV)	-	-	-
	Direktversicherung: Schadenversicherungsgeschäft	-	-	-
	Direktversicherung: Krankenversicherungsgeschäft	-	-	-
	Direktversicherung: Anteilgebundenes Lebensversicherungsgeschäft	-	-	-
	Direktversicherung: Sonstiges Geschäft	-	-	-
Aktive Rückversicherung: Lebensversicherungsgeschäft (ohne ALV)	-	-	-	
Aktive Rückversicherung: Schadenversicherungsgeschäft	-	239.4	-	
Aktive Rückversicherung: Krankenversicherungsgeschäft	-	-	-	
Aktive Rückversicherung: Anteilgebundenes Lebensversicherungsgeschäft	-	-	-	
Aktive Rückversicherung: Sonstiges Geschäft	-	-	-	
<b>Marktnahe Wert der übrigen Verbindlichkeiten</b>	Nicht versicherungstechnische Rückstellungen	-	-	-
	Verzinsliche Verbindlichkeiten	-	-	-
	Verpflichtungen aus derivativen Finanzinstrumenten	-	0.4	-
	Depotverbindlichkeiten aus abgegebener Rückversicherung	-	-	-
	Verbindlichkeiten aus dem Versicherungsgeschäft	-	-	-
	Sonstige Passiven	-	68.9	-
<b>Summe aus BEL plus marktnahe Wert der übrigen Verbindlichkeiten</b>	<b>Summe aus BEL plus marktnahe Wert der übrigen Verbindlichkeiten</b>	<b>-</b>	<b>308.7</b>	<b>-</b>
	<b>Differenz marktnahe Wert der Aktiven abzüglich der Summe aus BEL plus marktnahe Wert der übrigen Verbindlichkeiten</b>	<b>450.1</b>	<b>-</b>	<b>437.2</b>

**Bericht über die Finanzlage: Quantitative Vorlage**

Währung: USD  
Angaben in Millionen

		Stichtag Vorperiode	Anpassungen Vorperiode	Stichtag Berichtsjahr
		in Mio. USD	in Mio. USD	in Mio. USD
<b>Herleitung RTK</b>	Differenz marktnaher Wert der Aktiven abzüglich der Summe aus bestmöglichem Schätzwert der Versicherungsverpflichtungen plus Marktnaher Wert der übrigen Verpflichtungen	108.8		95.2
	Abzüge	0.0		0
	<b>Kernkapital</b>	108.8		95.2
	Ergänzendes Kapital	0.0		0
	<b>RTK</b>	108.8	-13.6	95.2

		Stichtag Vorperiode	Anpassungen Vorperiode	Stichtag Berichtsjahr
		in Mio. USD	in Mio. USD	in Mio. USD
<b>Herleitung Zielkapital</b>	Versicherungstechnisches Risiko	62.9		53.4
	Marktrisiko	12.9		13.6
	Diversifikationseffekte	-11.6		-9.6
	Kreditrisiko	9.9		3.6
	Mindestbetrag und sonstige Effekte auf das ZK	9.3		2.8
	<b>Zielkapital</b>	83.4	-19.8	63.6

		Stichtag Vorperiode	Anpassungen Vorperiode	Stichtag Berichtsjahr
		in %	in %	in %
<b>SST-Quotient</b>		134.6	19.8%	154.4