

CONDENSED FINANCIAL STATEMENTS

Canopus Reinsurance Limited
(formerly Canopus Reinsurance AG)
Year Ended December 31, 2019

Canopus Reinsurance Limited
(formerly Canopus Reinsurance AG)

Condensed Financial Statements

Year Ended December 31, 2019

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Report of Independent Auditors

The Board of Directors
Canopus Reinsurance Limited

We have audited the accompanying condensed financial statements of Canopus Reinsurance Limited (the “Company”), which comprise the condensed balance sheet and condensed statement of capital and surplus as of December 31, 2019, and the related condensed statement of income for the year then ended, and the related notes to the condensed financial statements.

Management’s Responsibility for the Condensed Financial Statements

Management is responsible for the preparation and fair presentation of the condensed financial statements in accordance with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to condensed general purpose financial statements (the “Legislation”). Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of condensed financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

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

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

Reference: Report of Independent Auditors on the Condensed Financial Statements of Canopus Reinsurance Limited as at December 31, 2019 and for the year then ended.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 3 of the condensed financial statements, the condensed financial statements are prepared by the Company on the basis of the financial reporting provisions of the Legislation, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

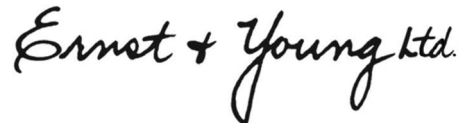
The effects on the condensed financial statements of the variances between the regulatory basis of accounting described in Note 3 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for adverse opinion on U.S. generally accepted accounting principles” paragraph, the condensed financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2019, or the results of its operations for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the condensed financial statements referred to above present fairly, in all material respects, the financial position of Canopus Reinsurance Limited as of December 31, 2019, and the results of its operations for the year then ended in accordance with the financial reporting provisions of the Legislation described in Note 3.



May 12, 2020

Chartered Professional Accountants

Reference: Report of Independent Auditors on the Condensed Financial Statements of Canopus Reinsurance Limited as at December 31, 2019 and for the year then ended.

CONDENSED BALANCE SHEET

Canopus Reinsurance Limited

As at

December 31, 2019

expressed in ['000s]

United States Dollars

LINE No.		2019	2018
1.	CASH AND CASH EQUIVALENTS	167,855	
2.	QUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
	i. Held to maturity		
	ii. Other	250,735	
(b)	Total Bonds and Debentures	250,735	-
(c)	Equities		
	i. Common stocks	23,560	
	ii. Preferred stocks		
	iii. Mutual funds	58,125	
(d)	Total equities	81,685	-
(e)	Other quoted investments		
(f)	Total quoted investments	332,420	-
3.	UNQUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
	i. Held to maturity		
	ii. Other		
(b)	Total Bonds and Debentures	-	-
(c)	Equities		
	i. Common stocks		
	ii. Preferred stocks		
	iii. Mutual funds		
(d)	Total equities	-	-
(e)	Other unquoted investments		
(f)	Total unquoted investments	-	-
4.	INVESTMENTS IN AND ADVANCES TO AFFILIATES		
(a)	Unregulated entities that conduct ancillary services		
(b)	Unregulated non-financial operating entities		
(c)	Unregulated financial operating entities		
(d)	Regulated non-insurance financial operating entities		
(e)	Regulated insurance financial operating entities		
(f)	Total investments in affiliates	-	-
(g)	Advances to affiliates	45,721	
(h)	Total investments in and advances to affiliates	45,721	-
5.	INVESTMENTS IN MORTGAGE LOANS ON REAL ESTATE:		
(a)	First liens		
(b)	Other than first liens		
(c)	Total investments in mortgage loans on real estate	-	-
6.	POLICY LOANS		
7.	REAL ESTATE:		
(a)	Occupied by the company (less encumbrances)		
(b)	Other properties (less encumbrances)		
(c)	Total real estate	-	-
8.	COLLATERAL LOANS		
9.	INVESTMENT INCOME DUE AND ACCRUED	2,026	
10.	ACCOUNTS AND PREMIUMS RECEIVABLE:		
(a)	In course of collection	527,480	
(b)	Deferred - not yet due		
(c)	Receivables from retrocessional contracts		
(d)	Total accounts and premiums receivable	527,480	-
11.	REINSURANCE BALANCES RECEIVABLE:		
(a)	Foreign affiliates		
(b)	Domestic affiliates		
(c)	Pools & associations		
(d)	All other insurers	299	
(e)	Total reinsurance balance receivable	299	-

CONDENSED BALANCE SHEET

Canopus Reinsurance Limited

As at

December 31, 2019

expressed in ['000s]

United States Dollars

LINE No.		2019	2018
12.	FUNDS HELD BY CEDING REINSURERS		
13.	SUNDRY ASSETS:		
(a)	Derivative instruments	47	
(b)	Segregated accounts companies - long-term business - variable annuities		
(c)	Segregated accounts companies - long-term business - other		
(d)	Segregated accounts companies - general business		
(e)	Deposit assets		
(f)	Deferred acquisition costs		
(g)	Net receivables for investments sold	222	
(h)	Prepays	562	
(i)			
(j)	Other Sundry Assets (Specify)		
(k)	Total sundry assets	831	-
14.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS		
(a)	Letters of credit		
(b)	Guarantees		
(c)	Other instruments		
(e)	Total letters of credit, guarantees and other instruments	-	-
15.	TOTAL	1,076,632	-
	TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS		
16.	UNEARNED PREMIUM RESERVE		
(a)	Gross unearned premium reserves	239,768	
(b)	Less: Ceded unearned premium reserve		
	i. Foreign affiliates		
	ii. Domestic affiliates		
	iii. Pools & associations		
	iv. All other insurers		
(c)	Total ceded unearned premium reserve	-	-
(d)	Net unearned premium reserve	239,768	-
17.	LOSS AND LOSS EXPENSE PROVISIONS:		
(a)	Gross loss and loss expense provisions	348,774	
(b)	Less : Reinsurance recoverable balance		
	i. Foreign affiliates		
	ii. Domestic affiliates		
	iii. Pools & associations		
	iv. All other reinsurers		
(c)	Total reinsurance recoverable balance	-	-
(d)	Net loss and loss expense provisions	348,774	-
18.	OTHER GENERAL BUSINESS INSURANCE RESERVES		
19.	TOTAL GENERAL BUSINESS INSURANCE RESERVES	588,542	-
	LONG-TERM BUSINESS INSURANCE RESERVES		
20.	RESERVE FOR REPORTED CLAIMS		
21.	RESERVE FOR UNREPORTED CLAIMS		
22.	POLICY RESERVES - LIFE		
23.	POLICY RESERVES - ACCIDENT AND HEALTH		
24.	POLICYHOLDERS' FUNDS ON DEPOSIT		
25.	LIABILITY FOR FUTURE POLICYHOLDERS' DIVIDENDS		
26.	OTHER LONG-TERM BUSINESS INSURANCE RESERVES		
27.	TOTAL LONG-TERM BUSINESS INSURANCE RESERVES		
(a)	Total Gross Long-Term Business Insurance Reserves	-	-
(b)	Less: Reinsurance recoverable balance on long-term business		
	(i) Foreign Affiliates		
	(ii) Domestic Affiliates		
	(iii) Pools and Associations		
	(iv) All Other Insurers		
(c)	Total Reinsurance Recoverable Balance	-	-
(d)	Total Net Long-Term Business Insurance Reserves	-	-

CONDENSED BALANCE SHEET

Canopus Reinsurance Limited

As at

December 31, 2019

expressed in ['000s]

United States Dollars

LINE No.		2019	2018
	OTHER LIABILITIES		
28.	INSURANCE AND REINSURANCE BALANCES PAYABLE		
29.	COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE	359	
30.	LOANS AND NOTES PAYABLE		
31.	(a) INCOME TAXES PAYABLE	316	
	(b) DEFERRED INCOME TAXES		
32.	AMOUNTS DUE TO AFFILIATES	6,717	
33.	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	1,020	
34.	FUNDS HELD UNDER REINSURANCE CONTRACTS:		
35.	DIVIDENDS PAYABLE		
36.	SUNDRY LIABILITIES:		
(a)	Derivative instruments	114	
(b)	Segregated accounts companies		
(c)	Deposit liabilities		
(d)	Net payable for investments purchased		
(e)	Other sundry liabilities (specify)		
(f)	Other sundry liabilities (specify)		
(g)	Other sundry liabilities (specify)		
(h)	Total sundry liabilities	114	-
37.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS:		
(a)	Letters of credit		
(b)	Guarantees		
(c)	Other instruments		
(d)	Total letters of credit, guarantees and other instruments	-	-
38.	TOTAL OTHER LIABILITIES	8,526	-
39.	TOTAL INSURANCE RESERVES AND OTHER LIABILITIES	597,068	-
	CAPITAL AND SURPLUS		
40.	TOTAL CAPITAL AND SURPLUS	479,564	-
41.	TOTAL	1,076,632	-

CONDENSED STATEMENT OF INCOME

Canopus Reinsurance Limited

As at December 31, 2019
expressed in ['000s] United States Dollars

LINE No.		2019	2018
	GENERAL BUSINESS UNDERWRITING INCOME		
1.	GROSS PREMIUMS WRITTEN		
	(a) Direct gross premiums written	467,181	
	(b) Assumed gross premiums written		
	(c) Total gross premiums written	467,181	-
2.	REINSURANCE PREMIUMS CEDED	9	
3.	NET PREMIUMS WRITTEN	467,172	-
4.	INCREASE (DECREASE) IN UNEARNED PREMIUMS	(90,262)	
5.	NET PREMIUMS EARNED	376,910	-
6.	OTHER INSURANCE INCOME		
7.	TOTAL GENERAL BUSINESS UNDERWRITING INCOME	376,910	-
	GENERAL BUSINESS UNDERWRITING EXPENSES		
8.	NET LOSSES INCURRED AND NET LOSS EXPENSES INCURRED	317,035	
9.	COMMISSIONS AND BROKERAGE	3,182	
10.	TOTAL GENERAL BUSINESS UNDERWRITING EXPENSES	320,217	-
11.	NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS	56,693	-
	LONG-TERM BUSINESS INCOME		
12.	GROSS PREMIUMS AND OTHER CONSIDERATIONS:		
	(a) Direct gross premiums and other considerations		
	(b) Assumed gross premiums and other considerations		
	(c) Total gross premiums and other considerations	-	-
13.	PREMIUMS CEDED		
14.	NET PREMIUMS AND OTHER CONSIDERATIONS:		
	(a) Life		
	(b) Annuities		
	(c) Accident and health		
	(d) Total net premiums and other considerations	-	-
15.	OTHER INSURANCE INCOME		
16.	TOTAL LONG-TERM BUSINESS INCOME	-	-
	LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES		
17.	CLAIMS - LIFE		
18.	POLICYHOLDERS' DIVIDENDS		
19.	SURRENDERS		
20.	MATURITIES		
21.	ANNUITIES		
22.	ACCIDENT AND HEALTH BENEFITS		
23.	COMMISSIONS		
24.	OTHER		
25.	TOTAL LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES	-	-
26.	INCREASE (DECREASE) IN POLICY RESERVES (ACTUARIAL LIABILITIES):		
	(a) Life		
	(b) Annuities		
	(c) Accident and health		
	(d) Total increase (decrease) in policy reserves	-	-
27.	TOTAL LONG-TERM BUSINESS EXPENSES	-	-
28.	NET UNDERWRITING PROFIT (LOSS) - LONG-TERM BUSINESS	-	-
29.	COMBINED NET UNDERWRITING RESULTS BEFORE THE UNDERNOTED ITEMS	56,693	-

CONDENSED STATEMENT OF INCOME

Canopus Reinsurance Limited

As at
expressed in ['000s]

December 31, 2019

United States Dollars

LINE No.

2019

2018

UNDERNOTED ITEMS

30.	COMBINED OPERATING EXPENSE		
	(a) General and administration	48,480	
	(b) Personnel cost	781	
	(c) Other		
	(d) Total combined operating expenses	49,261	-
31.	COMBINED INVESTMENT INCOME - NET	28,793	
32.	COMBINED OTHER INCOME (DEDUCTIONS)	(388)	
33.	COMBINED INCOME BEFORE TAXES	35,837	-
34.	COMBINED INCOME TAXES (IF APPLICABLE):		
	(a) Current	316	
	(b) Deferred		
	(c) Total	316	-
35.	COMBINED INCOME BEFORE REALIZED GAINS (LOSSES)	35,521	-
36.	COMBINED REALIZED GAINS (LOSSES)	7,221	
37.	COMBINED INTEREST CHARGES		
38.	NET INCOME	42,742	-

CONDENSED STATEMENT OF CAPITAL AND SURPLUS

Canopus Reinsurance Limited

As at

December 31, 2019

expressed in ['000s]

United States Dollars

LINE No.		2019	2018
1.	CAPITAL:		
(a)	Capital Stock		
	(i) Common Shares		
	authorized <input type="text" value="100,000"/> shares of par	<input type="text" value="100,000"/>	<input type="text"/>
	value <input type="text" value="\$ 1,000"/> each issued and		
	fully paid <input type="text" value="100,000"/> shares		
	(ii)		
	(A) Preferred shares:		
	authorized <input type="text"/> shares of par	<input type="text"/>	<input type="text"/>
	value <input type="text"/> each issued and		
	fully paid <input type="text"/> shares		
	aggregate liquidation value for —		
	2019 <input type="text"/>		
	2018 <input type="text"/>		
	(B) Preferred shares issued by a subsidiary:		
	authorized <input type="text"/> shares of par	<input type="text"/>	<input type="text"/>
	value <input type="text"/> each issued and		
	fully paid <input type="text"/> shares		
	aggregate liquidation value for —		
	2019 <input type="text"/>		
	2018 <input type="text"/>		
	(iii) Treasury Shares		
	repurchased <input type="text"/> shares of par	<input type="text"/>	<input type="text"/>
	value <input type="text"/> each issued		
(b)	Contributed surplus	<input type="text"/>	<input type="text"/>
(c)	Any other fixed capital		
	(i) Hybrid capital instruments	<input type="text"/>	<input type="text"/>
	(ii) Guarantees and others	<input type="text"/>	<input type="text"/>
	(iii) Total any other fixed capital	<input type="text" value="-"/>	<input type="text" value="-"/>
(d)	Total Capital	<input type="text" value="100,000"/>	<input type="text" value="-"/>
2.	SURPLUS:		
(a)	Surplus - Beginning of Year	<input type="text" value="336,822"/>	<input type="text"/>
(b)	Add: Income for the year	<input type="text" value="42,742"/>	<input type="text" value="-"/>
(c)	Less: Dividends paid and payable	<input type="text"/>	<input type="text"/>
(d)	Add (Deduct) change in unrealized appreciation (depreciation) of investments	<input type="text"/>	<input type="text"/>
(e)	Add (Deduct) change in any other surplus	<input type="text"/>	<input type="text"/>
(f)	Surplus - End of Year	<input type="text" value="379,564"/>	<input type="text" value="-"/>
3.	MINORITY INTEREST	<input type="text"/>	<input type="text"/>
4.	TOTAL CAPITAL AND SURPLUS	<input type="text" value="479,564"/>	<input type="text" value="-"/>

Canopus Reinsurance Limited
General Note to the Condensed Financial Statements
As of December 31, 2019
(expressed in U.S. Dollars, in thousands)

1. Organization

Canopus Reinsurance Limited (the “Company”) continued to Bermuda on June 28, 2019. The Company was formerly Canopus Reinsurance AG, which was incorporated under the laws of Switzerland on November 23, 2015. The Company is registered as a Class 3A insurer under The Insurance Act 1978 (Bermuda).

The Company is directly owned by Canopus Group Limited (“CGL”), which continued to Jersey on August 6, 2019. CGL was formerly Canopus AG, which was incorporated under the laws of Switzerland on September 2, 2015.

Effective January 1, 2019, the Company changed its reporting currency from Swiss Francs (CHF) to United States Dollars (USD). Current year results have been presented in USD.

Effective January 1, 2019, the company changed its accounting principles from accounting principles generally accepted in Switzerland (“Swiss GAAP”) to accounting principles generally accepted in the United States of America (“US GAAP”). See Note 3 for Accounting standards and principles.

Under a facility agreement dated February 20, 2018, Canopus AG had granted ING Bank N.V, London Branch a charge over the entire issued share capital of Canopus Reinsurance AG as security for its obligations under that agreement. Upon continuance to Bermuda, the facility agreement was amended so that the charge continued over Canopus Reinsurance Limited.

Prior to continuing to Bermuda, Canopus Reinsurance AG had a Bermuda branch registered as a Class 3B insurer under the Insurance Act 1978 (Bermuda). After continuance to Bermuda and in conjunction with being licensed as a Class 3A insurer, the Company discontinued its Bermuda branch.

2. Nature of risks underwritten

Prior to 2018, the Company wrote global multiline third party reinsurance focusing on property, casualty and specialty business segments. In 2018, the Company stopped writing third party business. In January 2019, the Company wrote a small portfolio of third party European property reinsurance/retrocession catastrophe excess of loss and stop loss business.

The bulk of the Company’s business is underwritten through a quota share agreement whereby it assumes 60% of the risks underwritten by Flectat Limited (“Flectat”), a wholly owned subsidiary of the CGL. This has been ongoing since the 2018 Year of Account.

Flectat underwrites as a Corporate Member of Lloyd’s of London on Syndicate 4444 (“Syndicate 4444” or “S4444”). For the 2019 Year of Account, Flectat had an 87.14% participation in S4444.

Syndicate 4444 underwrites a mixture of reinsurance and insurance of property, marine and energy, a range of specialty lines including international medical, trade credit, political risk, and specialist consumer products.

Canopus Reinsurance Limited
General Note to the Condensed Financial Statements
As of December 31, 2019
(expressed in U.S. Dollars, in thousands)

3. Accounting standards and principles

The 2019 condensed general purpose financial statements have been prepared in conformity with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016

With respect to Condensed General Purpose Financial Statements (the “Legislation”). The condensed general purpose financial statements are based upon accounting principles generally accepted in the United States of America (“US GAAP”) but are in accordance with the reporting requirements of the Legislation, which varies in certain respects from US GAAP.

The more significant variances are as follows:

- A statement of cash flows is not included;
- A statement of comprehensive income is not included;
- The presentation and classification of financial statement line items is in accordance with Schedules IX and XI of the Insurance Account Rules 2016 and differ from the expected presentation and classification under U.S. GAAP; and
- The notes included in the condensed general purpose financial statements have been prepared in accordance with Schedule X of the Insurance Account Rules 2016 and exclude certain information required under U.S. GAAP.

The 2018 financial statements were prepared in accordance with Swiss GAAP. Below is a reconciliation between closing 2018 Swiss GAAP retained earnings and opening 2019 US GAAP retained earnings.

Swiss GAAP retained earnings, December 31, 2018	CHF	(41,336)
Add:		
Legal capital reserves		50,000
Free reserves		286,270
Currency conversion difference		2,400
Swiss GAAP total in CHF	CHF	297,334
Currency translation of CHF to USD		2,266
Swiss GAAP total in USD	USD	299,600
Swiss GAAP to US GAAP adjustments (in USD):		
Valuation difference – investments		(444)
Valuation difference – technical provisions		37,666
US GAAP retained earnings, January 1, 2019	USD	336,822

4. Significant accounting policies

As described in Note 1, the Company has changed its accounting standards from Swiss GAAP to US. The following notes summarize the significant accounting and reporting policies adopted by the Company under US GAAP.

The Company has adopted the following accounting policies:

Canopius Reinsurance Limited
General Note to the Condensed Financial Statements
As of December 31, 2019
(expressed in U.S. Dollars, in thousands)

4. Significant accounting policies (continued)

(a) Use of estimates

The preparation of financial statements in conformity with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the financial statements and the amounts of revenues and expenses reported during the period. Actual results could differ materially from those estimates.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash held in banks and other short-term, highly liquid investments with original maturity dates of ninety days or less.

(c) Loss and loss adjustment expense reserves

The Company's loss and loss adjustment expense reserves include case reserves and reserves for losses incurred but not yet reported ("IBNR reserves"). Case reserves are established for losses that have been reported, but not yet paid. IBNR reserves represent the estimated loss and loss adjustment expenses that have been incurred by reinsureds but not yet reported to the reinsurer, including unknown future developments on loss and loss adjustment expenses that are known to the reinsurer.

IBNR reserves are established by management based on actuarially determined estimates of ultimate loss and loss adjustment expenses.

Inherent in the estimate of ultimate loss and loss adjustment expenses are expected trends in claim severity and frequency and other factors that may vary significantly as claims are settled. Accordingly, ultimate loss and loss adjustment expenses may differ materially from the amounts recorded in the financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are recorded in the statements of income in the period in which they become known.

(d) Fair value measurement

The Company determines the fair value of financial instruments in accordance with current accounting guidance, which defines fair value and establishes a three level fair value hierarchy based upon the transparency of inputs used in the valuation of an asset or liability. Fair value is defined as the price that the Company would receive to sell an asset or would pay to transfer a liability in an orderly transaction between market participants at the measurement date. The Company determines the estimated fair value of each individual security utilizing the highest level inputs available.

The fair value of the Company's assets and liabilities, which qualify as financial instruments, approximates the carrying amounts presented in the Condensed Balance Sheet.

The three level hierarchy of inputs is summarized below:

Canopus Reinsurance Limited
General Note to the Condensed Financial Statements
As of December 31, 2019
(expressed in U.S. Dollars, in thousands)

4. Significant accounting policies (continued)

(d) Fair value measurement (continued)

Level 1 – Quoted prices available in active markets/exchanges for identical assets or liabilities as of the reporting date.

Level 2 – Observable inputs to the valuation methodology other than unadjusted quoted market prices for identical assets or liabilities in active markets. Level 2 inputs include, but are not limited to, prices quoted for similar assets or liabilities in active markets/exchanges, prices quoted for identical or similar assets or liabilities in markets that are not active and fair values determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs unobservable for assets or liabilities include activities where there is little, if any, market activity for the asset or liability. The inputs applied in the determination of fair value require significant management judgment and estimation.

Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk; for example, the risk inherent in a particular valuation technique used to measure fair value. Inputs may be observable or unobservable.

Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on observable market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of observable input that is significant to the fair value measurement.

5. Revenue recognition

(a) Premiums

Gross premiums written relates to business incepting during the year and adjustments to premium booked in prior years. Unearned premiums represent the portion of premiums written in the year that related to unexpired terms of policies in force at the balance sheet date, calculated by reference to the expected incidence of insurance risk over the period of cover.

(b) Investment income

The Company's investment portfolio comprises of fixed income securities, equities and holdings of certain exchange-traded investment companies. These are classified as held for trading and are carried at fair value with any net unrealized gains/losses included in the Condensed Statement of Income. Purchases and sales of investments are recorded on their trade date.

Canopus Reinsurance Limited
General Note to the Condensed Financial Statements
As of December 31, 2019
(expressed in U.S. Dollars, in thousands)

5. Revenue recognition (continued)

(b) Investment income (continued)

Fair values of U.S. government securities are based on quoted market prices and fair value of fixed income securities are based on bid prices and matrix pricing for less liquid securities. Realized gains and losses are recognized in income using the specific identification method.

Fair values of equities are based on quoted market bid prices. Realized gains and losses are recognized on the basis of specific identification.

Investments in holdings in collective investment schemes are carried at net asset value. The investment companies that the Company invests with generally carry their trading positions and investments at fair value as determined by their respective investment managers. All changes in net asset values are included in the Condensed Statement of Income.

Interest income is accrued to the Condensed Balance Sheet date.

Dividends are accrued on the ex-dividend date.

(c) Commission income

N/A

6. Foreign currency transactions

Effective January 1, 2019, the Company transitioned its reporting currency from Swiss Francs to United States Dollars. The Company's functional currency is USD and has not changed. USD reflects the currency in which the Company primarily generates and expends cash and therefore better represents the primary economic environment in which the Company operates.

Transactions in foreign currencies are translated to USD at the exchange rate in effect on the transaction date. Monetary assets and liabilities in foreign currencies are re-measured at the exchange rates in effect at the balance sheet date. Exchange gains or losses are included in the determination of net income.

Net realized foreign exchange gains of \$1,444 and net unrealized foreign exchange losses of \$1,757 have been included in Combined Other Income (Deductions). Total net foreign exchange losses of \$313 were recognized in the Condensed Statements of Income for the year ended December 31, 2019. Foreign exchange gains/losses originate primarily from the revaluation of certain of the Company's insurance reserves, intercompany receivables, and foreign denominated investments held as Funds at Lloyd's ("FAL").

7. Foreign exchange control restrictions

At December 31, 2019 there are no foreign exchange control restrictions, unrelated to the insurance business conducted by the Company, affecting the assets of the Company.

Canopus Reinsurance Limited
General Note to the Condensed Financial Statements
As of December 31, 2019
(expressed in U.S. Dollars, in thousands)

8. Contingencies and commitments

At December 31, 2019 the Company had no contingencies or commitments.

9. Default

N/A

10. Dividends

During 2019 no dividends were declared or paid to CGL. There were no unpaid dividends at December 31, 2019.

11. Loans

There were no loans made during the year by the insurer to any director or officer of the insurer.

12. Retirement Obligations

N/A

13. Investments

The fair values of Quoted Investments in marketable securities as at December 31, 2019 are as follows:

Type of Security	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bonds and debentures	111,787	138,948	-	250,735
Equity shares	23,560	-	-	23,560
Total quoted investments, at fair value	135,347	138,948	-	274,295
Assets excluded from fair value hierarchy*				58,125
Total quoted investments				332,420
Derivative assets	47	-	-	47
Derivative liabilities	-	(114)	-	(114)

* Holdings in collective investment schemes comprise of investments where the net asset value, as provided to the Company, has been used as a practical expedient of fair value.

Net realized gains on investments in securities held for trading was \$10,131. This is included within combined realized gains (losses) in the Condensed Statement of Income.

Net unrealized losses on investments in securities held for trading was \$14,135. This is included within combined investment income-net in the Condensed Statement of Income.

Canopus Reinsurance Limited
General Note to the Condensed Financial Statements
As of December 31, 2019
(expressed in U.S. Dollars, in thousands)

13. Investments (continued)

As at December 31, 2019, approximately 17.1% of the Company's fixed income investment portfolio was composed of asset-backed securities (including government agency asset-backed securities) and at December 31, 2019 these investments had a weighted average rating of A by Standard & Poor's. The Company's investments in asset-backed securities were comprised primarily of instruments backed by auto and credit card receivables originating in the United States and at December 31, 2019 these investments had a weighted average rating of AAA by Standard and Poor's.

The Company has made use of valuation techniques and assumptions in estimating the fair value of financial instruments as well as the general classification of these financial instruments pursuant to the fair value hierarchy.

The fair values of the Company's fixed income securities are valued using pricing services that utilize transaction prices for securities that have quoted prices in active markets. For those securities that are not actively traded, the pricing services use market accepted valuation pricing models to determine fair value.

The fair values of the Company's equity securities are based upon quoted market prices.

The fair value of holdings in collective investment schemes are valued based upon net asset values as provided by their investment managers.

14. Maturity of fixed income and short-term investments

The fair values of fixed income securities shown by contractual maturity are as follows:

	<u>2019</u>
Due in one year or less	3,765
Due after one year through three years	73,252
Due after three years through five years	96,870
Due after five years through ten years	2,475
Due after ten years through twenty years	59,251
Due after twenty years	<u>15,122</u>
Total fixed income securities	<u>250,735</u>

Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties, and the lenders may have the right to put the securities back to the borrower.

Canopus Reinsurance Limited
General Note to the Condensed Financial Statements
As of December 31, 2019
(expressed in U.S. Dollars, in thousands)

15. Related party transactions

The Company has entered into a service agreement with Canopus Services Limited (“CSL”) and Canopus Underwriting Bermuda Limited (“CUBL”) effective June 28, 2019. Both entities are wholly-owned subsidiaries of Canopus Group Limited (“CGL”).

The service agreement with CSL covers investment management, accounting services, claims analysis, legal, human resources, information technology, actuarial, capital modeling and other general corporate services. The service agreement with CUBL covers Bermuda staffing, office expenses as well as services involving underwriting, modeling, operations, claims authorizations and accounting services.

The Company writes a 60% whole account quota share with Flectat in respect to its participation on S4444 for the 2018 and 2019 underwriting years and a catastrophe excess of loss contract with Canopus U.S. Insurance, Inc. (“CUSI”), both wholly owned subsidiaries of CGL.

CGL has an agreement with an investment manager to facilitate the management of a hedging portfolio which utilizes a range of derivative based hedging strategies and permitted assets to provide CGL with the desired exposures to allow it to manage its investment risks. CGL in turn has a facility in place with the Company outlining how GCL will utilize this arrangement for the Company. The Company provides collateral to CGL under this agreement and receives the benefits/losses of the allocated derivatives.

Prior to the continuation to Bermuda, the Company offered its clients the option to novate their contracts to S4444 or transfer them with the Company to Bermuda. Effective June 28, 2019, the Company entered into a novation payment agreement with S4444 in respect of the novated contracts.

On January 29, 2018, the Company entered into a loan agreement with S4444 where S4444 loaned the Company \$5m to provide collateral for an LOC with an interest rate of 0.55% per annum. The loan will be repaid within 10 business days of the LOC being cancelled.

On March 1, 2019, the Company entered into a loan agreement with CGL where the Company agreed to lend CGL up to \$20m with a interest rate calculated on a daily basis at 2.5% per annum for the duration of the loan. On September 25, 2019, the loan amount was increased to up to \$40m. The loan shall be repayable by June 30, 2020 or immediately upon demand. This loan was repaid April 9, 2020.

Upon continuance to Bermuda, the Company transferred \$1,122 to Canopus Europe Limited (“CEL”) to cover remaining payroll on the Company’s behalf for departing Swiss employees. This amount is being drawn down as payments are made.

Canopus Reinsurance Limited
General Note to the Condensed Financial Statements
As of December 31, 2019
(expressed in U.S. Dollars, in thousands)

15. Related Party Transactions (continued)

Balances with related parties have been recorded in the Condensed Balance Sheet as follows:

<u>Entity</u>	<u>Due from</u> <u>Affiliates</u>	<u>Due to</u> <u>Affiliates</u>	<u>Accounts</u> <u>and</u> <u>Premiums</u> <u>Receivable</u>	<u>Sundry</u> <u>Assets</u>	<u>Unearned</u> <u>Premiums</u> <u>Reserve</u>	<u>Loss</u> <u>Provisions</u>	<u>Sundry</u> <u>Liabilities</u>
CSL	-	1,008	-	-	-	-	-
CUBL	-	652	-	-	-	-	-
Flectat	-	-	520,955	-	239,499	296,237	-
CUSI	-	-	281	-	269	1,680	-
S4444	-	5,057	-	-	-	-	-
CGL	45,180	-	-	47	-	-	114
CEL	541	-	-	-	-	-	-
Totals	45,721	6,717	521,236	47	239,768	297,917	114

Transactions with related parties have been recorded in the Condensed Statement of Income as follows:

<u>Entity</u>	<u>Net</u> <u>Premiums</u> <u>Earned</u>	<u>Net Losses/</u> <u>(Recoveries)</u>	<u>Administration</u> <u>Expenses</u>	<u>Combined</u> <u>Net</u> <u>Investment</u> <u>Income</u>	<u>Combined</u> <u>Realized</u> <u>Gains</u> <u>(Losses)</u>
CSL	-	-	182	519	-
CUBL	-	-	652	-	-
Flectat	374,716	328,021	45,424	11,469	-
CUSI	446	(900)	-	-	-
CGL	-	-	-	234	(1,472)
S4444	-	-	-	28	-
Totals	375,162	327,121	46,258	12,250	(1,472)

Canopus Reinsurance Limited
General Note to the Condensed Financial Statements
As of December 31, 2019
(expressed in U.S. Dollars, in thousands)

16. Subsequent events

On March 12, 2020, the COVID 19 virus was declared a pandemic by the World Health Organization. The Company has not been notified of any claims relating to COVID-19. There is significant uncertainty surrounding this ongoing situation and the impact on the Company which is being monitored closely.

On April 9, 2020, CGL repaid its \$40,000 loan outstanding plus interest.

There were no other transactions or events beyond those addressed in these Notes to the Condensed Financial Statements that were outside of events occurring in the ordinary course of business, between December 31, 2019 and the date of approval of these Condensed Financial Statements by the board of directors that materially affected the Condensed Financial Statements.

17. Other information

There is no information, beyond that which has already been disclosed herein, that in the opinion of the board of directors is required to be disclosed if the Condensed Financial Statements are not to be misleading.

Canopus Reinsurance Limited
Notes to the Condensed Statement of Capital and Surplus
Year Ended December 31, 2019
(expressed in U.S. Dollars, in thousands)

1(a). Capital and Surplus

The Company's authorized capital is 100,000 shares of par value \$1.00 each. Effective January 1, 2020, the par value of shares was changed from CFH1.00 each to USD1.00 each. All shares are fully paid.

	<u>2019</u>
Common Shares	
Balance, beginning and end of year	100,000
Surplus	
Balance, beginning of year	336,822
Net income/(loss)	<u>42,742</u>
Balance, end of year	<u>379,564</u>
Total Capital and Surplus	<u><u>479,564</u></u>

See Note 3 in the General Note to the Financial Statements for reconciliation from Swiss GAAP to US GAAP opening balance of Surplus.

1(b). Contributed Surplus

N/A

2(c). Dividends

During 2019 no dividends were declared or paid to CGL.

Canopus Reinsurance Limited
Notes to the Condensed Balance Sheet
As of December 31, 2019
(2019 expressed in U.S. Dollars, in thousands)

1. Cash and cash equivalents

Cash and cash equivalents consist of cash held in banks and other short-term, highly liquid investments with original maturity dates of ninety days or less. At December 31, 2019, cash & cash equivalents held as encumbered assets for policyholder obligations was \$141,439 and cash & cash equivalents held as collateral for lines of credit and pledge accounts was \$20,406.

2. Quoted investments

The Company determines the fair value of financial instruments in accordance with current accounting guidance, which defines fair value and establishes a three level fair value hierarchy based upon whether inputs used in the valuation of an asset or liability are observable or unobservable. Fair value is defined as the price that the Company would receive to sell an asset or would pay to transfer a liability in an orderly transaction between market participants at the measurement date. The Company determines the estimated fair value of each individual security utilizing the most observable inputs available.

At December 31, 2019, quoted investments held as encumbered assets for policyholder obligations were \$306,675.

Funds at Lloyd's ("FAL")

In consideration of the Company entering into a limited liability quota share reinsurance agreement with Flectat, the Company has provided for 60% of Flectat's FAL requirement. The Company provides assets under a security and trust deed charged to Lloyd's of London ("Lloyd's"), to meet its share of liabilities that may occur from Flectat's interests in Syndicate 4444.

At December 31, 2019, the Company's FAL requirement, as established under the quota share agreement, was \$380,000. At December 31, 2019, the market value of the Company's FAL contribution was \$443,861, which was comprised of \$141,439 of cash and cash equivalents and \$302,422 of investments.

Pledge Accounts

To support its run-off French mutual business, the Company has established pledge accounts to cover expected claims under these policies. As at December 31, 2019, the market value in these pledge accounts is \$4,259, which was comprised of \$6 of cash and cash equivalents and \$4,253 of investments.

Line of Credit

The Company has established a line of credit with Barclays Bank PLC. Under this line of credit, the Company has posted collateral of \$20,000. As at December 31, 2019, the value in the line of credit account is \$20,400 and is included in cash and cash equivalents.

3. Unquoted investments

The Company held no unquoted investments at December 31, 2019.

Canopus Reinsurance Limited
Notes to the Condensed Balance Sheet
As of December 31, 2019
(2019 expressed in U.S. Dollars, in thousands)

4. Investment in and advances to affiliates

Advances to affiliates of \$40,000 is due June 30, 2020, callable upon demand and bears interest at 2.5% per annum. This advance was repaid on April 9, 2020.

5. Investments in mortgage loans on real estate

N/A

6. Policy loans

N/A

7. Real estate

N/A

8. Collateral Loans

N/A

9. Investment income due and accrued

At December 31, 2019 investment income of \$2,026 had been accrued.

10. Accounts and premiums receivable

At December 31, 2019 accounts and premiums receivable included in the Company's balance sheet totaled \$527,480. Of this amount, \$520,955 is due from Flectat and \$281 is due from CUSI.

11. Reinsurance balances receivable

At December 31, 2019 the Company held \$299 of reinsurance balances receivable.

12. Funds held by ceding reinsurers

N/A.

13. Sundry assets

At December 31, 2019 sundry assets totaled \$831, consisting of \$47 of unrealized derivatives, \$562 of prepaid health insurance and pension, and \$222 of receivables for investments sold.

As discussed in General Note 15, CGL manages a portfolio of derivatives to manage investment risk on behalf of the Company. At December 31, 2019, the Company held two exchange traded options with a fair market value of \$47.

Canopus Reinsurance Limited
Notes to the Condensed Balance Sheet
As of December 31, 2019
(2019 expressed in U.S. Dollars, in thousands)

14. Letters of credit, guarantees and other

N/A

16. Unearned premium reserve

Premiums written are earned over the exposure period in proportion to the period of risk covered. Unearned premiums represent the portion of premiums written that relate to the remaining term of the underlying policies in force.

Changes in premium estimates are expected and may result in adjustments in any reporting period. These estimates change over time as additional information regarding the underlying business volume is obtained. Any subsequent adjustments arising on such estimates are recorded in the period in which they are determined.

17. Loss and loss expense provisions

Balance at January 1, 2019	228,546
Net losses incurred related to:	
2019 year of account and 2019 policies written	148,208
Prior years	168,827
Total net losses incurred	317,035
Net losses paid related to:	
2019 year of account and 2019 policies written	(29,256)
Prior years	(174,377)
Effect of foreign exchange and other movements	6,826
Total paid losses	(196,807)
Balance December 31, 2019	348,774

The Company experienced deterioration during 2019 relating to the 2018 year of account losses in the Flectat quota share.

20. Reserves for reported claims

The Company's loss and loss adjustment expense reserves include case reserves. Case reserves are established for losses that have been reported but not yet paid.

Inherent in the estimate of ultimate loss and loss adjustment expenses are expected trends in claim severity and frequency and other factors that may vary significantly as claims are settled. Accordingly, ultimate loss and loss adjustment expenses may differ materially from the amounts recorded in the Condensed Financial Statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are recorded in the Condensed Statement of Income in the period in which they become known.

Canopus Reinsurance Limited
Notes to the Condensed Balance Sheet
As of December 31, 2019
(2019 expressed in U.S. Dollars, in thousands)

21. Reserves for unreported claims

The Company's loss and loss adjustment expense reserves include reserves for losses incurred but not yet reported ("IBNR reserves"). IBNR reserves represent the estimated loss and loss adjustment expenses that have been incurred by reinsureds but not yet reported to the reinsurer, including unknown future developments on loss and loss adjustment expenses that are known to the reinsurer. IBNR reserves are established by management based on actuarially determined estimates of ultimate loss and loss adjustment expenses.

Inherent in the estimate of ultimate loss and loss adjustment expenses are expected trends in claim severity and frequency and other factors that may vary significantly as claims are settled. Accordingly, ultimate loss and loss adjustment expenses may differ materially from the amounts recorded in the Condensed Financial Statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are recorded in the Condensed Statement of Income in the period in which they become known.

22. Policy reserves life

N/A

23. Policy reserves accident and health

N/A

24. Policyholders' funds on deposit

N/A

25. Liability for future policyholders' dividends

N/A

26. Other insurance reserves - long term

N/A

27. Total long-term business insurance reserves

N/A

28. Insurance and reinsurance balances payable

N/A

Canopius Reinsurance Limited
Notes to the Condensed Balance Sheet
As of December 31, 2019
(2019 expressed in U.S. Dollars, in thousands)

29. Commissions, expenses, fees and taxes payable

Commissions, expenses, fees and taxes payable include an accrual for profit commissions of \$359.

30. Loans and notes payable

N/A

31. Taxes payable

Income taxes payable represents the taxes payable under final tax assessment of Canopius Reinsurance AG with the Swiss tax authorities.

Under current Bermuda law, the Company is not subject to any income or capital gains taxes. In the event that such taxes are imposed, the Company would be exempted from any such taxes until March 2035 pursuant to the Tax Assurance Certificates issued to such entities pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966, as amended.

As of December 31, 2019, the Company did not have any uncertain tax liabilities.

32. Amounts due to affiliates

Amounts due to affiliates include a loan from S4444, which bears interest at 0.55% per annum and is to be repaid within 10 business days of the cancellation of the related line of credit. All other amounts due to affiliates do not bear interest and do not have specific repayment terms.

33. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consisted of the following as at December, 31 2019:

Accrued salaries payable	619
Accrued audit fees	244
Accrued investment management fees	157
Total	<u>1,020</u>

34. Funds held under reinsurance contracts

N/A

35. Dividends payable

N/A

Canopus Reinsurance Limited
Notes to the Condensed Balance Sheet
As of December 31, 2019
(2019 expressed in U.S. Dollars, in thousands)

36. Sundry liabilities

At December 31, 2019 the Company had unrealized foreign currency contracts payable of \$114 included in sundry liabilities. The notional values are as follows:

<u>Currency</u>	<u>Amount</u>	<u>Currency</u>	<u>Amount</u>	<u>Counterparty</u>	<u>Settlement date</u>	<u>Unrealized gain (loss)</u>
GBP	22,000	USD	(29,225)	Barclays	April 2, 2020	(120)
CAD	(3,300)	USD	2,545	Barclays	April 2, 2020	7
EUR	6,600	USD	(7,453)	Barclays	April 2, 2020	-
USD	934	CHF	(900)	Barclays	April 2, 2020	(1)
Total						<u>(114)</u>

37. Letters of credit, guarantees and other instruments

N/A

Canopius Reinsurance Limited
Notes to the Condensed Statement of Income
Years Ended December 31, 2019
(expressed U.S. Dollars, in thousands)

6. Other insurance income

N/A

15. Other insurance income

N/A

32. Combined other income (deductions)

At December 31, 2019, the Company recognized realized and unrealized foreign exchange losses of \$388. Foreign exchange gains/losses originate primarily from the revaluation of certain of the Company's quota share balances, intercompany receivables and foreign denominated investments held as Funds at Lloyd's ("FAL").

36. Combined realized gains (loss)

At December 31, 2019 the Company recognized net realized gains of \$7,221 on the sale of certain investments.