Financial Condition Report
Canopius Reinsurance Limited

December 31, 2019

canopius

Table of Abbreviations

BMA	Bermuda Monetary Authority
BSCR	Bermuda Solvency Capital Requirement
Canopius	All Canopius group companies
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CISSA:	Commercial Insurer Solvency Self-Assessment
CRe:	Canopius Reinsurance Limited
CRO	Chief Risk Officer
CUO	Chief Underwriting Officer
EBS	Economic Balance Sheet
ECR	Enhanced Capital Requirement
FAL:	Funds At Lloyds
Flectat:	Flectat Limited
GAAP	Generally Accepted Accounting Principles
Group:	Canopius Group Limited
IBNR	Incurred But Not Reported
ORSA	Own Risk and Solvency Assessment
RBC:	Risk Bearing Capital
SST:	Swiss Solvency Test
TC:	Target Capital
VaR:	Value at Risk
YOA:	Year of Account

Table of Contents

Background

Canopius is a global specialty lines (re)insurance company. Canopius Group and AmTrust Financial Services Inc. completed a merger of their respective Lloyd's of London (Lloyd's) operations in October 2019. This created a leading Lloyd's insurer with a plan to write c. $2.3bn of premium during 2020, underwriting across two Lloyd's Syndicates (4444 and 1861). In addition, Canopius also announced a strategic investment in the Group from Samsung Fire & Marine Insurance.

The Group is domiciled in Jersey and operates in Australia, Bermuda, Netherlands, Singapore, the UK and US. The Group operates through the following underwriting platforms:

- Lloyd's Syndicates 4444 and 1861, managed by Canopius Managing Agents Limited (CMA) (AM Best: 'A'; S&P: 'A+'; Fitch: 'AA-');
- CRe, a Bermudian Class 3A insurer (AM Best: 'A-'); and
- Canopius US Incorporated (CUSI), a US excess and surplus lines insurer (AM Best: 'A-').

On 28 June 2019, Canopius Reinsurance AG continued from Switzerland to Bermuda as Canopius Reinsurance Limited ("CRe"). The entity was granted regulatory approval to operate as a Class 3A reinsurer.

The primary business purpose of CRe is to supply capacity, via reinsurance, to the Syndicates operated by the Canopius Group (via its corporate member vehicle). As a result, the vast majority of CRe's income and exposure in 2019 came from Lloyd's Syndicate 4444. The merger of the Canopius Group and Amtrust Lloyd's operations will change the risk exposure in 2020 with the inclusion of Syndicate 1861, as CRe supplies capacity to that entity as well. For the 2020 Year of Account, Gross Written Premium (GWP) from the corporate member before any expenses is expected to be $744m.

The Board sets the risk appetite in line with strategic planning and the risk profile is regularly monitored to ensure that it remains within risk appetite and associated tolerances/ limits. The risk appetite statement links the strategy of the business to the risk appetite. CRe aims to maximise returns while taking an appropriate level of risk such that the ability of the business to trade post a significant market changing event is not impaired.

Risk appetite is allocated to different risks depending on risk/reward considerations and alignment to strategic objectives. Risks are not taken that will expose CRe to an unacceptable level of Operational risk or risk to the reputation of the Canopius brand. The risk appetite is primarily allocated to Insurance risk. Returns on investments can also make a positive contribution to profit and so there is some appetite for market/investment risk. For other risks, the focus is primarily on risk mitigation through the control framework.

1 Business and Performance

1.1 Insurer

CRe continued into Bermuda on June 28, 2019 from Switzerland and was licensed as a Class 3A insurer with the BMA on that date. It is a reinsurance company owned fully by Canopius Group Limited. Fortuna Holdings Ltd. is the ultimate controlling party, owning 100% of the Group.

1.2 Insurance Supervisor and Group Supervisor

CRe is supervised by the BMA. The contact details are as follows:

The Bermuda Monetary Authority
BMA House
43 Victoria Street
Hamilton, Bermuda
Lead Supervisor: Edyta Janiszek
Email: ejaniszek@bma.bm
Phone:+1-441-278-0686

Each of Canopius' regulated entities are supervised by the local regulator in the jurisdictions in which they are registered.

1.3 Approved Auditor

CRe's auditor is Ernst & Young Ltd. The contact details are as follows:
Ernst & Young Ltd.
3 Bermudiana Road
Hamilton, Bermuda
Engagement Partner: Craig Redcliffe
Email: craig.redcliffe@bm.ey.com
Phone: +1 441 294 5318

1.4 Ownership Details and Group Structure

Below is an abridged structure chart.

Name	Immediate %	Ultimate %	Interest
Fortuna Topco Limited	100.000%	100.000%	964,420,286 Ordinary shares
Fortuna Midco Limited	100.000%	100.000%	1,006,075,000 Ordinary shares
Fortuna Holdings Limited	100.000%	100.000%	100,000 Ordinary shares
Canopius Group Limited	100.000%	100.000%	100,000,000 common shares
Canopius Reinsurance Limited			

1.5 Key Business Segments

CRe's primary business is writing a quota share of Flectat Limited, Canopius' corporate member vehicle for Lloyd's Syndicate 4444 and Syndicate 1861. The following represents the (re)insurance business written for the period by business segment:

Line of Business	2019 GWP ($000s)
Property Catastrophe	43,248
Property	130,337
Personal Accident	23,385
Aviation	375
Credit/Surety	63,478
Energy Offshore/Marine	62,321
US Casualty	62,235
US Professional	9,216
US Specialty	8,256
International Motor	21,207
International Casualty Non-Motor	8,982
Retro Property	23,503
Health	5,019
Total	**467,181**

Source: BSCR – Schedule IV.

The following represents the (re)insurance business written for the period by geographical region:

Geographical Location	2019 GWP ($000s)
North East United States	240,948
Northern Europe	93,904
Western Europe	88,939
North America, excluding United States	13,445
Oceania	7,523
South and South-East Asia	6,432
Caribbean and Central America	6,142
Eastern Asia	3,840
Southern Africa	3,249
Southern Europe	877
North, Southern, and Western South America	835
Eastern South America	516
Central and Western Asia	374
Eastern Europe	157
Total	**467,181**

Source: BSCR – Schedule IV.

1.6 Investment Performance and Material Income and Expenses

The following represents the market values and performance of the investment portfolio:

Type of Security	2019 Market Value ($000s)
Bonds and Debentures	250,735
Equity Shares	23,560
Investment Funds	58,125
Total	**332,420**

Source: GAAP Financial Statements

The following represents material income derived from investments:

Type of Income	2019 Value ($000s)
Investment income	22,414
Net gains on investments	13,600
Total	**36,014**

Source: Form 2SFS

The follow represents material expenses of CRe:

Type of Expense	2019 Value ($000s)
Net Loss and Loss expenses	317,035
General and Administration expenses	48,480
All other expenses	4,279
Total	**369,794**

Source: Form 2SFS

2 Governance Structure

2.1 Board and Senior Executive

CRe has established and maintains a sound corporate governance framework that includes principles on levels of authority, accountability, responsibility, compliance, and oversight. CRe complies with the BMA's Insurance Code of Conduct. CRe is further guided by the BMA Guidance Note on Corporate Governance.

The Board of Directors of CRe is responsible for ensuring strong governance and has ultimate accountability for ensuring the effective management and control of risk from all sources. CRe's Board consists of five directors, four of which are Canopius-related directors and one who is an independent non-executive director. CRe's Board of Directors since its continuance to Bermuda on June 28, 2019 is as follows:

Michael Watson, Chairman and Non-Executive (Affiliate) Director	Michael Watson led the management buy-out to form Canopius Group in 2003 and was appointed CEO and Chairman of the Group at that time.
Nigel Meyer, Non-Executive (Affiliate) Director	Nigel Meyer is the Canopius Group CFO. He is an ACA and has more than 25 years in the insurance industry having occupied senior finance and non-finance positions at Aviva, RSA, Brit Insurance and Canopius.
Charles Craigs, Executive Director	Charles Craigs is the CEO and CUO of CRe with more than 15 years in the insurance industry in various senior management and underwriting positions.
Teresa Gallant, Executive Director	Teresa Gallant is CFO and COO of CRe. She has held a CPA designation for 20 years and has held various senior positions in the ILS and accounting/audit industry over the last 10+ years.
Nigel Godfrey, Non-Executive Independent Director	Nigel Godfrey is an ACA and is an Executive Vice President of the Horseshoe Group, heading up Insurance Management. He has more than 25 years of experience in the Bermuda insurance and reinsurance industry.

The Board of Directors is guided by CRe's Bye-Laws, Corporate Governance Framework and Enterprise Risk Management Framework. Given the majority of CRe's business comes from an internal quota share, the Board of Directors has not appointed any formal board committees. CRe's senior management is responsible for the day-to-day management of CRe and is held accountable by the Board. CRe's CEO and CFO are responsible for the following risks:

Board Level Risk Owner	Risks
Chief Executive Officer (CEO)	• Premium Risk • Delegated Underwriting Risk • People Risk • Communication Risk • Group Risk • Strategy Implementation Risk • Business Plan Risk • Business Model Risk • Conduct Risk • Business Model Risk • Business Plan Risk
Chief Finance Officer (CFO)	• Reserve Risk • Investment Strategy Risk • Investment Asset Risk • Investment Credit Risk • Interest Rate Risk • Foreign Exchange Risk • Liquidity Risk • Workplace Safety Risk • Outsourcing Risk • Processes Risk • Financial Reporting Risk • Tax Risk • Expense Risk • Outwards Reinsurance Risk • Reinsurance Counterparty Credit Risk • Other Counterparty Credit Risk • Governance Risk • Regulatory Risk • Financial Crime Risk • Legal Risk • Project Risk • Claims Management Risk • Underwriting Operations Risk • Systems and Technology Risk • Data Management Risk • Information Security and Cyber Risk • Business Interruption Risk • Physical Asset Risk • Project Risk • Investment Operations Risk • Capital Management Risk

The Canopius-related Directors all serve on the Board without remuneration and the remuneration of the Independent Director was agreed by the Canopius-related Directors.

As part of the Corporate Governance Framework, the Board undertakes a formal annual evaluation of its own performance and individual directors led by the Chairman.

CRe outsources its material operational functions to other Canopius Group entities. When setting targets for its business units, the Group seeks to motivate strong performance in a manner that encourages sustainable behaviour in line with the defined risk appetite of its individual entities. Pay and bonus structures are set with these objectives in mind. All Canopius Group entities are covered by their own respective Employee Handbooks, as well as Group Capability and Fitness and Proprietary policies.

2.2 Fitness and Propriety Requirements

The Chairman monitors the composition of the Board and considers its diversity, balance of skills, experience, independence and knowledge and ensures that it remains appropriate. Directors should be and remain qualified, including through training, for their positions. They should have clear understanding of their role in corporate governance and be able to exercise sound and objective judgement about the affairs of CRe. Board training sessions are held on an ad hoc basis when it is determined there may be a knowledge deficiency in an area.

Senior Executives and employees are assessed when the individual is hired and on an ongoing basis. The initial assessment is conducted during the recruitment stage through the interview process. Ongoing assessments are conducted by the Group's Continuous Performance Management approach through performance and development discussions and feedback. All Senior Executive roles are defined by Terms of Reference, which are approved by the Board.

2.3 Risk Management and Solvency Self-Assessment

CRe's Enterprise Risk Management (ERM) Framework has been developed in line with its risk management strategy and principles. Risk taking and risk management are an inherent part of its business activities. The adoption of sound risk management practices is considered imperative by management and the Board and is fundamental to the ongoing success of the entity. The high-level business and risk strategies are owned and directed by the Board.

The entity operates a 'three lines of defence' risk governance model. The first line of defence comprises underwriting divisions and operations (risk ownership), the second line of defence comprises Risk and Compliance functions (risk oversight) and the third line of defence comprises internal and external audit (independent risk assurance).

An overview of the ERM Framework is shown below. Full details can be found in CRe's ERM Framework document. The CISSA process is conducted using the underlying principles of the ORSA on an ongoing basis via the processes underlying the ERM Framework.

The fundamentals of the ERM Framework and underlying processes have been in place now for a number of years (from before CRe's continuance to Bermuda) and are generally considered to be well embedded throughout the Group's strategic, operational and risk management processes. However, the Group Risk function regularly reviews and challenges this to enhance the ERM Framework and CISSA/ ORSA processes to add further value and better inform decision-making.

The practical application of the ERM Framework comprises a range of policies, processes and procedures but in order to work effectively, all of these have to be underpinned by an appropriate risk culture. The Risk team continues to promote and embed a strong risk culture through:

- Clearly defined risk ownership/ roles and responsibilities within the first line;
- Staff training (ad hoc and as part of other regular processes);
- An open and transparent communication style which is leading to more timely escalation and remediation of issues; and
- Supporting wider Group and entity specific culture initiatives, including encouraging individuals to self-identify issues to enable the business to learn from mistakes.

Key exposures are identified, measured, managed and reported using various processes and tools, including:

- Assessing risk exposure in aggregate and by type against Board-approved risk appetite and limits
- Performing independent model validation of risk and capital models via the Model Oversight Group
- Risk reporting focused on issues with actions and mitigation plans
- Stress and reverse stress testing scenarios to provide management and the Board with both a quantitative and qualitative view of how materialisation of existing and plausible risks could impact the business
- The Risk Register, which outlines the identified risks, board level and management level risk owners and the assessment of the impact and probability of each risk along with the adequacy of controls in place.
- Risk and Control Self-Assessments are conducted quarterly and any controls assessed as partially operating as intended or not operating as intended are assigned an action plan, action owner and an action due date.

Risk taking and risk management are an inherent part of CRe's business activities. The adoption of sound risk management practices is considered imperative by management and the Board and is fundamental to the ongoing success of CRe. The high level business and risk strategy are owned and directed by the Board.

In line with the Group approach, CRe's risk management strategy is to generate attractive returns on investor capital through informed risk taking, i.e. by exposing capital to risk in order to generate suitable returns. As such, the effective management and control of both the upside of risk taking and the potential downside is a fundamental core competency of the organisation. CRe's Risk strategy is aligned to its corporate strategy and focuses on:

- Underwriting discipline;
- Sophisticated exposure management;
- Robust reserving;
- Conservative and sophisticated investment management;
- Efficient, effective and robust operations;
- Effective cost management; and
- Strong focus on capital management and delivering appropriate returns.

CRe's CISSA will consider all relevant and material risks to which Canopius is exposed. The CISSA uses quantitative methods to assess the risk profile of the business where sufficient quantitative information exists; this is supplemented by qualitative risk assessment methods to ensure a holistic view of the risk profile.

Risk appetite is the articulation of the amount of risk from all sources that CRe is prepared to accept to meet its strategic objectives. The Board has responsibility for ensuring the effective management and control of risk. Accordingly, the Board approves the ERM Framework and risk appetite in line with the business plan.

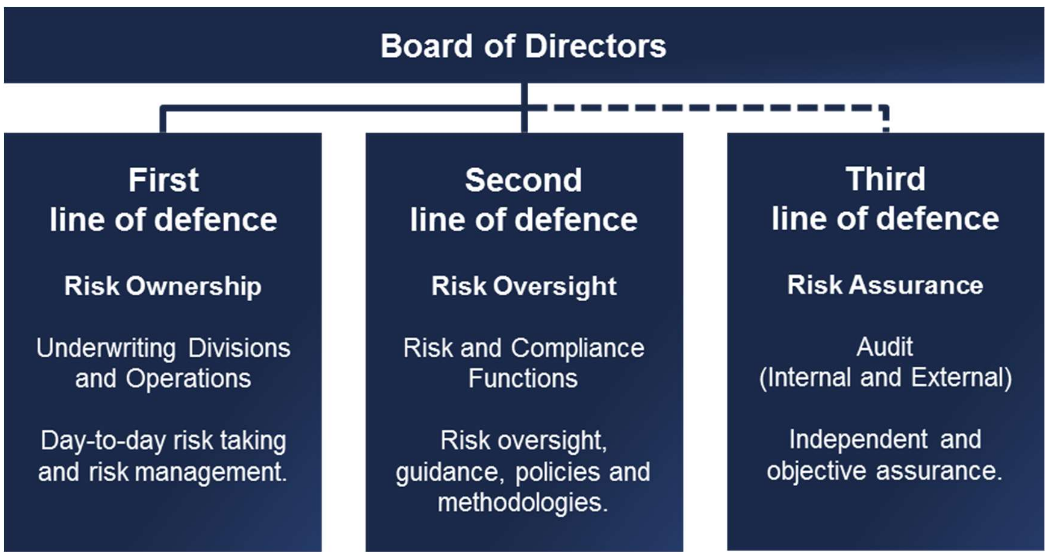
The CISSA compares CRe's risk profile against risk appetite to confirm whether the business has operated within the Board approved risk appetite. The CISSA is also forward looking and assesses risk and capital required for the duration of the strategic business plan time horizon (typically five years). The CISSA compares this against available capital resources (quantity and quality) to ensure CRe's overall solvency needs are met throughout.

The assessment also includes an analysis of the extent to which the CISSA may deviate from the regulatory capital required, as calculated by the BSCR formula, to understand the drivers of any material variances between capital perspectives.

By consolidating risk appetite, risk-based capital requirements and overall business strategy, the CISSA process provides a basis to communicate the strength of CRe's solvency position (both on an economic and regulatory basis) and the extent to which ERM processes and practices are embedded within the business.

2.4 Internal Controls

CRe operates a 'three lines of defence' risk governance model.



Risk management and oversight begins with the Board which has the ultimate accountability for ensuring the effective management and control of risk from all sources.

The first line of defence (first line) involves everyone involved in day-to-day risk taking and comprises all underwriting and operational (e.g. Actuarial, Claims, Finance, HR, IT, etc.) areas. The first line has direct responsibility for the management and control of risk which includes:

- The implementation of appropriate and cost effective control;
- monitoring control effectiveness;
- ensuring the risk profile of the business is in line with the Board's expectations and risk appetite;
- implementing risk management processes and risk mitigation where appropriate;
- identifying emerging risks; and
- reporting material risks, control breakdowns upwards within the governance structure.

Internal controls are documented in the internal controls framework, which outlines the risks identified, the controls in place to mitigate those risks and who is responsible for operating the control. These controls are assessed for operational effectiveness on a quarterly basis.

The second line of defence provides oversight and challenge to the risk taking business as the first line of defence. This comprises the Risk and Compliance Functions. The second line is primarily responsible for:

- Providing oversight of all material risks;
- establishing policies, systems, processes and tools for risk management; and
- ensuring the risk management framework is robust and effective.

The Risk Function is responsible for developing and implementing policies, processes, methodologies, standards and tools to enable business areas to identify, assess, mitigate and report on the exposure status of significant risks and to provide assurance that the risk profile is aligned with the CRe risk appetite.

The Compliance Function is responsible for the creation and implementation of internal regulatory policies and for monitoring adherence to those policies.

2.5 Internal Audit

The third line of defence principally involves the independent Internal Audit function. The Internal Audit function resides at Group level and has oversight of CRe. Both internal and external auditors review the business and the oversight functions to provide independent assurance. This primarily entails:

- Regular independent reviews on the effectiveness and adequacy of the ERM framework; and
- identification of the key areas of focus to develop the Internal Audit plan.

Internal Audit brings a systematic, disciplined approach to evaluating and strengthening the effectiveness of risk management, control and governance processes. Internal audits are prioritized using a risk based approach so that the highest risk areas receive priority attention. CRe does not have its own Audit Committee, but rather falls under the Group Audit Committee. Internal Audit has unfettered access to the Group Audit Committee, as well as to all personnel at all levels and to any information required from all sources in order to discharge its responsibilities. Internal Audit derives its Authority and independence from the Board through the Group Audit Committee, to whom it functionally reports. Internal Audit reports administratively to the Chairman.

2.6 Actuarial

The Actuarial Function is a Group function within Canopius and is made up of Fellows and Member of the Institute and Faculty of Actuaries, statisticians and business analysts. The Actuarial Function is headed by the Chief Actuary who ensures that work is performed by suitably qualified people and that a suitable system of checking and peer review is in place.

The Chief Actuary is a member of the Group Executive Committee and sits on the Group Model Oversight Group and Group Reserving Committee. The Model Oversight Group and Reserving Group report to the Group Audit Committee. Additionally, the Chief Actuary as separate discussions with the Chairman and Group Risk Committee. This allows the Actuarial Function to remain free from influence of the Board.

All members of the Actuarial Function follow the processional standards required by the Institute and Faculty of Actuaries. There is an annual training session for the Actuarial team covering professional issues such as conflicts of interest and whistleblowing. This helps ensure all member of the team know how to deal with conflicts should they arise.

The Actuarial Function is responsible for:

- Supporting underwriting by developing and maintaining a prices policy, reviewing and updating pricing models, and by providing individual case pricing
- Reviewing reserves on a quarterly basis (including holding tracking meetings with underwriting and claims staff) and calculating technical provisions
- Calculating the capital required to support each underwriting plan and ensuring the standards for calculation as set out by the relevant regulatory bodies are met.

2.7 Outsourcing

The provision of staff required to operate the business is conducted through Group service companies and documented in Service Agreements. The Group has not outsourced any of its control functions (i.e. actuarial, risk management, compliance and internal audit).

CRe outsources its Corporate Services function to a Bermuda-based Corporate Services company regulated by the BMA.

3 Risk Profile

3.1 Risk Categories and Mitigations

The key risks CRe is exposed to consist of insurance risk (underwriting and reserve risk), market (investment and liquidity risk), credit risk, operational risk (people, regulatory, fraud, outsourcing, systems, IT and physical risk) and strategic risk.

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.

3.1.1 Insurance Risk

In line with the business model and strategic objectives, Insurance risk is CRe's dominant risk.

Insurance risk is defined as the risk of loss arising from inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. Insurance risk encompasses the risks that policies will be written for too low a premium or provide inappropriate cover or that the frequency and/or severity of insured events will be higher than expected, or that estimates of claims subsequently prove to be insufficient. Insurance risk is further broken down into three main sub-categories: Non-catastrophe premium risk, catastrophe risk (collectively underwriting risk) and reserve risk.

Insurance risk for CRe is mitigated by the actions of the Syndicates, from which it obtains its business through the quota share, in maintaining a diversified business mix (underwriting classes and risks), suitable reinsurance protection and control activities.

CRe benefits from the pricing policies that exist for each underlying class of business supported, where appropriate, with class level technical underwriting guidelines. Risks written are also subject to peer review and, on a selective basis, independent expert review. Controls over the aggregation of claim exposures include limiting total exposures written in defined geographical zones, monitoring aggregation by country/ region, and applying line size limits in all classes.

Reserves are reviewed for adequacy on a quarterly basis by in-house actuaries and reported to the Reserving Group. Reserves are also subject to external independent actuarial review on at least an annual basis by the appointed Loss Reserve Specialist. An appropriate level of reserves in excess of actuarial best estimates is held.

3.1.2 Market Risk

Market risk is defined as the 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; interest rate risk, asset price risk and foreign exchange risk.

Liquidity risk relates to projected cash flows where assets backing liabilities are not available at the time liability payments are due. This can occur through holding illiquid assets or timings that funds become available.

Market and Liquidity risks are principally mitigated by way of control activities, including asset-liability management policy.

Investment risk is managed through compliance with the investment management and asset-liability management policies. This includes setting limits by investment type, grade and exposure to any entity group.

CRe's policy is to manage its liquidity position so that it can reasonably meet a significant individual or market loss event. This means maintaining sufficient liquid assets, or assets that can be quickly converted into liquid assets, without any significant capital loss, to meet estimated cash flow requirements. The availability of liquidity in the event of a major disaster is regularly tested using internal cash flow forecasts and stress testing scenarios.

3.1.3 Credit Risk

Credit risk is defined as the risk of loss if the counterparties fail to perform their obligations or fail to perform them in a timely fashion. The key business counterparties are CMA and reinsurers. Credit risk also exists with investment counterparties including cash and cash equivalents.
Credit risk is principally mitigated by way of control activities including the setting of limits for each counterparty.

Credit risk in respect of premium debt is overseen by the Operations and Finance functions. Key controls include a robust broker and coverholder approval process, annual financial review of brokers and coverholders, and regular monitoring of premium settlement performance.

Outwards reinsurances are placed with reinsurers who have good credit rating, or have alternative collateral provided, and who have a good record of claims payment. Limits are set as to the maximum exposures to reinsurers and these are monitored quarterly.

Investment guidelines ensure that investments are of appropriate quality to match the risk appetite of the business. The portfolio is restricted and monitored for concentration with respect to any one issuer and credit ratings across the portfolio.

3.1.4 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. This includes failure to protect the interests of customers in terms of business conduct. Operational risks, if not managed properly, can lead to a number of issues such as increased expenses, regulatory fines or other censure, and through less quantifiable areas such as reputational damage.

CRe is part of Canopius Group and outsources services to the Group and as such is subject to Group risk. This is identified as risk from parental influence or a potential support to group companies resulting in the dilution of existing resource(s) as well as the risk of direct contagion from other parts of the group. Canopius categorises Group risk as a sub-category of Operational risk.

Operational risk is mitigated by way of control activities covering (not exhaustive); people, IT systems, outsourcing arrangements, governance, regulation, and business continuity. Processes, policies and procedures, are reviewed on a regular basis. The performance of control activities are reviewed on (at least) a quarterly basis.

In addition, the Internal Audit function provides independent assurance on the control environment and control activities, including compliance with internal policies and procedures for controlling activities and managing risk in line with an approved annual plan. Periodic reports are issued to management and the Audit committee, summarising results of audit activities and any significant issues.

The Board regularly reviews and manages risks arising from the group and their impact on the business.

3.1.5 Strategic Risk

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

Similarly to Operational risk, Strategic risk is not modelled or quantified. From a qualitative perspective, the risk profile for CRe is stable and remains low.

Strategic risk has reduced following the Board’s decision to focus on intra-group business only. Service Agreements have been established between CRe and the Group to establish clear lines of responsibility, to allow continuous monitoring of this risk.

3.2 Material Risk Concentrations

Concentrations within risk types are actively considered and managed by Group functional committees, often measuring exposures against agreed limits (e.g. underwriting exposures assessed through catastrophe models and other exposure management techniques, and investment concentrations through value at risk).

3.3 How Assets Are Invested According to the Prudent Person Principle

In accordance with the prudent person principle, CRe only assumes risks that any reasonable individual with objectives of capital preservation and return on investment would accept on their own investments. The Board have considered alternative ways of establishing risk limits for CRe and have considered and approve the use of a Value at Risk limit at the 1:200 level. The Board has established a monitory limit for CRe of 7.75% of VAR at the 1;200 level, equivalent to a risk appetite of approximately $45m at the 1:200 level.

3.4 Stress Testing and Sensitivity Analysis to Assess Material Risks

A number of stress and scenario tests and reverse stress tests have been carried out as part of the CISSA process. The purpose of these is to provide management with both a quantitative and qualitative view of how materialisation of existing and plausible risks could impact the business.

In addition to the impact on the company's solvency position, the results are evaluated in the wider context of the risk management framework. In particular to;

- Identify and recommend to senior management, as applicable, realistic management actions or capabilities to enhance the control framework, which further manage or mitigate the certain risks; and
- Escalate, as applicable, the extent to which the consistency of the risk appetites is met.

A variety of scenarios have been considered to capture a number of different risk exposures. An important part of this process has been the discussions about potential future risks and management actions.

The conclusions and recommendations are reported to the Board. The most recent stress testing and scenario analysis supports the view that capital and liquidity levels are satisfactory to comply with the contractual obligations and internal and external capital requirements, and assessed that the loss impact is within tolerance.

4 Solvency Valuation

A fundamental premise underlying the Economic Balance Sheet (EBS) framework is that assets and liabilities are valued on a consistent economic basis. The premise of the EBS is to reduce, or eliminate when possible, accounting mismatches where no underlying economic mismatches exist.

CRe's assets and liabilities are generally valued using fair values allowed under US GAAP. Insurance technical provisions are valued based upon best-estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate. A risk margin is applied to reflect the uncertainty inherent in the underlying cash flows.

For other assets and liabilities where no fair value is readily available, CRe uses the value as determined under US GAAP.

4.1 Valuing Assets

In accordance with the BMA's Guidance Note for Statutory Reporting Regime, assets and liabilities are included on the economic balance sheet at fair value in line with GAAP principles. Under US GAAP, assets and liabilities measured at fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

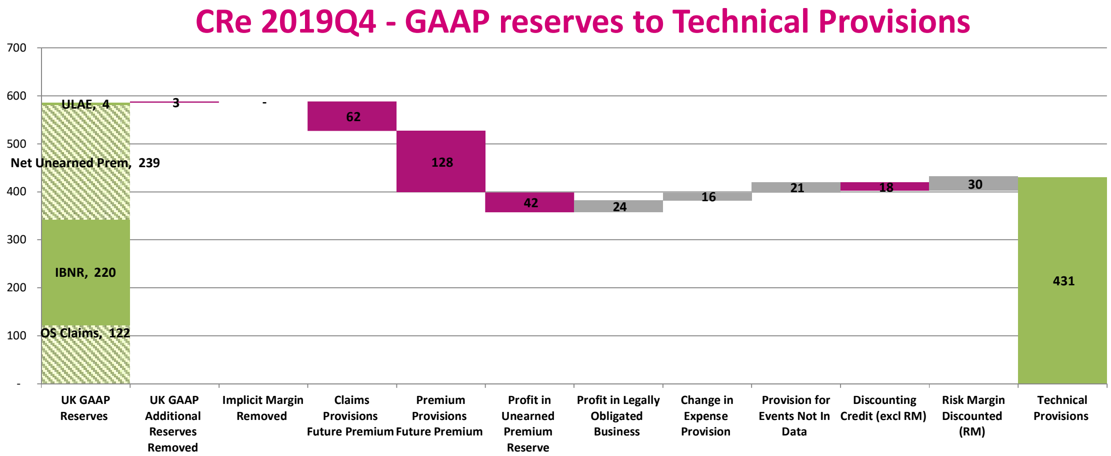
4.2 Valuing Liabilities

Insurance technical provisions are valued based on best estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate term structure with an appropriate illiquidity adjustment. In addition there is a risk margin to reflect the uncertainty contained inherent in the underlying cash flows, which is calculated using the cost of capital approach and a risk-free discount structure. The discount rate term structures are prescribed by the BMA (and EIOPA risk free rates).

The GAAP reserving estimates are used as the starting point for the technical provisions and are adjusted to reach a best estimate reserve as follows:

- Remove any management margin
- Remove any implicit margin to get to internal best estimates, which corresponds to the probability-weighted average of reasonably foreseeable outcomes.
- Add claims and premium provisions on future premiums
- Incorporate loading for Events Not In Data (ENIDs)
- Adjust for expense provision
- Discount cash flows
- Add the Risk Margin

The following waterfall represents the bridge between the GAAP reserves and Technical Provisions:



The best estimate earned reserve position from the quarterly reserving process is used to form the basis of the claims provisions. The reserves are then adjusted for ENIDs, which are calculated by applying a series of uplift factors to the gross and net reserves for each class of business.

Reinsurance recoveries are estimated using known estimates plus an expected recovery rate to the gross IBNR estimates. The recovery rates are based upon the reinsurance program purchased, historic recovery rates and underwriter estimates. A deduction for counterparty risk is made to future reinsurance recoveries.

Cash flow patterns are applied by class, currency and year of account. Cash flows are then discounted using EIOPA prescribed rates.

The best estimate for premium provision is calculated using the unearned premium reserve under US GAAP and adjusted for bound but not incepted business as at December 31, 2019, and applying expected future loss ratios, expense ratios and expected claims pay-out patters to derive cash flows. These cash flows are then discounted using EIOPA prescribed rates.

Technical Provisions	**2019 (000's)**
Best estimate loss and loss expense provision	340,667
Best estimate premium provision	46,673
Risk Margin	30,459
Total	**417,799**

5 Capital Management

5.1 Capital Management Policy

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 while maintaining liquidity and financial flexibility in order to achieve management's underwriting, investment and strategic plans.

CRe sets the amount of capital required in proportion to risk. It then manages the capital structure and makes changes based upon changes in economic conditions and risk characteristics of the underlying assets.

CRe's activities are funded primarily by issued equity share capital and retained earnings. CRe has access to additional capital provided by its parent company in the form of debt or equity if needed.

Given the majority of CRe's business is providing a capped quota share to the Group's corporate member at Lloyd's, the bulk of its capital requirement is determined by the required amount provided under this contract for Funds at Lloyd's. To ensure regulatory compliance, CRe updates the BSCR throughout the year for any economic changes or changes in risk.

Prior to June 28, 2019, CRe was domiciled in Switzerland and regulated by FINMA. Under FINMA regulation, CRe was required to provide FINMA with SST calculation to demonstrate its capital strength on at least an annual basis. The SST calculation measures a (re)insurance company's risks in order to define the minimum amount of capital, which must be maintained.

During the year, CRe was in compliance with regulatory capital requirements.

5.2 Eligible Capital

The BMA uses a three-tiered capital quality assessment for assessing statutory capital and surplus. The tiered capital system classifies capital instruments with different qualities into different tiers. Tier 1 capital is the most loss absorbent and Tier 3 is the least loss absorbent. There are eligibility limits applied to each tier to determine the amounts eligible to cover regulatory capital requirements.

The BMA requires at least 80% of the minimum solvency margin (MSM) and 60% of the enhanced capital ratio (ECR) to be met by Tier 1 capital. CRe only holds Tier 1 capital.

6 Subsequent Events

Consideration has been given to the impact of Covid-19 on the available capital and solvency position. The potential loss associated with COVID-19 continues to be assessed There remain a significant number of key uncertainties such as:

- Severity and duration of economic, business and social disruption in the coming months;
- Interpretation and application of coverage wordings;
- Impact of court judgements (especially where Business Interruption requires physical damage trigger);
- Government fiscal and policy response; and
- Contingency lines (difference in losses associated with cancellation vs. rearrangement).

It is expected that the excess of available capital over the regulatory capital requirement is sufficient to absorb any potential loss from Covid-19.

7 FCR Declaration

To the best of my knowledge and belief, this financial condition report represents the financial condition of Canopius Reinsurance Limited as at December 31, 2019, in all material respects.

Charles Craigs
Chief Executive Officer
Canopius Reinsurance Limited

Teresa Gallant
Chief Financial Officer
Canopius Reinsurance Limited