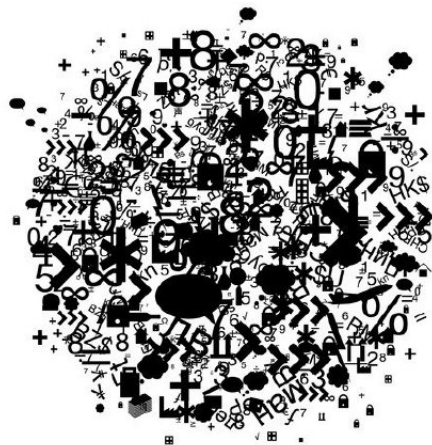




# Catlin Re Switzerland Ltd

AN XL GROUP LTD COMPANY

## Annual Report 2017



**MAKE YOUR WORLD GO**



# ***Report of the statutory auditor to the General Meeting of Catlin Re Switzerland Ltd Zurich***

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

As statutory auditor, we have audited the accompanying financial statements of Catlin Re Switzerland Ltd, which comprise the balance sheet, income statement and notes, for the year ended 31 December 2017.

### ***Board of Directors' responsibility***

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

### ***Auditor's responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements for the year ended 31 December 2017 comply with Swiss law and the company's articles of incorporation.



## ***Report on other legal requirements***

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and 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.

PricewaterhouseCoopers AG

Philip Kirkpatrick

Audit expert  
Auditor in charge

Nicolas Juillerat

Audit expert

Zürich, 24 April 2018

Enclosures:

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

## FINANCIAL STATEMENTS

### INCOME STATEMENT

CHF millions	Notes	2016	2017
<b>Reinsurance</b>			
Gross premiums written		3,525.40	2,697.71
Reinsurance premiums ceded		-32.17	-141.47
<b>Net premium written</b>		<b>3,493.23</b>	<b>2,556.24</b>
Change in gross unearned premiums		-870.20	518.00
Change in ceded unearned premiums		-6.81	-3.85
<b>Net premium earned</b>		<b>2,616.22</b>	<b>3,070.39</b>
Allocated investment return		41.95	53.94
<b>Total income from reinsurance activities</b>		<b>2,658.18</b>	<b>3,124.33</b>
Gross claims paid and claim adjustment expenses		-1,019.05	-1,333.37
Ceded claims paid and claim adjustment expenses		15.79	172.54
<b>Net claims paid</b>		<b>-1,003.26</b>	<b>-1,160.83</b>
Change in gross loss reserves and loss expenses		-876.36	-1,182.34
Change in ceded loss reserves and loss expenses		5.00	13.44
<b>Claims incurred</b>		<b>-1,874.61</b>	<b>-2,329.73</b>
Gross acquisition costs		-771.68	-997.85
Ceded acquisition costs		7.54	29.58
<b>Acquisition costs</b>		<b>-764.15</b>	<b>-968.27</b>
Change in equalisation provision		—	29.25
Allocated operating costs		-46.21	-43.68
<b>Total expenses from reinsurance activities</b>		<b>-2,684.97</b>	<b>-3,312.43</b>
<b>Net reinsurance result</b>		<b>-26.80</b>	<b>-188.10</b>
<b>Investments</b>			
	1		
Investment income		92.68	183.99
investment expenses		-47.68	-79.18
<b>Net investment contribution</b>		<b>45.00</b>	<b>104.81</b>
Allocated investment return		-41.95	-53.94
<b>Net investment result</b>		<b>3.05</b>	<b>50.87</b>
<b>Operating result</b>			
		<b>-23.75</b>	<b>-137.23</b>
Interest expense		-1.60	-1.48
Other income		29.81	33.84
Administration and other expenses	2	-62.97	-84.27
Allocated operating costs		46.21	43.68
Foreign exchange		—	-31.89
<b>Loss before tax</b>		<b>-12.29</b>	<b>-177.35</b>
Direct taxes		-0.02	-0.53
<b>Net loss</b>		<b>-12.31</b>	<b>-177.88</b>

The accompanying notes form an integral part of the financial statements

## FINANCIAL STATEMENTS

### BALANCE SHEET

As of December 31

<b>Assets</b>				
CHF millions	Notes	2016	2017	
Investments				
Real Estate		9.57	—	
Investments in affiliated companies	11	129.22	138.64	
Fixed income securities		3,257.73	3,956.61	
Equity securities		50.56	25.96	
<i>Short term investments</i>		39.76	260.31	
<i>Hedge Fund investments</i>		35.99	22.37	
<i>Private Equity investments</i>		15.44	22.01	
<i>Alternative investments</i>		17.11	11.80	
Other investments		108.30	316.49	
<b>Total investments</b>		<b>3,555.38</b>	<b>4,437.70</b>	
Funds withheld		864.64	436.67	
Cash and cash equivalents		364.15	403.66	
Reinsurer's share in technical provisions	4	68.21	273.71	
Tangible assets		—	0.03	
Deferred acquisition costs		539.18	423.16	
Premiums and other receivables from reinsurance, net of bad debts	3	560.49	1,008.56	
Other receivables		71.42	764.79	
Other assets		0.44	0.37	
Accrued income		18.60	20.89	
<b>Total assets</b>		<b>6,042.52</b>	<b>7,769.54</b>	

The accompanying notes form an integral part of the financial statements.

## FINANCIAL STATEMENTS

### BALANCE SHEET

As of December 31

#### Liabilities and shareholder's equity

CHF millions	Notes	2016	2017
<b>Technical provisions</b>			
	4		
Reserves for losses and loss expenses		2,699.76	3,776.00
Unearned premiums		1,758.32	1,210.53
Provision for profit commissions		12.56	5.25
Equalisation provision		30.85	—
<b>Total technical provisions</b>		<b>4,501.49</b>	<b>4,991.78</b>
<b>Non-technical provisions</b>			
Provision for taxation		0.11	0.05
Provision for currency fluctuation		154.11	132.77
<b>Total non-technical provisions</b>		<b>154.22</b>	<b>132.82</b>
Funds held under reinsurance treaties		41.12	53.17
Payables to reinsurance companies	5	29.12	938.32
Other liabilities		178.91	635.48
Accrued expenses		14.88	9.27
<b>Total liabilities</b>		<b>4,919.74</b>	<b>6,760.84</b>
<b>Shareholder's equity</b>			
	6		
Common stock		100.00	100.00
Legal capital reserves		883.24	883.24
<i>Legal capital reserves from capital contribution</i>		883.24	883.24
Legal profit reserves		151.86	203.34
Profit / loss for the financial year		-12.31	-177.88
<b>Total shareholder's equity</b>		<b>1,122.79</b>	<b>1,008.70</b>
<b>Total liabilities and shareholder's equity</b>		<b>6,042.52</b>	<b>7,769.54</b>

The accompanying notes form an integral part of the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### *SIGNIFICANT ACCOUNTING PRINCIPLES*

#### **Basis of preparation**

The financial statements are prepared in accordance with Swiss Company Law. The 2017 financial year comprises the accounting period from January 1 to December 31, 2017. The prior period was from January 1 to December 31, 2016.

These financial statements have been prepared in accordance with the provisions on accounting and financial reporting of the 32<sup>nd</sup> title of Swiss Code of Obligations and with the additional requirements defined by FINMA (Art. 5-6a AVO-FINMA, valid as of December 15, 2015).

#### **Use of estimates in the preparation of annual accounts**

The preparation of the annual accounts requires management to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses as well as the related disclosures. Actual results could differ significantly from the estimates.

#### **Foreign currency translation**

Foreign currency transactions incurred in each of the Company's business units are revalued into the functional currency using average exchange rates applicable to the period in which the transactions take place. Foreign exchange gains and losses resulting from the settlement of such transactions and from revaluation at the period end of monetary assets and liabilities denominated in foreign currencies are deemed realised exchange gains and losses and recorded in the income statement.

Each business unit with a different functional currency from the Company are translated into Swiss Francs as follows:

- income and expenses at the monthly average rates of exchange; and
- assets and liabilities at exchange rates prevailing at the balance sheet date; and
- resulting unrealised exchange losses either offset against the provision for currency fluctuation or recorded in the income statement. Unrealised exchange gains are deferred and recorded as a separate line item on the balance sheet.

All assets and liabilities arising from reinsurance contracts are treated as monetary items. At each period end foreign currency monetary items are revalued and translated using the closing rate (including unearned premiums and deferred acquisitions costs). Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction.

Unrealised losses from translation are either offset against the provision for currency fluctuation or recorded in the income statement.

#### **Investments**

The following assets are carried at cost less necessary and legally permissible depreciation:

- Real estate
- Investments in affiliated companies
- Fixed income securities
- Equity securities
- Short term investments
- Hedge Fund investments
- Private Equity investments
- Alternative investments (Art)
- Other Investments

Short-term investments are composed of instruments with original maturities of more than 90 days and less than one year from the date of purchase.

Derivative financial instruments may be used to manage market and interest rate risk as a tool for efficient portfolio management.

The valuation rules prescribed by Swiss Financial Market Supervisory Authority FINMA are observed whereby all investments are valued individually.

### **Funds at Lloyd's**

Business written in Lloyd's by Syndicate 2003 is supported by Funds at Lloyd's (FAL). Part of Catlin Re's investment portfolio has been put under the control of the Society of Lloyd's in support of Catlin Syndicate Limited's Lloyd's business. The amount of and compensation for providing FAL support is determined as part of the Intra-Group reinsurance contract between Catlin Re and Catlin Syndicate Limited.

### **Tangible assets**

Tangible assets are carried at cost less individually scheduled straight-line depreciation over their useful lives. Items of minor value are not capitalized.

### **Funds withheld**

Funds withheld are balances held by cedants in respect of open reinsurance contracts. In the case of the Intra-Group reinsurance contract with Catlin Syndicate Limited, no payments will be made until a year of account has been closed three years after the start of the year of account. This is to mirror the fact that premiums net of claims and commissions received by the Syndicate are held in trust until the year of account is closed.

### **Reinsurer's share in technical provisions**

Reinsurer's share in technical provisions includes the balances due from reinsurance companies for paid and unpaid losses and loss expenses that will be recovered from reinsurers, based on contracts in force.

The technical provisions pertaining to retroceded business are determined or estimated according to the contractual agreement and the underlying gross business data per treaty.

### **Deferred acquisition costs**

Deferred acquisition costs principally consist of commissions and other external variable costs directly connected with the acquisition or renewal of existing reinsurance contracts. Deferred acquisition costs represent the proportion of commission incurred which corresponds to the element of the premium that is unearned on the related contracts. Deferred acquisition costs are capitalised in accordance with the business plan submitted to FINMA.

### **Other assets and other receivables**

Other assets are carried at nominal value after deduction of known credit risks, and if applicable, less necessary and legally permissible depreciation.

### **Technical provisions**

The technical provisions are valued in accordance with the following principles:

A liability is established for unpaid losses and loss expenses when insured events occur. The liability is based on the expected ultimate cost of settling the claims. The reserves for losses and loss expenses include: (1) case reserves for known but unpaid claims as at the balance sheet date, including any potential deterioration on existing estimates; (2) incurred but not reported reserves ('IBNR') for claims where the insured event has occurred but has not been reported to Catlin Re as at the balance sheet date; and (3) loss adjustment expense reserves for the expected handling costs of settling the claims.

The estimation of the necessary claim reserves requires the use of informed estimates and judgements and as such are subject to considerable uncertainty. Reserves for losses and loss expenses are based on the analysis of the historical amounts reported by the ceding companies together with other relevant information. The methods and assumptions chosen follow generally accepted actuarial principles.

The equalisation provision is established to ensure the recommended statutory technical provisions equal or exceed the market consistent value of technical provisions.

Premiums written relating to future periods are stated as unearned premiums and are calculated by statistical methods. The accrual of commission is determined correspondingly and is reported in the line item "Deferred acquisition costs".



### **Non-technical provisions**

Provisions for profit commissions are to cover instances where the commission is dependent on the claim experience of the contract, e.g. sliding scale or profit commission, so that an additional liability is due in excess of the commission already incurred or, in the case where the loss experience is worse than expected, a rebate of commission is due.

Provision for taxation contains taxes for the financial year.

Provision for currency fluctuation comprises of unrealised foreign exchange gains from the translation of assets and liabilities from the business units functional currencies to the reporting currency Swiss Francs. Until 2016 the provision for currency fluctuation comprised all currency differences arising from the revaluation of the balance sheet and the adjustments from application of year-end and monthly rates as well as any other foreign exchange transactions.

### **Funds held under reinsurance treaties**

Funds held under reinsurance treaties mainly contain cash deposits withheld from retrocessionaires, which are stated at redemption value.

### **Payables to reinsurance companies**

Payables to reinsurance companies are held at redemption value.

### **Allocated investment return**

The allocated investment return contains the calculated interest generated on the investment covering the technical provisions. The interest rate reflects the currency-weighted average yield on five-year government bonds.

### **Operating costs**

Administration and other expenses are allocated to the reinsurance business and investment result on an imputed basis.

### **Direct taxes**

Direct taxes relate to the financial year and include income and capital tax.

## FINANCIAL STATEMENT NOTES

### Note 1: Net investment result

CHF millions				2017
	Income	Unrealised gains	Realised gains	Total
Investments in affiliated companies	11.73	—	41.75	53.48
Fixed income securities	101.20	1.60	24.40	127.20
Equity securities	—	—	0.18	0.18
<i>Short term investments</i>	0.80	0.33	0.06	1.19
<i>Hedge Fund investments</i>	—	—	—	—
<i>Private Equity investments</i>	—	—	—	—
<i>Alternative investments</i>	—	—	0.89	0.89
Other investments	0.80	0.33	0.95	2.08
Cash and cash equivalents	0.25	0.80	—	1.05
<b>Total Investment income</b>	<b>113.98</b>	<b>2.73</b>	<b>67.28</b>	<b>183.99</b>
	Unrealised losses	Realised losses	Total	
Fixed income securities	-44.60	-20.05	-64.65	
Equity securities	—	-0.02	-0.02	
<i>Short term investments</i>	-0.01	-0.04	-0.05	
<i>Hedge Fund investments</i>	-0.15	—	-0.15	
<i>Private Equity investments</i>	-0.14	—	-0.14	
<i>Alternative investments</i>	—	-2.89	-2.89	
Other investments	-0.30	-2.93	-3.23	
Cash and cash equivalents	—	—	—	
Investment management fees			-11.28	
<b>Total Investment expenses</b>	<b>-44.90</b>	<b>-23.00</b>	<b>-79.18</b>	
CHF millions				2016
	Income	Unrealised gains	Realised gains	Total
Investments in affiliated companies	0.30	—	—	0.30
Fixed income securities	52.35	0.98	32.47	85.80
Equity securities	0.18	—	4.91	5.09
<i>Short term investments</i>	1.23	—	0.15	1.38
<i>Hedge Fund investments</i>	—	—	—	—
<i>Private Equity investments</i>	—	—	—	—
Other investments	1.23	—	0.15	1.38
Cash and cash equivalents	0.09	—	0.02	0.11
<b>Total Investment income</b>	<b>54.15</b>	<b>0.98</b>	<b>37.55</b>	<b>92.68</b>

	Unrealised losses	Realised losses	Total
Investments in affiliated companies	—	—	—
Fixed income securities	-12.30	-22.62	-34.92
Equity securities	-0.74	-2.68	-3.42
<i>Short term investments</i>	-0.06	-3.95	-4.01
Other investments	-0.06	-3.95	-4.01
Cash and cash equivalents	—	—	—
Investment management fees			-5.33
<b>Total Investment expenses</b>	<b>-13.10</b>	<b>-29.25</b>	<b>-47.68</b>

**Note 2: Audit fees**

CHF millions	2016	2017
Audit fees	0.32	0.30
<b>Total</b>	<b>0.32</b>	<b>0.30</b>

The 2017 audit fees amount to CHF 0.30 million (2016: CHF 0.32 million) as noted above and are included in the administration and other expenses.

**Note 3: Premiums and other receivables from reinsurance**

CHF millions	2016	2017
Receivables from policy holders	—	—
Receivables from agents and brokers	231.86	895.61
Receivables from reinsurance companies	328.63	112.95
<b>Total premiums and other receivables from reinsurance</b>	<b>560.49</b>	<b>1,008.56</b>

**Note 4: Net technical provisions**

CHF millions	2016			2017		
	Gross	Ceded	Net	Gross	Ceded	Net
Reserves for losses and loss expenses	2,699.76	-41.04	2,658.72	3,776.00	-199.31	3,576.69
Unearned premiums	1,758.32	-27.17	1,731.15	1,210.53	-74.40	1,136.13
Provisions for profit commissions	12.56	—	12.56	5.25	—	5.25
Equalisation provision	30.85	—	30.85	—	—	—
<b>Total net technical provisions</b>	<b>4,501.49</b>	<b>-68.21</b>	<b>4,433.28</b>	<b>4,991.78</b>	<b>-273.71</b>	<b>4,718.07</b>

**Note 5: Payables to reinsurance business**

CHF millions	2016	2017
Payables to policy holders	—	—
Payables to agents and brokers	—	—
Payables to reinsurance companies	29.12	938.32
<b>Total payables to reinsurance companies</b>	<b>29.12</b>	<b>938.32</b>

**Note 6: Shareholder's equity rollforward**

CHF millions	Common Stock	Legal reserves from capital contribution	Legal profit reserves	Retained earnings	Total
<b>as of 31 December 2016</b>	<b>100.00</b>	<b>883.24</b>	<b>151.86</b>	<b>-12.31</b>	<b>1,122.79</b>
Allocation of loss to Legal profit reserves	—	—	-12.31	12.31	—
Merger profit	—	—	4.62	—	<b>4.62</b>
Capital contribution	—	—	59.17	—	<b>59.17</b>
Loss for the financial year	—	—	—	-177.88	<b>-177.88</b>
<b>as of 31 December 2017</b>	<b>100.00</b>	<b>883.24</b>	<b>203.34</b>	<b>-177.88</b>	<b>1,008.70</b>

Share capital of the Company amounts to CHF 100 million issued in the form of authorised share capital. It is divided into ten million registered shares with a nominal value of ten Swiss Francs per share. The shares are fully paid. During December 2017 Green Holdings Limited, a company incorporated in Bermuda and a fully owned XL Group Ltd company, contributed USD 60 million (CHF 59.17m) in cash to Catlin Re Switzerland Ltd. The contributor did acquire no rights as shareholder of Catlin Re.

**Note 7: Contingent liabilities**

The Company is committed to an operating lease agreement until 30 September 2019, as a lessee of office space. Management decided to consolidate XL Catlin's dual Zurich offices whereby Catlin Re's office space was vacated during 2016. In 2017 the Zurich office was sublet. The difference between the remaining lease obligations less the sub-rental income was fully expensed in the 2017 fiscal year in the administration and other expenses line item. As a result, the Company is not exposed to any further non-cancellable future obligations as per the balance sheet date.

CHF millions	2016	2017
Year 2017	1.33	—
Year 2018	1.33	—
Year 2019	1.00	—
<b>Total non-cancellable future payments</b>	<b>3.66</b>	<b>—</b>

The Company has access to unsecured and secured letter of credit facilities to support its reinsurance business. As at December 31, 2017, unsecured irrevocable letters of credit in the amount of CHF 122.30 million (2016: CHF 480.94 million) have been issued under these facilities.

These letters of credit are used to secure the reserves ceded to the Company under certain reinsurance contracts.

**Note 8: Funds withheld**

Funds withheld of CHF 436.67 million (2016: CHF 864.64 million) represent deposits held by cedants, of which CHF 208.31 million (2016: CHF 600.90 million) are deposits held by Intra-Group ceding companies. The decrease of CHF 427.97 million is driven by the commutation and settlement of Intra-Group reinsurance treaties in line with agreed schedules.

**Note 9: Restricted assets**

In certain markets, the Company is required to maintain assets in accounts pledged for the benefit of ceding companies. These requirements are generally promulgated in the statutory regulations of the individual jurisdictions.

The Company also has investments in segregated portfolios to provide collateral for certain bank letters of credit issued for the benefit of ceding companies.

In connection with the Intra-Group reinsurance of the Syndicate business, the Company also provides Funds at Lloyd's in support of Catlin Syndicate Limited's business at Lloyd's. In connection with the US Intra-Group reinsurance business, the Company has investments held in portfolios to fulfill Reg 114 Trust fund requirements.

The total value of these restricted assets by category at 31 December 2017 and 2016 are as follows:

CHF millions	2016	2017
Fixed income securities	2,356.27	3,015.83
Short term investments	34.80	135.30
Cash and cash equivalents	114.30	301.35
Accrued income and other receivables	11.84	15.03
<b>Total restricted assets</b>	<b>2,517.21</b>	<b>3,467.51</b>

**Note 10: Claims on and obligations towards XL Group companies**

CHF millions	2016	2017
<b>Assets</b>		
Premiums and other receivables from reinsurance	272.28	—
Funds withheld	600.9	208.31
Other receivables	71.36	526.54
<b>Liabilities</b>		
Payables to reinsurance companies	—	717.92
Other liabilities	167.57	336.49

**Note 11: Investments in affiliated companies**

in CHF millions as of 31 December 2017	City, Country	Net book value	Equity interest	Voting shares
XL Resseguros Brasil S.A.	São Paulo, Brasil	86.12	100%	100%
XL Investments Latin America Ltd, in liquidation	Hamilton, Bermuda	—	100%	100%
XL Re Latin America Argentina SA	Buenos Aires, Argentina	—	80%	80%
Catlin US Investment Holdings LLC	Wilmington, USA	11.29	15%	40%
XL Value Offshore LLC	Hamilton, Bermuda	41.23	25%	25%
<b>Total Investments in affiliated companies</b>		<b>138.64</b>		

in CHF millions as of 31 December 2016	City, Country	Net book value	Equity interest	Voting shares
XL Re Latin America Ltd	Zurich, Switzerland	115.86	100%	100%
Catlin US Investment Holdings LLC	Wilmington, USA	11.29	15%	40%
Catlin CCC Holdings LLC	Wilmington, USA	2.07	100%	100%
<b>Total Investments in affiliated companies</b>		<b>129.22</b>		

In connection with the merger with XL Re Latin America Ltd, subsidiaries XL Resseguros Brasil S.A., XL Investments Latin America Ltd and XL Re Latin America Argentina SA became subsidiaries of the Company. During 2017 Catlin CCC Holdings LLC was sold to another Group company, while as XL Value Offshore LLC was established with Catlin Re acquiring a 25% stake.

**Note 12: Staff**

The average number of full time equivalents employed by the Company for 2017 is more than 10 but less than 50 as compared to 2016 which was more than 50 but less than 250.

**Note 13: Change in accounting policy for foreign exchange**

Foreign currency transactions incurred in each of the Company's business units are revalued into the functional currency using average exchange rates applicable to the period in which the transactions take place. Foreign exchange gains and losses resulting from the settlement of such transactions and from the revaluation at the period end of monetary assets and liabilities denominated in foreign currencies are deemed realised exchange gains and losses and recorded in the income statement. Each business unit with a different functional currency from the Company's Statutory reporting currency is translated to Swiss Francs, resulting unrealised gains are deferred and recorded under the balance sheet line item provision for currency fluctuation. Unrealised losses from translation are either offset against the provision for currency fluctuation or recorded in the income statement.

Until 2016, all monetary items denominated in foreign currencies were translated straight into the statutory reporting currency Swiss Francs. All currency differences arising from the revaluation of the balance sheet and the adjustments from the application of the year end and monthly exchange rates for foreign exchange transactions were first recognised in the provision for currency fluctuation. Negative foreign exchange impacts were recorded in the income statement.

Non-monetary items such as investments in affiliated companies continue to be measured at historical cost and are translated using the exchange rate at the date of the transaction.

In 2017, unrealised translation losses in the amount of CHF 21m have been recorded against the provision for currency fluctuation, realised losses of CHF 32m are recognised in the income statement.

**Note 14: Change in accounting policy for deferred acquisition costs on merged XL Re Latin America Ltd**

As a result of the absorption of XL Re Latin America Ltd, the accounting for recording deferred acquisition costs has been aligned to the policy of Catlin Re Switzerland Ltd. Until 2016, any acquisition costs incurred by XL Re Latin America Ltd were earned in full in the year the contracts were written. Under the policy of Catlin Re Switzerland Ltd, acquisition costs which relate to subsequent financial periods are deferred in proportion to the unearned premiums and charged to the financial periods in which the related premiums are earned.

**Note 15: Subsequent events**

The group internal reinsurance contracts with US cedants for accident year 2018 were not renewed, as a result, the Company's net premium written will materially decrease in 2018 as compared to 2017.

XL Group Ltd ("XL") has entered into a definitive agreement and plan of merger (the "Merger Agreement") with AXA SA ("AXA") dated March 5, 2018, under which AXA would acquire 100% of XL's common shares in exchange for cash proceeds of \$57.60 per common share, or approximately \$15.3 billion in the aggregate (the "AXA Transaction"). The Merger Agreement provides that, subject to the satisfaction or waiver of certain conditions set forth therein, XL will merge with an existing AXA subsidiary in accordance with the Companies Act 1981 of Bermuda (the "Merger"), with XL surviving the Merger as a wholly owned subsidiary of AXA. All preferred shares issued by subsidiaries of XL will remain issued and outstanding upon completion of the Merger.

The Merger is expected to close during the second half of 2018, subject to approval by the XL shareholders and other customary closing conditions, including the receipt of required regulatory approvals. The Merger Agreement, among other stipulations, permits: (i) XL to pay out regular quarterly cash dividends not to exceed \$0.22 per XL common share per quarter, (ii) subsidiaries of XL to pay period cash dividends on preferred shares not to exceed amounts contemplated by the applicable bye-laws or resolutions approving such preferred shares, and (iii) subsidiaries of XL to pay dividends to XL or any subsidiary of XL.

There have been no other further material events between December 31, 2017 and the date of this report which are required to be disclosed.

## APPROPRIATION OF EARNINGS

The Board of Directors will propose at the Annual Shareholder Meeting to be held in Zurich on June 19, 2018 to allocate the loss of the financial year of CHF 177,878,221 to retained earnings:

in CHF	2016	2017
Retained earnings balance brought forward from the prior year	—	—
Loss for the financial year	-12,311,082	-177,878,221
Allocation to Legal profit reserves	12,311,082	
<b>Retained earnings after allocation</b>	<b>—</b>	<b>-177,878,221</b>