



Catlin Re Switzerland Ltd

AN AXA SA GROUP COMPANY

Annual Report 2018



Report of the statutory auditor to the General Meeting of Catlin Re Switzerland Ltd Zürich

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 2018.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.



Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Philip Kirkpatrick

Audit expert
Auditor in charge

Ireen Ranneberg

Audit expert

Zürich, 24 April 2019

Enclosures:

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

FINANCIAL STATEMENTS

INCOME STATEMENT

CHF millions	Notes	2017	2018
Reinsurance			
Gross premiums written		2,697.71	1,699.66
Reinsurance premiums ceded		-141.48	-192.45
Net premium written		2,556.24	1,507.21
Change in gross unearned premiums	1	518.00	-181.77
Change in ceded unearned premiums	1	-3.85	11.05
Net premium earned		3,070.39	1,336.49
Allocated investment return		53.94	—
Total income from reinsurance activities		3,124.33	1,336.49
Gross claims paid and claim adjustment expenses		-1,333.37	-1,663.78
Ceded claims paid and claim adjustment expenses		172.54	41.87
Net claims paid		-1,160.83	-1,621.91
Change in gross loss reserves and loss expenses	1	-1,182.34	679.39
Change in ceded loss reserves and loss expenses	1	13.44	65.86
Claims incurred		-2,329.73	-876.66
Gross acquisition costs and administration expenses		-997.85	-578.06
Ceded acquisition costs and administration expenses		29.58	52.44
Acquisition costs		-968.27	-525.62
Change in equalisation provision	1	29.25	—
Allocated operating costs		-43.68	—
Total expenses from reinsurance activities		-3,312.43	-1,402.28
Net reinsurance result		-188.10	-65.79
Investments			
	2		
Investment income		183.99	121.06
Investment expenses		-79.18	-98.13
Net investment contribution		104.81	22.93
Allocated investment return		-53.94	—
Net investment result		50.87	22.93
Interest Income		—	15.87
Interest expense		-1.48	-2.00
Operating result		-138.71	-28.99
Other income		33.84	—
Administration and other expenses	3	-84.27	—
Allocated operating costs		43.68	—
Foreign exchange		-31.89	1.88
Loss before tax		-177.35	-27.11
Direct taxes		-0.53	-0.98
Net loss		-177.88	-28.09

The accompanying notes form an integral part of the financial statements

FINANCIAL STATEMENTS

BALANCE SHEET

As of December 31

Assets	Notes	2017	2018
CHF millions			
Investments			
Investment in affiliated companies	12	138.64	159.92
Fixed income securities		3,956.61	2,972.51
Equity securities		25.96	26.11
Other Investments		316.49	86.98
<i>Short term investments</i>		260.31	66.15
<i>Hedge Funds Investments</i>		22.37	—
<i>Private Equity Investments</i>		22.01	20.83
<i>Alternative investments</i>		11.80	—
Total investments		4,437.70	3,245.52
Funds withheld	9	436.67	446.80
Cash and cash equivalents		403.66	133.64
Reinsurer's share in technical provisions	5	273.71	347.38
Tangible assets		0.03	—
Deferred acquisition costs		423.16	438.64
Premiums and other receivables from reinsurance, net of bad debts	4	1,008.56	1,200.52
Other receivables		764.79	476.59
Other assets		0.37	0.82
Accrued income		20.89	19.47
Total assets		7,769.54	6,309.38

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	2017	2018
Technical provisions	5		
Reserves for losses and loss expenses		3,776.00	3,077.08
Unearned premiums		1,210.53	1,399.20
Provision for profit commissions		5.25	5.48
Total technical provisions		4,991.78	4,481.76
Non-technical provisions			
Provision for taxation		0.05	0.23
Provision for currency fluctuation		132.77	127.42
Total non-technical provisions		132.82	127.65
Funds held under reinsurance treaties		53.17	51.23
Payables to reinsurance companies	6	938.32	458.54
Other liabilities		635.48	432.31
Accrued expenses		9.27	7.59
Total liabilities		6,760.84	5,559.08
Shareholder's equity			
Common stock		100.00	100.00
Legal capital reserves		883.24	633.24
<i>Legal reserves from capital contribution</i>		<i>883.24</i>	<i>883.24</i>
<i>Dividends paid</i>		<i>—</i>	<i>-250.00</i>
Legal profit reserves		203.34	45.15
Retained earnings brought forward		—	—
Profit/loss for the financial year		-177.88	-28.09
Total shareholder's equity	7	1,008.70	750.30
Total liabilities and shareholder's equity		7,769.54	6,309.38

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 of Catlin Re Switzerland Ltd ("Catlin Re" or the "Company"), domiciled in Zurich, Switzerland, are prepared in accordance with Swiss Company Law. The 2018 financial year comprises the accounting period from January 1 to December 31, 2018. The prior period was from January 1 to December 31, 2017.

These financial statements have been prepared in accordance with the provisions on accounting and financial reporting of the 32nd 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 different from the Company's statutory reporting currency Swiss Francs is translated 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:

- Investments in affiliated companies
- Fixed income securities
- Equity Securities
- Other investments, such as
 - o Short term investments
 - o Hedge fund investments
 - o Private equity investments
 - o Alternative investments (art)

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.

The valuation rules prescribed by Swiss Financial Market Supervisory Authority FINMA are followed 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 capitalised.

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 were made until a year of account was 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 were held in trust until the year of account was 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".

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.

Non-technical provisions

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.

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 reflected the currency-weighted average yield on five-year government bonds. For 2018, the reallocation to the underwriting result was no longer performed to better comply with the minimum disclosure requirements as set out by FINMA.

Interest income

Other interest income is mainly comprised of interest earned on funds withheld which have been disclosed in prior year within the investment income.

Operating costs

Until 2017, Administration and other expenses were allocated to the reinsurance business and investment result on an imputed basis. For 2018, the reallocation to the underwriting result was no longer performed to better comply with the minimum disclosure requirements as set out by FINMA and administration expenses are now disclosed within the Gross acquisition costs and administration expenses line item.

Direct taxes

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

FINANCIAL STATEMENT NOTES

Note 1: Change in reinsurance provisions

CHF millions			2018
	Gross	Ceded	Net
Change in unearned premiums	-181.77	11.05	-170.72
Change in technical provisions	679.39	65.86	745.25
Total change in reinsurance provisions	497.62	76.91	574.53
			2017
	Gross	Ceded	Net
Change in unearned premiums	518.00	-3.85	514.15
Change in technical provisions	-1,182.34	13.44	-1,168.90
Total change in reinsurance provisions	-664.34	9.59	-654.75
Change in equalisation provisions	-29.25	—	-29.25
Total change in other reinsurance provisions	-29.25	—	-29.25

Note 2: Net investment result

CHF millions				2018
	Income	Unrealised gains	Realised gains	Total
Investments in affiliated companies	5.30	—	—	5.30
Fixed income securities	105.13	0.66	2.83	108.62
Equity securities	—	—	—	—
Other Investments	0.58	0.02	6.01	6.61
<i>Short term investments</i>	0.58	0.02	2.24	2.84
<i>Hedge Fund investments</i>	—	—	3.52	3.52
<i>Private Equity investments</i>	—	—	—	—
<i>Alternative investments</i>	—	—	0.25	0.25
Cash and cash equivalents	0.47	—	0.06	0.53
Total Investment income	111.48	0.68	8.90	121.06

Realised gains in other investments are mainly driven by realised gains on short term investments and hedge funds.

CHF millions	Unrealised losses	Realised losses	Total
Investments in affiliated companies	-4.83	—	-4.83
Fixed income securities	-49.50	-25.15	-74.64
Equity securities	-0.60	—	-0.60
Other Investments	-0.35	-6.62	-6.97
<i>Short term investments</i>	-0.35	-0.10	-0.45
<i>Hedge Fund investments</i>	—	—	—
<i>Private Equity investments</i>	—	—	—
<i>Alternative investments</i>	—	-6.52	-6.52
Cash and cash equivalents	—	—	—
Investment management fees	—	—	-11.08
Total Investment expenses	-55.28	-31.77	-98.12

Realised losses related to other investments are mainly driven by the sale of the art portfolio.

CHF millions	Income	Unrealised gains	Realised gains	2017
				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
Other investments	0.80	0.33	0.95	2.08
<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
Cash and cash equivalents	0.25	0.80	—	1.05
Total Investment income	113.98	2.73	67.28	183.99

CHF millions	Unrealised losses	Realised losses	Total
Fixed income securities	-44.60	-20.05	-64.65
Equity securities	—	-0.02	-0.02
Other investments	-0.30	-2.93	-3.23
<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
Cash and cash equivalents	—	—	—
Investment management fees	—	—	-11.28
Total Investment expenses	-44.90	-23.00	-79.18

Note 3: Administration and other expenses

Administration and other expenses amounted to CHF 84m in 2017, thereof CHF 0.30m are related to audit fees. In 2018, Administration and other expenses amount to CHF 73m and are disclosed in Gross acquisition costs and administration expenses to be more in line with minimum disclosure requirements (AVO-FINMA). Thereof CHF 0.31m are related to audit fees.

Note 4: Premiums and other receivables from reinsurance

CHF millions	2017	2018
Receivables from agents and brokers	895.61	1,144.31
Receivables from reinsurance companies	112.95	56.21
Total premiums and other receivables from reinsurance	1,008.56	1,200.52

The Company does not write direct business with policyholders. Most business is generated through agents and brokers.

Note 5: Net technical provisions

CHF millions	2017			2018		
	Gross	Ceded	Net	Gross	Ceded	Net
Reserves for losses and loss expenses	3,776.00	-199.31	3,576.69	3,077.08	-264.86	2,812.22
Unearned premiums	1,210.53	-74.40	1,136.13	1,399.20	-82.52	1,316.68
Provisions for profit commissions	5.25	—	5.25	5.48	—	5.48
Total net technical provisions	4,991.78	-273.71	4,718.07	4,481.76	-347.38	4,134.38

Net technical provisions have decreased from CHF 3,577m to CHF 2,812m mainly due to the cancellation of the internal US based quota share agreements at the end of 2017 and corresponding claims settlements throughout 2018. Unearned premiums increased mainly due to a higher signed line on a large corporate quota share.

Note 6: Payables to reinsurance business

CHF millions	2017	2018
Payables to agents and brokers	—	165.51
Payables to reinsurance companies	938.32	293.03
Total payables to reinsurance companies	938.32	458.54

The decrease of the overall payables to reinsurance companies is a result of settlements in 2018 due to the cancellation of the internal US based quota share agreements. Most external business is generated through agents and brokers.

Note 7: Shareholder's equity rollforward

CHF millions	Common stock	Legal capital reserves	Legal profit reserves	Profit/loss for the financial year	Total
as of 31 December 2017	100.00	883.24	203.34	-177.88	1,008.70
Allocation of loss to Legal profit reserves	—	—	-177.88	177.88	—
Capital contribution	—	—	19.69	—	19.68
Dividend payment	—	-250.00	—	—	-250.00
Loss for the financial year	—	—	—	-28.09	-28.09
as of 31 December 2018	100.00	633.24	45.15	-28.09	750.30

Share capital of the Company amounts to CHF 100m that is fully paid-in. It is divided into ten million registered shares with a nominal value of ten Swiss Francs per share. During December 2018 Green Holdings Limited, a company incorporated in Bermuda and a fully owned AXA XL company, contributed USD 20m (CHF 19.69m) in cash to Catlin Re. The contributor acquired no rights as shareholder of Catlin Re. On June 19, 2018, the shareholder's meeting unanimously resolved to pay a dividend of CHF 250m. This dividend was paid on 29 August, 2018, to Catlin Luxembourg S.à r.l. from legal capital reserves from capital contribution.

Note 8: Contingent liabilities

The Company is committed to an operating lease agreement until September 30, 2019, as a lessee of office space. Management decided to consolidate 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.

The Company has access to unsecured and secured letter of credit facilities to support its reinsurance business. As at December 31, 2018, unsecured irrevocable letters of credit in the amount of CHF 44m (2017: CHF 122m) 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 9: Funds withheld

Funds withheld of CHF 447m (2017: CHF 437m) represent deposits held by cedants, of which nil (2017: CHF 208m) are deposits held by Intra-Group ceding companies. The increase in external funds withheld is mainly driven by an increased signed line on a large corporate quota share contract.

Note 10: 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 terminated 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 as at December 31, 2018 and 2017 are as follows:

CHF millions	2017	2018
Fixed income securities	3,015.83	2,035.09
Short term investments	135.30	66.15
Cash and cash equivalents	301.35	27.84
Accrued income and other receivables	15.03	11.34
Total restricted assets	3,467.51	2,140.42

Note 11: Claims on and obligations towards AXA XL Group companies

CHF millions	2017	2018
Assets		
Premiums and other receivables from reinsurance	—	11.73
Funds withheld	208.31	—
Other receivables	526.54	351.01
Liabilities		
Payables to reinsurance companies	717.92	231.06
Other liabilities	336.49	328.99

Note 12: Investments in affiliated companies

in CHF millions as of 31 December 2018	City, Country	Net book value	Equity interest	Voting shares
XL Resseguros Brasil S.A.	São Paulo, Brasil	86.62	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	62.00	25%	25%
Total Investments in affiliated companies		159.92		

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%
Total Investments in affiliated companies		138.64		

The increase in the book value for XL Value Offshore LLC is driven by capital contributions amounting to CHF 25m and an impairment of CHF 5m.

Note 13: Staff

The average number of full time equivalents employed by the Company for 2018 and 2017 is more than 10 but less than 50.

Note 14: Subsequent events

On March 1, 2019, regulatory approval was obtained from the Bermuda Monetary Authority ("BMA") for the creation of a new AXA XL company called Seaview Re Ltd ("Seaview Re") domiciled in Hamilton, Bermuda. Seaview Re in turn is a subsidiary of a Delaware domiciled holding company called Seaview Re Holdings Inc ("Seaview Holdings"). On March 5, 2019, USD 475m was contributed from Catlin Re to Seaview Holdings by way of asset transfer, whereby Seaview Holdings will be a wholly-owned subsidiary of Catlin Re.

There have been no other further material events between December 31, 2018 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 18, 2019 to allocate the loss of the financial year of CHF 28.09m to retained earnings:

in CHF	2017	2018
Retained earnings balance brought forward from the prior year	—	—
Loss for the financial year	-177,878,221	-28,085,955
Allocation to Legal profit reserves	177,878,221	—
Retained earnings after allocation	—	-28,085,955