CATCo Reinsurance Opportunities Fund Ltd.

12 March 2018

**CATCo Reinsurance Opportunities Fund Ltd. (the “Company")**

**Annual Financial Report**

**For the 12 month period 1 January 2017 to 31 December 2017**

To: London Stock Exchange’s Specialist Fund Segment, and Bermuda Stock Exchange

CATCo Reinsurance Opportunities Fund Ltd. provides its shareholders the opportunity to participate in the returns from investments linked to catastrophe reinsurance risks, principally by investing in fully collateralised reinsurance contracts and also via a variety of insurance-based investments.

## CHAIRMAN’S STATEMENT

Welcome to the 2017 Annual Report for CATCo Reinsurance Opportunities Fund Ltd. (the “Company”). Following an unprecedented year of significant catastrophic events, in which three major hurricanes and extensive wildfires had devastating impacts across the Caribbean and the southern U.S., the Company recorded a decrease of 27.60 per cent in the net asset value of its Ordinary Shares.

Whilst the aforementioned events have heavily affected the financial performance of the Company, the events of 2017 serve to demonstrate the importance of the global reinsurance market and highlight the ability of collateralized vehicles such as the Company and others managed by Markel CATCo Investment Management Ltd. (the "Investment Manager") to respond to global catastrophic risk.

Despite the challenges that 2017 has presented, the Company remains well-positioned to implement its investment policy and to meet its reinsurance clients’ needs, having taken advantage of the expected increase in reinsurance premiums to raise significant further capital. This further capital, together with the existing available capital, has been fully deployed in the 2018 reinsurance renewals. Furthermore, the Company’s ability to raise $546 million in a short period of time to capitalise on this market opportunity further highlights the unique structure of the Company and the capability of the Investment Manager to respond quickly to a rapidly changing market environment.

### Financial Performance Since Inception

The net asset value (“NAV”) of the Ordinary Shares for the year ended 2017 declined by 27.60 per cent (2016: Ordinary Shares plus 8.12 per cent). The cumulative NAV total returns since inception to 31 December 2017 of the Ordinary Shares issued on 20 December 2010 and the various issuances of class C Shares are listed as follows:

| Share Class (Date of Issuance) | NAV Total Returns since Inception (to 31 December 2017) |
|---|---|
| Ordinary Shares (20 December 2010) | 27.26 per cent |
| C Shares issued (20 May 2011 – converted to Ordinary Shares in August 2013) | 45.00 per cent |
| C Shares issued (16 December 2011 - converted to Ordinary Shares in August 2013) | 30.31 per cent |
| C Shares issued (2 November 2015 – converted to Ordinary Shares in May 2017) | -22.32 per cent |

**Side Pocket Investments (SPIs")**
Due to the number of severe catastrophic events that occurred in 2017 and the nature of the underlying multi-pillared reinsurance deal structures, more SPIs have been established in 2017 than any other previous year since the Company's inception. Historically, the SPIs contained within the Company's investment portfolio have amounted to approximately 5 to 15 per cent of Ordinary Share NAV. However, following the 2017 catastrophic activity, the SPIs represent 65.9 per cent of Ordinary Share NAV as at 31 December 2017. In 2017, SPIs were established (inter alia) in relation to hurricanes Harvey, Irma and Maria and the California wildfires. These SPIs amount to 55 per cent of the Ordinary Share NAV as at 31 December 2017.

As reported in the 2017 interim statement, the Company continues to hold SPIs in relation to underwriting years 2014 – 2016. As at 31 December 2017, the SPI amounts held are as follows:

- 2014 SPIs, predominantly resulting from U.S. severe convective storms, amount to approximately one per cent of the Company's Ordinary Share NAV (31 December 2016: 1.6 per cent of Ordinary Share NAV).

- 2015 SPIs, principally relating to U.S. and Canada winter storms and U.S. severe convective storms, amount to 1.6 per cent of the Company's Ordinary Share NAV (31 December 2016: 3.2 per cent of Ordinary Share NAV).

- 2016 SPIs created for exposures to the Fort McMurray wildfire, the Jubilee oil field off the Ghana coast, Hurricane Matthew and the South Island earthquake in New Zealand amount to 8 per cent of the Company's NAV (31 December 2016: 7.0 per cent of Ordinary Share NAV).

- The combined SPIs amount to 65.9 per cent (2016 - 11.5 per cent) of the Ordinary Share NAV with approximately, four per cent of the 2014-2016 SPIs expected to be released in the first quarter of 2018.

It is also important to note that the C Shares issued in December 2017 will not have any exposure to losses from the catastrophic events of 2017 or previous years.

**C Share Conversion**
As noted in the interim statement, the November 2015 C Shares were converted into Ordinary Shares on 23 May 2017, following determination by the Board that the Company's Ordinary Shares no longer had any material uncertainty to their valuation as a result of their exposure to the 2014 and 2015 SPIs.

**Share Issuances**
During the year, the Company engaged in significant capital activity driven by buyer demand. Initially, in the first half of 2017, the Company raised gross proceeds of $45.9 million via a tap issuance in order to satisfy mid-year demand.
In the second half of 2017, the hurricane events affecting parts of the U.S. and the Caribbean resulted in increased pricing within the retrocessional reinsurance market and an opportunity for the Company to raise new capital to meet investor demand.

In November 2017, the Company launched a twelve month fundraising programme and raised $546 million via a C Share issuance in December 2017. The Directors anticipate issuing further shares dependent on investor appetite, additional buyer demand and appropriate risk and return levels.

**2018 Portfolio**
As a result of the 2017 catastrophic events, retrocessional reinsurance market conditions hardened and price increases were achieved by the underlying reinsurer. As a consequence, the 2018 portfolio illustrative maximum net return (assuming no losses)*, including hedging costs, is approximately 23 per cent on invested capital. This is approximately a 43 per cent increase over 2017's illustrative maximum net return.

In addition, the overall risk profile of the 2018 portfolio improved, with the maximum capital exposed to a worst-case single event limited to 8 per cent (net), compared to 10 per cent for 2017. Further information about the 2018 portfolio is included in the Investment Manager's Review.

** This figure represents the Company's projected net portfolio returns, is for illustrative purposes only and does not take into account any unforeseen costs, expenses or other factors which may affect the Company or its assets.*

**Annual Dividend and Revised Dividend Policy**
The Board believes that an appropriate dividend policy is an effective way of returning value to investors and, since inception, the Company has met its intentions of paying an annual dividend of five per cent of the year end NAV plus LIBOR.

With respect to 2017, a dividend of $0.05476 per Ordinary Share was paid to Shareholders on 26 February 2018. Since inception, the Company has returned capital of $234 million to Ordinary and C Share Shareholders via dividends and return of value distributions with the original Ordinary Share Shareholders from December 2010 having received approximately 75 per cent of their original investment through such distributions.

The Board announced on 15 November 2017 its decision to enhance the dividend policy. The Company currently targets an annual dividend of an amount equal to LIBOR plus five per cent of the net asset value per share at the end of each fiscal year (the "Annual Dividend"). In addition to this, the Board now intends to consider paying a special dividend (the "Special Dividend") of which both the Ordinary Shares and the C Shares will be eligible for. The Special Dividend is expected to be an amount equal to the level of accumulated profits of each share class in the relevant fiscal year in excess of LIBOR plus 7.5 per cent. In line with the Annual Dividend, the payment of a Special Dividend is at the Board's discretion.

**Discount Management**
At launch, the Board put in place a trading discount related tender offer, the objective of this discount control mechanism being to provide Shareholders with liquidity in the event of the share price trading at a persistent discount to NAV. Implementation of such a discount control mechanism requires the availability of liquidity in the Markel CATCo Diversified Fund, a segregated account of the Markel CATCo Reinsurance Fund Ltd. (the "Master Fund"). Liquidity is reduced due to the catastrophic events in 2017, which have led to 65.9 per cent of the portfolio being cash-trapped.

The Board monitors any share price discount to NAV but does not currently believe that it will be appropriate to make a tender offer in the year ending 31 December 2018 as this would increase the ongoing percentage of the portfolio which is cash-trapped. The Board does not believe that this is in the best interests of the Shareholders as a whole.

**Shareholders**
In my first year as Chairman of the Company, I would like to extend my thanks to the Company's Shareholders for their continued support of the strategy despite a year that resulted in significant negative financial performance.

In addition, I would also like to acknowledge the hard work and co-operation of both the Company's Board and the Investment Manager throughout 2017, which have enabled the Company to respond proactively to the current market conditions.

I look forward to serving you in my role as Chairman, and am encouraged about the opportunities the 2018 portfolio presents.

James Keyes
Chairman,
CATCo Reinsurance Opportunities Fund Ltd.
9 March 2018

**INVESTMENT MANAGER'S REVIEW**
Following four years of relatively benign loss activity, the Company experienced an extreme amount of insured loss activity in 2017, which is now recognized as the worst year in history for insured losses, leading the Company to experience a decline in NAV of 27.60 per cent for the year.

However, since the Tohoku, Japan earthquake of 2011 and up to the 2017 hurricane loss events, the Company generated over 100 per cent cumulative returns and returned capital of $234 million to Shareholders by way of dividends and return of value distributions.

Looking forward, the Company's 2018 portfolio has an illustrative maximum return (assuming no losses)* that is 43 per cent higher than the 2017 portfolio and includes significant risk reduction. The Investment Manager remains very committed to its unique reinsurance strategy, the Company's Shareholders and its loyal reinsurance buyer base.

** This figure represents the Company's projected net portfolio returns, is for illustrative purposes only and does not take into account any unforeseen costs, expenses or other factors which may affect the Company or its assets.*

**2017 Significant Loss Events Update**
Global insured losses during 2017 are estimated to be $135 billion (source: Munich Re), making this the highest insured loss year on record. However, the Company is not exposed to the majority of the global catastrophes contributing to this insured loss estimate. Major events during 2017 that are expected to have a material impact to the Company include Hurricanes Harvey, Irma, and Maria, and the California Wildfires.

After twelve years without a major hurricane (Category 3 or greater) making landfall in the U.S., the 2017 Atlantic hurricane season featured record breaking Hurricanes Harvey, Irma, and Maria. All three storms made landfall in U.S. territories as Category 4 hurricanes, a first for any season since modern record keeping began. Based on current insured loss estimates from Property Claims Services (PCS), Hurricanes Harvey, Irma, and Maria are all now within the top seven insured losses due to natural catastrophes to occur within U.S. territories, since PCS records began in 1950.

According to PCS, Hurricane Maria, which devastated parts of the Caribbean, and in particular Puerto Rico, is currently estimated at $23.97 billion of insured loss. This makes Hurricane Maria the second largest insured loss due to a natural catastrophe in U.S. history, only behind Hurricane Katrina ($51.88 billion, CPI-trended).

Hurricane Irma was also highly destructive for the Caribbean, most notably the U.S. Virgin Islands, St. Martin, as well as Antigua and Barbuda. Following this first wave of impact, Hurricane Irma then continued on a path up the West Coast of Florida. PCS currently estimates the total losses Hurricane Irma at $17.2 billion.

Hurricane Harvey, the first major hurricane to make landfall in U.S. territory since Hurricane Wilma in 2005, now holds the record for the highest total precipitation in the continental U.S. due to a tropical cyclone. Hurricane Harvey stalled near the coastline of Southeastern Texas, dropping torrential rains over the Houston metropolitan region with total rainfall exceeding 50 inches. PCS currently estimates the insured loss due to Hurricane Harvey at $15.7 billion.

Insured losses due to wildfire events in 2017 that impacted regions of Northern California in October, and Southern California during December, are now estimated at $12.5 billion according to PCS. The 2017 wildfires are now more than four times the cumulative insured losses recorded in any previous year due to wildfires in U.S. history.

**Loss Reserves**
During 2017, the Investment Manager established total loss reserves of 47.4 per cent of the 2017 investor capital for the following events:

(a) Hurricanes Harvey, Irma, and Maria 28.5 per cent (net of recoveries on hedges);
(b) California Wildfires 17.1 per cent; and
(c) attritional losses of 1.8 per cent available for potential losses due to the Mexico Earthquakes, Cyclone Debbie, and U.S. Severe Convective Storms.

As a result, the 2017 side pocket investments represents approximately 55 per cent of the Net Asset Value of Ordinary Shares as at 31 December 2017. The Investment Manager believes that the total loss reserves established for the 2017 loss events are sufficient to provide for all cedant claims with respect to these loss events, based on the information currently available. However, there is still some level of industry uncertainty with regards to the final insured loss impact of the 2017 loss events.

**2018 Outlook**
With 2017 producing the highest level of catastrophe losses on record, the Investment Manager has been able to construct a portfolio for Shareholders with a stronger return profile and reduced risk levels as a result of rate increases and improved reinsurance buyer contract terms.

According to Guy Carpenter, despite substantial insured losses in 2017, overall traditional reinsurance industry capital did not decline, leading to only a moderate year over year premium increase of 6.1 per cent for 2018 renewals.

However, the large losses of 2017 translated into more favorable opportunities for those in the ILS market. As a result of its unique product offering, the Investment Manager secured for the 2018 portfolio an illustrative maximum net return (assuming no losses)* of approximately 23 per cent on invested capital, a 43 per cent increase over the 2017 portfolio illustrative maximum net return of 16 per cent. These figures are inclusive of hedging costs.

The Investment Manager also improved terms and conditions related to the portfolio's underlying reinsurance contracts. As a result, the maximum capital exposed to a worst-case single event is limited to 8 per cent (net) for the 2018 portfolio, which represents a 20 per cent reduction over the 10 per cent worst-case single event net return for the 2017 portfolio. In addition, as a result of the reduction in the worst-case single event net return, the 2018 portfolio required the purchase of fewer ILW protections, leading to further cost savings for investors.

Despite the large losses of 2017, the demand for Markel CATCo's product increased for yet another year and is at its highest point since the Company's inception, which has allowed the Investment Manager to deploy 100 per cent of its available capital during the 2018 renewal process.

With a broad geographic spread, a balanced exposure to differing risk perils and portfolio protections in place, the Investment Manager has successfully built a stronger investment portfolio for 2018, with a return and risk profile significantly improved compared to the 2017 portfolio.

Anthony Belisle
Chief Executive Officer
Markel CATCo Investment Management Ltd.
9 March 2018

**REVIEW OF BUSINESS**
A review of the Company's activities is given in the Chairman's Statement and in the Investment Manager's Review. This includes a review of the business of the Company and its principal activities, and likely future developments of the business.

**INVESTMENT OBJECTIVE**
The investment objective of the Company and Markel CATCo Reinsurance Fund Ltd. (the "Master Fund") is to give their Shareholders the opportunity to participate in the returns from investments linked to catastrophe reinsurance risks, principally by investing in fully collateralised Reinsurance Agreements accessed by investments in Preference Shares of Markel CATCo Re Ltd. (the "Reinsurer"). The Company's investment policy appears below, and the Investment Manager's Review appears above. Both explain how the Company and the Master Fund have invested their assets with a view to spreading investment risk in accordance with the Company's investment policy.

**Benchmark**
Eurekahedge Insurance-Linked Securities index. This index is not a benchmark used for investment performance measurement.

**Investment Policy and Investment Strategy**
The Master Fund spreads investment risk by seeking exposure to multiple non-correlated risk categories so as to endeavour to limit the amount of capital at risk with respect to a single catastrophic event.

The Master Fund operates within the following limits:

- no more than 20 per cent of its capital will be exposed to a single catastrophic event;
- capital will only be exposed to catastrophic events at loss levels that have not occurred more than twice in the past 40 years on a trended loss estimate basis, unless otherwise approved by the Board of Directors of the Master Fund;
- capital will be exposed to aviation and marine (including offshore energy) losses caused by catastrophes; and
- at least 50 per cent of capital will be exposed to residential and commercial property losses.

At 31 December 2017, the Portfolio of Investments reflects the stated guidelines as each of the reinsurance arrangements entered into by the Reinsurer contain several non-correlated pillars of risk and provides a portfolio exposure to 50 diversified risk pillars.

When investing, the Company's policy is to move freely between different risk perils as opportunities arise. There are no limits to geographical or sector exposures, except as stated above, but these are reported to, and monitored by, the Board of Directors in order to ensure that adequate diversification is achieved.

A portfolio review by the Investment Manager is given in the Investment Manager's Review.

While there is a comparative index for the purpose of measuring performance, no attention is paid to the composition of this index when constructing the portfolio and the composition of the portfolio is likely to vary substantially from that of the index. A short term view is taken and there may be periods when the Net Asset Value per Share declines both in absolute terms and relative to the comparative index.

**Share Capital**
The Company's issued share capital at 1 January 2017 amounted to 273,224,673 Ordinary Shares and 102,510,018 C Shares.

On 23 May 2017, the Company converted the C Shares to Ordinary Shares at a ratio of 0.0081 Ordinary Shares for every one C Share held, and the C Shares were delisted that day. 82,835,718 Ordinary Share were admitted to trading on 23 May 2017 as a result of the conversion. Immediately following admission, the Company had 356,060,391 Ordinary Shares in issue.

On 25 May 2017, the Company issued 35,606,039 Ordinary Shares, which were admitted to trading on 31 May 2017. Immediately following admission, the Company had 391,666,430 Ordinary Shares in issue.

On 28 November 2017, the Company issued 543,000,000 C Shares which were admitted to trading on 1 December 2017. This issuance was made pursuant to the Initial Placing and Offer announced by the Company on 8 November 2017. Immediately following admission, the Company had 391,666,430 Ordinary Shares and 543,000,000 C Shares in issue.

On 7 December 2017, the Company issued 3,367,863 C Shares which were admitted to trading on 12 December 2017. This issuance was made under the Placing Programmed announced by the Company on 8 November 2017. Immediately following admission, the Company had 391,666,430 Ordinary Shares and 546,367,863 C Shares in issue.

The Company's issued share capital at 1 January 2018 amounted to 391,666,430 Ordinary Shares and 546,367,863 C Shares. That number is unchanged as at the date of this announcement, 12 March 2018.

Note 7 to the Financial Statements contains further details relating to the C Shares.

**Total Assets and Net Asset Value**
At 31 December 2017, the Company had Total Net Assets of $884.61mn and a Net Asset Value per Ordinary and C Share of $0.8915 and $0.9800 respectively.

**Borrowing**
The Company will not borrow for investment purposes, although it may borrow for temporary cash flow purposes such as for satisfying working capital requirements. The Master Fund will not borrow for investment or other purposes but may invest in Insurance-Linked Instruments which are themselves leveraged.

**Duration**
The Company does not have a fixed life. A continuation vote will be put to Shareholders every five years.

**Risk**
The investment funds portfolio managed by the Investment Manager consists of fully collateralised reinsurance contracts and are largely uncorrelated to traditional asset classes. Risk is spread across multiple non-correlated risk pillars which aims to limit the amount of capital exposed with respect to a single catastrophic event.

**Monitoring Performance**
At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives.

The key performance indicators used to measure the progress and performance of the Company over time are established industry measures and are as follows:

- the movement in net asset value per Ordinary Share on a gross, net and total return basis;
- the movement in the Share price on a Share price and total return basis;
- the discount; and

- the total expense ratio

In addition to the above, the Board of Directors also considers peer group comparative performance.

**Management of Risk**
The Investment Manager's risk objectives are closely linked to their performance goals. They seek to optimise trade-offs to ensure that they meet their return objectives, control the volatility of these returns, track underlying liquidity and identify and manage macro-factor risk.

The Board of Directors regularly reviews the major strategic risks that the Board and the Investment Manager have identified, and against these, the Board sets out the delegated controls designed to manage those risks. The principal risks facing the Company in addition to the reinsurance risks as discussed above relate to the Company's investment activities and include market price, interest rate, liquidity and credit risk. Such key risks relating to investment and strategy including, for example, inappropriate asset allocation or borrowing are managed through investment policy guidelines and restrictions, and by the process of oversight at each Board meeting as previously outlined.

Operational disruption, accounting and legal risks are also covered annually, and regulatory compliance is reviewed at each Board meeting.

**Results and Dividends**
The total return attributable to Ordinary Shareholders for the year amounted to (27.60) per cent (2016 – 8.12 per cent).

The Company currently targets an annual dividend of an amount equal to LIBOR plus 5 per cent. of the net asset value per share at the end of each fiscal year (the "Annual Dividend"). On 15 November 2017, the Company announced that, following feedback from investors, the Board had decided to enhance the current dividend policy, and it now intends to consider paying an additional special dividend (the "Special Dividend") from 2019 (in respect of the financial year ending 31 December 2018) onwards.

Both the Ordinary Shares and the C Shares will be eligible for the Special Dividend, which is expected to be an amount equal to the level of accumulated profits of each shares class in the relevant fiscal year in excess of LIBOR plus 7.5% the "Performance Threshold").

The payment of a Special Dividend is not a target, and the Company's target returns and target distributions remain as stated in the "Corporate Summary" section of this Annual Report and above. Even where the Performance Threshold is met, as is the case with the Annual Dividend, the payment of a Special Dividend is at the Board's discretion.

On 31 January 2018, the Company announced an annual dividend of $0.05476 in respect of each of the Ordinary Shares, for the year to 31 December 2017, payable on 26 February 2018. The record date for this dividend was 9 February 2018 and the ex-dividend date 8 February 2018.

**DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**
The Board of Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year.

Under that law, the Board of Directors have elected to prepare the financial statements in accordance with US Generally Accepted Accounting Principles ("US GAAP"). The financial statements are required by the Bermuda Companies Act 1981 to present fairly in all material respects the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the Board of Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that are sufficient to disclose the Company's transactions and that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Bermuda Companies Act. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors consider that the Annual Report and Financial Statements taken as a whole, are fair, balanced and understandable, and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy.

The financial statements will be published on www.catcoreoppsfund.com, which is maintained by the Investment Manager, Markel CATCo Investment Management Ltd. The maintenance and integrity of the website maintained by Markel CATCo Investment Management Ltd. is, so far as it relates to the Company, the responsibility of Markel CATCo Investment Management Ltd.

The Board of Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Bermuda governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In accordance with Chapter 4 of the Disclosure and Transparency Rules, and to the best of their knowledge, each Director of CATCo Reinsurance Opportunities Fund Ltd. confirms that the financial statements have been prepared in accordance with the applicable set of accounting standards and present fairly the assets, liabilities, financial position and profit or loss of the Company.

Furthermore, each Director confirms that, to the best of his or her knowledge, the management report (which consists of the Chairman's Report, the Manager's Review, the Strategic Report and the Directors' Report) includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

Alastair Barbour
Chairman of the Audit Committee
9 March 2018

**AUDITED STATEMENTS OF ASSETS AND LIABILITIES**

| *(Expressed in United States Dollars)* | **31 Dec. 2017** | **31 Dec. 2016** |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Investments in Master Funds, at fair value (see Note 5) | 347,692,465 | 463,116,346 |
| Cash and cash equivalents | 22,393,414 | 819,558 |
| Advance subscription in Markel CATCo Reinsurance Fund Ltd. - Markel CATCo Diversified Fund | 515,000,000 | - |
| Due from Markel CATCo Reinsurance Fund Ltd. - Markel CATCo Diversified Fund | 100,000 | - |
| Other assets | 40,618 | 20,257 |
| Total assets | 885,226,497 | 463,956,161 |
| **Liabilities** | | |
| Accrued expenses and other liabilities | 620,283 | 339,036 |
| | | |
| Total liabilities | 620,283 | 339,036 |
| | | |
| **Net assets** | **884,606,214** | **463,617,125** |

NAV per Share (see Note 7)
See accompanying Notes to Financial Statements

**AUDITED STATEMENTS OF OPERATIONS**

| *(Expressed in United States Dollars)* | **Year ended 31 Dec. 2017** | **Year ended 31 Dec. 2016** |
|---|---|---|
| | $ | $ |
| **Net investment loss allocated from Master Funds (see Note 5)** | | |
| | | |
| Interest | 855,847 | 142,741 |
| Miscellaneous Income | - | 11,874 |
| Management fee | (6,678,874) | (6,739,718) |
| Professional fees and other | (356,909) | (312,932) |
| Administrative fee | (216,748) | (229,233) |
| Performance fee | (1,373) | (3,906,968) |
| Net investment loss allocated from Master Funds | (6,398,057) | (11,034,236) |
| | | |
| **Company expenses** | | |
| | | |
| Professional fees and other | (1,629,446) | (1,412,957) |
| Management fee | (66,234) | (80,620) |
| Administrative fee | (60,000) | (99,000) |
| | | |
| Total Company expenses | (1,755,680) | (1,592,577) |
| | | |
| **Net investment loss** | (8,153,737) | (12,626,813) |
| | | |
| **Net realised gain and net increase in unrealised depreciation on securities allocated from Master Funds (see Note 5)** | | |
| | | |
| Net realised gain on securities | 46,131,007 | 57,663,896 |
| Net increase in unrealised depreciation on securities | (172,074,933) | (11,149,939) |
| | | |
| **Net (loss) / gain on securities allocated from Master Funds** | (125,943,926) | 46,513,957 |
| | | |
| **Net (decrease) / increase in net assets resulting from operations** | (134,097,663) | 33,887,144 |

See accompanying Notes to Financial Statements

**AUDITED STATEMENTS OF CHANGES IN NET ASSETS**

| *(Expressed in United States Dollars)* | **Year ended 31 Dec. 2017** | **Year ended 31 Dec. 2016** |
|---|---|---|
| | $ | $ |
| **Operations** | | |
| | | |
| Net investment loss | (8,153,737) | (12,626,813) |
| Net realised gain on securities allocated from Master Funds | 46,131,007 | 57,663,896 |
| Net increase in unrealised depreciation on securities allocated from Master Funds | (172,074,933) | (11,149,939) |
| Net (decrease) / increase in net assets resulting from operations | (134,097,663) | 33,887,144 |
| | | |
| **Capital share transactions** | | |
| | | |
| Issuance of Ordinary Shares | 45,265,957 | 10,920,013 |
| Issuance of Class C Shares | 546,367,863 | - |
| Dividend paid | (25,557,987) | (18,084,741) |
| Offering costs Ordinary Shares | (688,389) | (208,719) |
| Offering costs Class C Shares | (10,927,358) | - |
| Premium on issuance of shares | 626,666 | - |
| | | |
| **Net increase / (decrease) in net assets resulting from capital share transactions** | 555,086,752 | (7,373,447) |
| | | |
| **Net increase in net assets** | 420,989,089 | 26,513,697 |
| | | |
| **Net assets, at 1 January** | 463,617,125 | 437,103,428 |
| | | |
| **Net assets, at 31 December** | 884,606,214 | 463,617,125 |
| | | |

See accompanying Notes to Financial Statements

**AUDITED STATEMENTS OF CASH FLOWS**

| *(Expressed in United States Dollars)* | **Year ended 31 Dec. 2017** | **Year ended 31 Dec. 2016** |
|---|---|---|
| | $ | $ |
| **Cash flows from operating activities** | | |
| | | |
| Net (decrease) / increase in net assets resulting from operations | (134,097,663) | 33,887,144 |
| Adjustments to reconcile net decrease in net assets resulting from operations to net cash (used in) / provided by operating activities: | | |
| Net investment loss, net realised gain and net increase in unrealised depreciation on securities allocated from Master Funds | 132,341,983 | (35,479,721) |
| Sale of investment in Markel CATCo Reinsurance Fund Ltd. - Markel CATCo Diversified Fund, and CATCo Reinsurance Fund Ltd. - CATCo Diversified Fund | 37,521,898 | 334,580,362 |
| Purchase of investment in Markel CATCo Reinsurance Fund Ltd. - Markel CATCo Diversified Fund | (54,440,000) | (414,700,000) |
| Changes in operating assets and liabilities: | | |
| Advance subscription in Markel CATCo Reinsurance Fund Ltd. - Markel CATCo Diversified Fund | (515,000,000) | 88,000,000 |
| Due from related parties | (100,000) | - |
| Other assets | (20,361) | 9,868 |
| Accrued expenses and other liabilities | 143,145 | 56,047 |
| | | |
| | | |
| **Net cash (used in) / provided by operating activities** | (533,650,998) | 6,353,700 |
| | | |
| | | |
| **Cash flows from financing activities** | | |
| Issuance of Ordinary Shares | 45,265,957 | 10,920,013 |
| Issuance of Class C Shares | 546,367,863 | - |
| Dividend paid | (25,557,987) | (18,084,741) |
| Offering costs Ordinary Shares | (688,389) | (208,719) |
| Offering costs Class C Shares | (10,789,256) | - |
| Premium on issuance of Ordinary Shares | 626,666 | - |
| | | |
| **Net cash provided by / (used in) financing activities** | 555,224,854 | (7,373,447) |
| | | |
| **Net increase / (decrease) in cash and cash equivalents** | 21,573,856 | (1,019,747) |
| | | |
| **Cash and cash equivalents,** at 1 January | 819,558 | 1,839,305 |
| | | |
| **Cash and cash equivalents,** at 31 December | 22,393,414 | 819,558 |

See accompanying Notes to Financial Statements

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2017

## 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Nature of Operations

CATCo Reinsurance Opportunities Fund Ltd. (the "Company") is a closed-ended fund, registered and incorporated as an exempted mutual fund company in Bermuda on 30 November 2010 and commenced operations on 20 December 2010. The Company is organised as a feeder fund to invest substantially all of its assets in Markel CATCo Diversified Fund (the "Master Fund"). The Master Fund is a segregated account of Markel CATCo Reinsurance Fund Ltd., a mutual fund company incorporated in Bermuda and registered as a segregated account company under the Segregated Accounts Company Act 2000, as amended (the "SAC Act"). The Company will establish a separate account for each class of shares comprised in each segregated account (each, a "SAC Fund"). Each SAC Fund is a separate individually managed pool of assets constituting, in effect, a separate fund with its own investment objective and policies and managed by Markel CATCo Investment Management Ltd. (the "Investment Manager"). The assets attributable to each SAC Fund of the Master Fund shall only be available to creditors in respect of that segregated account.

Pursuant to an investment management agreement, the Company is managed by the Investment Manager, a Bermuda based limited liability company. Subject to the ultimate supervision of the Company's Board of Directors (the "Board"), the Investment Manager is responsible for all of the Company's investment decisions. The Investment Manager commenced operations on 8 December 2015 (Note 8).

Prior to 8 December 2015, the Company was managed by CATCo Investment Management Ltd ("CIML"). The Investment Manager entered into a Run-Off Services Agreement with CIML, under which the former will provide services relating to the management of the run-off business of CIML until such business is liquidated. The Company maintains an investment in CATCo Diversified Fund, the former Master Fund, (together the "Master Funds") details of which can be found within Note 2.

The Company's shares are listed and traded on the Specialist Fund Market ("SFM"), a market operated by the London Stock Exchange. The Company's shares are also listed on the Bermuda Stock Exchange.

The objective of the Master Fund is to give the shareholders the opportunity to participate in the investment returns of various insurance-based instruments, including preference shares through which the Master Fund would be exposed to reinsurance risk, insurance-linked securities (such as notes, swaps and other derivatives), and other financial instruments. The majority of the Master Fund's exposure to reinsurance risk is obtained through its investment (via preference shares) in Markel CATCo Re Ltd (the "Reinsurer"). At 31 December 2017, the Company's ownership is 16% of the Master Fund (31 December 2016: 16%) and 16% of CATCo Diversified Fund (31 December 2016: 16%).

The Reinsurer and CATCo-Re Ltd., (together the "Reinsurers") are Bermuda licensed Class 3 reinsurance companies, registered as a segregated accounts companies under the SAC Act, through which the Master Funds access the majority of their reinsurance risk exposure. The Reinsurers will form a segregated account that corresponds solely to the Master Funds investment in the Reinsurers with respect to each particular reinsurance agreement.

The Reinsurers focus primarily on property catastrophe insurance and may be exposed to losses arising from hurricanes, earthquakes, typhoons, hailstorms, winterstorms, floods, tsunamis, tornados, windstorms, extreme temperatures, aviation accidents, fires, wildfires, explosions, marine accidents, terrorism, satellite, energy and other perils.

### Basis of Presentation

The audited Financial Statements are expressed in United States dollars and have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Company is an investment company and follows the accounting and reporting guidance contained within Topic 946, "Financial Services Investment Companies", of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

### Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly-liquid investments, such as money market funds, that are readily convertible to known amounts of cash and have original maturities of three months or less.

### Valuation of Investments in Master Fund

The Company records its investments in the Master Funds at the net asset value as reported by the Master Funds, which is the Company's proportionate interest in the net assets of the Master Funds. The performance of the Company is directly affected by the performance of the Master Funds and is subject to the same risks to which the Master Funds are subject. Valuation of investments held by the Master Funds, including, but not limited to the valuation techniques used and classification within the fair value hierarchy of investments held are discussed as follows:

**Fair Value - Definition and Hierarchy (Master Funds)**
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Investment Manager uses various valuation approaches. A fair value hierarchy for inputs is used in measuring fair value that maximises the use of observable inputs and minimises the use of unobservable inputs by requiring that the most observable inputs are to be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Investment Manager. Unobservable inputs reflect the assumptions of the Investment Manager in conjunction with both Board of Directors of each of the respective Master Funds (the "Board of the Master Funds") about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorised into three levels based on the inputs as follows:

**Level 1 -** Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Master Funds have the ability to access. Valuation adjustments are not applied to Level 1 investments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these investments does not entail a significant degree of judgment.

**Level 2 -** Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

**Level 3 -** Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The availability of valuation techniques and observable inputs can vary from investment to investment and are affected by a wide variety of factors, including the type of investment, whether the investment is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realised due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the investments existed. Accordingly, the degree of judgment exercised by the Investment Manager in determining fair value is greatest for investments categorised in Level 3 of the fair value hierarchy. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Master Funds' own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Master Funds use prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many investments. This condition could cause an investment to be reclassified to a lower level within the fair value hierarchy.

**Fair Value - Valuation Techniques and Inputs**

<u>Investments in Securities (Master Funds)</u>

The value of preference shares issued by the Reinsurers and subscribed for by the Master Funds and held with respect to a reinsurance agreement will equal:

i. the amount of capital invested in such preference shares; plus
ii. the amount of net earned premium (as described below) that has been earned period-to-date for such contract; plus
iii. the amount of the investment earnings earned to date on both the capital invested in such preference shares and the associated reinsurance premiums in respect of such contract; minus
iv. the amount of any loss estimates associated with potential claims triggering covered events (see "Covered Event Estimates" below); minus
v. the amount of any risk margin considered necessary to reflect uncertainty and to compensate a market participant for bearing the uncertainty of cash flows in an exit of the reinsurance transaction.

**Reinsurance Protections**
Included within the Master Fund's investment in the Reinsurer are certain preference shares issued by the Reinsurer and subscribed for by the Master Fund in relation to reinsurance purchased specifically to meet the desired level of risk as set out in the Company's investment strategy ("Reinsurance Protections"). The underlying premiums are amortised over the duration of the contracts.

**Derivative Financial Instruments**

The Master Funds invests in derivative financial instruments such as industry loss warranties ("ILWs"), which are recorded at fair value as at the reporting date. Realised and unrealised appreciation or depreciation in fair values are included in net gain on securities in the Statements of Operations in the year in which the changes occur.

The fair value of derivative financial instruments at the reporting date generally reflects the amount that the Master Funds would receive or pay to terminate the contract at the reporting date. These derivative financial instruments used by the Master Funds are fair valued similar to preference shares held with respect to reinsurance agreements, unless otherwise unavailable, except that following a Covered Event (as defined below), loss information from the index provider on the trade will be used.

Investments in Securities held by the Reinsurers

**Earned Premiums**

Premiums shall be considered earned with respect to computing the Master Funds' net asset value in direct proportion to the percentage of the risk that is deemed to have expired year-to-date. Generally, all premiums, net of acquisition costs, shall be earned uniformly over each month of the risk period. However, for certain risks, there is a clearly demonstrable seasonality associated with these risks. Accordingly, seasonality factors are utilised for the recognition of certain instruments, including preference shares relating to reinsurance agreements, ILWs and risk transfer derivative agreements, where applicable. Prior to the investment in any seasonal contract, the Investment Manager is required to produce a schedule of seasonality factors, which will govern the income recognition and related fair value price for such seasonal contract in the absence of a covered event. The Investment Manager may rely on catastrophe modeling software, historical catastrophe loss information or other information sources it deems reliable to produce the seasonality factors for each seasonal contract.

**Covered Event Estimates**

The Investment Manager provides monthly loss estimates for all incurred loss events ("Covered Events") potentially affecting investments relating to a retrocessional reinsurance agreement of the Reinsurers. As the Reinsurers' reinsurance agreements are fully collateralised, any loss estimates above the contractual thresholds as contained in the reinsurance agreements will require capital to be held in a continuing reinsurance trust account with respect to the maximum contract exposure with respect to the applicable Covered Event.

**"Fair Value" Pricing used by the Master Funds**

Any investment that cannot be reliably valued using the principles set forth above (a "Fair Value Instrument") is marked at its fair value, based upon an estimate made by the Investment Manager, in good faith and in consultation or coordination with the Administrator, as defined in Note 10, where practicable, using what the Investment Manager believes in its discretion are appropriate techniques consistent with market practices for the relevant type of investment. Fair valuation in this context depends on the facts and circumstances of the particular investment, including but not limited to prevailing market and other relevant conditions, and refers to the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. Fair value is not the amount that an entity would receive or pay in a forced transaction or involuntary liquidation.

The process used to estimate a fair value for an investment may include a single technique or, where appropriate, multiple valuation techniques, and may include (without limitation and in the discretion of the Investment Manager, or in the discretion of the Administrator subject to review by the Investment Manager where practicable) the consideration of one or more of the following factors (to the extent relevant): the cost of the investment to the Master Funds, a review of comparable sales (if any), a discounted cash flow analysis, an analysis of cash flow multiples, a review of third-party appraisals, other material developments in the investment (even if subsequent to the valuation date), and other factors.

For each Fair Value Instrument, the Investment Manager and/or the Administrator, may as practicable, endeavor to obtain quotes from broker-dealers that are market makers in the related asset class, counterparties, the Master Funds' prime brokers or lending agents and/or pricing services. The Investment Manager, may, but will not be required to, input pricing information into models (including models that are developed by the Investment Manager or by third parties) to determine whether the quotations accurately reflect fair value.

In addition, the Investment Manager, may in its discretion, consult with the members of the investment team to determine the appropriate valuation of an instrument or additional valuation techniques that may be helpful to such valuation.

From time to time, the Investment Manager may change its fair valuation technique as applied to any investment if the change would result in an estimate that the Investment Manager in good faith believes is more representative of fair value under the circumstances.

The determination of fair value is inherently subjective in nature, and the Investment Manager has a conflict of interest in determining fair value in light of the fact that the valuation determination may affect the amount of the Investment Manager's management and performance fee.

At any given time, a substantial portion of the Master Funds' portfolio positions may be valued by the Investment Manager using the fair value pricing policies. Prices assigned to portfolio positions by the Administrator or the Investment Manager may not necessarily conform to the prices assigned to the same financial instruments if held by other accounts or by affiliates of the Investment Manager.

**Side Pocket Investments**

The Board of the Master Fund, in consultation with the Investment Manager, may classify certain Insurance-Linked Instruments as Side Pocket Investments in which only investors who are shareholders at the time of such classification can participate ("Side Pocket Investments"). This typically will happen if a Covered Event has recently occurred or seems likely to occur under an Insurance-Linked Instrument, because determining the fair value of losses once a Covered Event has occurred under an Insurance-Linked Instrument is often both a highly uncertain and a protracted process. When a Side Pocket Investment is established, the Master Fund converts a corresponding portion of each investor's Ordinary Shares into Side Pocket Shares (Note 7).

**Financial Instruments**

The fair values of the Company's assets and liabilities, which qualify as financial instruments under ASC 825, "Financial Instruments", approximate the carrying amounts presented in the Statements of Assets and Liabilities.

**Investment Transactions and Related Investment Income and Expenses**

The Company records its proportionate share of the Master Funds' income, expenses, realised gains and losses and increases and decreases in unrealised appreciation on a monthly basis. In addition, the Company incurs and accrues its own income and expenses.

Investment transactions of the Master Funds are accounted for on a trade-date basis. Realised gains or losses on the sale of investments are calculated using the specific identification method of accounting. Interest income and expense are recognised on the accrual basis.

**Translation of Foreign Currency**

Assets and liabilities denominated in foreign currencies are translated into United States dollar amounts at the period-end exchange rates. Transactions denominated in foreign currencies, including purchases and sales of investments, and income and expenses, are translated into United States dollar amounts on the transaction date. Adjustments arising from foreign currency transactions are reflected in the Statements of Operations.

The Company does not isolate the portion of the results of operations arising from the effect of changes in foreign exchange rates on investments from fluctuations arising from changes in market prices of investments held. Such fluctuations are included in net gain on securities in the Statements of Operations.

**Income Taxes**

Under the laws of Bermuda, the Company is generally not subject to income taxes. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event that there is enacted in Bermuda any legislation imposing income or capital gains tax, such tax shall not until 31 March 2035 be applicable to the Company. However, certain United States dividend income and interest income may be subject to a 30% withholding tax. Further, certain United States dividend income may be subject to a tax at prevailing treaty or standard withholding rates with the applicable country or local jurisdiction.

The Company is required to determine whether its tax positions are more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit recognised is measured as the largest amount of benefit that has a greater than fifty per cent likelihood of being realised upon ultimate settlement with the relevant taxing authority. De-recognition of a tax benefit previously recognised results in the Company recording a tax liability that reduces ending net assets. Based on its analysis, the Company has determined that it has not incurred any liability for unrecognised tax benefits as of 31 December 2017 and 2016. However, the Company's conclusions may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations thereof.

The Company recognises interest and penalties related to unrecognised tax benefits in interest expense and other expenses, respectively. No interest tax-related expense or penalties have been recognised as of and for the years ended 31 December 2017 and 2016.

Generally, the Company may be subjected to income tax examinations by relevant major taxing authorities for all tax years since its inception.

The Company may be subject to potential examination by United States federal or foreign jurisdiction authorities in the areas of income taxes. These potential examinations may include questioning the timing and amount of deductions, the nexus of income among various tax jurisdictions and compliance with United States federal or foreign tax laws. The Company was not subjected to any tax examinations during the years ended 31 December 2017 and 2016.

**Use of Estimates**
The preparation of Financial Statements in conformity with U.S. GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial Statements. Actual results could differ from those estimates.

**Offering Costs**
The costs associated with each capital raise are expensed against paid-in capital and the Company's existing cash reserves as incurred. The amount expensed against paid-in capital should not exceed 2% of the net proceeds of the Initial Placing and Offer.

## 2. SCHEDULE OF THE COMPANY'S SHARE OF THE INVESTMENTS HELD IN THE MASTER FUNDS AND FAIR VALUE MEASUREMENTS

The following table reflects the Company's proportionate share of the fair value of investments in the Reinsurers held by the Master Funds at 31 December 2017.

| *Preference Shares - Investments in Markel CATCo Re Ltd.* | *$ Fair Value* |
|---|---|
| Class A | 1,155,227 |
| Class B | 4,079,104 |
| Class D | 4,538,516 |
| Class E | 1,848,506 |
| Class F | 4,602,089 |
| Class H | 103,750 |
| Class I | 952,936 |
| Class J | 611,923 |
| Class K | 919,730 |
| Class L | 921,522 |
| Class M | 1,379,548 |
| Class N | 901,043 |
| Class O | 1,533,743 |
| Class P | 5,406,226 |
| Class Q | 766,078 |
| Class R | 327,599 |
| Class S | 8,474,513 |
| Class U | 979,442 |
| Class V | 192,343 |
| Class Y | 637,123 |
| Class Z | 2,407,285 |
| Class BA | 814,211 |
| Class BB | 1,007,976 |
| Class BC | 831,679 |

| | |
|---|---|
| Class BE | 600,399 |
| Class BM | 1,171,335 |
| Class BN | 2,348,975 |
| Class BO | 2,355,958 |
| Class BQ | 2,597,739 |
| Class BR | 1,265,990 |
| Class BS | 85,616 |
| Class BW | 2,345,213 |
| Class BX | 536,335 |
| Class BY | 13,163,527 |
| Class BZ | 19,117,771 |
| Class CA | 4,815,954 |
| Class CB | 26,741,990 |
| Class CC | 22,580,368 |
| Class CD | 3,945,663 |
| Class CE | 7,423,112 |
| Class CF | 4,045,010 |
| Class CG | 854,363 |
| Class CH | 18,918,754 |
| Class CI | 3,538,019 |
| Class CJ | 5,997,536 |
| Class CK | 3,879,779 |
| Class CL | 4,086,112 |
| Class CM | 3,818,574 |
| Class CN | 2,933,690 |
| Class CO | 10,483,680 |
| Class CP | 6,472,549 |
| Class CQ | 6,843,757 |
| Class CR | 3,208,291 |
| Class CS | 5,456,695 |
| Class CT | 5,681,549 |
| Class CU | 1,603,055 |
| Class CV | 7,063,007 |
| Class CW | 2,709,492 |
| Class CX | 24,662,043 |
| Class CY | 2,669 |
| Class CZ | 2,669 |
| Class AW | 6,000,000 |
| Class AX | 8,400,000 |
| Class AY | 8,400,000 |
| Class AZ | 8,400,000 |
| Expense Cell | 92,289 |
| **Total Investments in Markel CATCo Re Ltd.** | **$310,041,637** |

| *Preference Shares - Investments in CATCo-Re Ltd.* | *$ Fair Value* |
|---|---|
| Class AE | 1,462,096 |
| Class AF | 893,636 |
| Class BJ | 1,406,969 |
| Class BW | 17,700 |
| Class DC | 584,590 |
| Class DE | 149,646 |
| Class DF | 879,421 |
| Class DG | 227,006 |
| Class DL | 968,287 |
| Class DM | 146,587 |
| Class DN | 1,158,063 |
| Class DV | 417,182 |

| | |
|---|---|
| **Total Investments in CATCo-Re Ltd.** | **$8,311,183** |

| *Investments in Markel CATCo Re Ltd.*<br>*- Aquilo Re* | *$ Fair Value* |
|---|---|
| Class AQ002 | 27,660 |
| Class AQ003 | 11,205 |
| **Total Investments in Markel CATCo Re Ltd. - Aquilo Re** | **$38,865** |

| | |
|---|---|
| **Total Investments in Preference Shares** | **$318,391,685** |

The following table reflects the Company's proportionate share of the fair value of investments in the Reinsurers held by the Master Funds at 31 December 2016.

| *Preference Shares*<br>*- Investments in Markel CATCo Re Ltd.* | *$ Fair Value* |
|---|---|
| Class A | 27,444,563 |
| Class B | 11,714,124 |
| Class C | 4,217,525 |
| Class D | 20,768,970 |
| Class E | 1,456,100 |
| Class F | 34,081,333 |
| Class G | 20,923,116 |
| Class H | 6,239,253 |
| Class I | 22,049,112 |
| Class J | 6,246,001 |
| Class K | 2,163,040 |
| Class L | 9,368,899 |
| Class M | 3,244,520 |
| Class N | 4,679,440 |
| Class O | 5,152,761 |
| Class P | 47,467,366 |
| Class Q | 7,336,796 |
| Class R | 4,415,684 |
| Class S | 5,933,215 |
| Class T | 8,466,064 |
| Class U | 3,119,626 |
| Class V | 5,211,726 |
| Class W | 1,478,259 |
| Class X | 1,093,007 |
| Class Y | 5,929,661 |
| Class Z | 2,370,483 |
| Class BA | 793,206 |
| Class BB | 7,151,367 |
| Class BC | 791,816 |
| Class BD | 2,379,027 |
| Class BE | 7,726,069 |
| Class BF | 9,371,882 |
| Class BM | 1,137,365 |
| Class BN | 2,284,789 |
| Class BO | 2,280,551 |
| Class BP | 5,753,082 |
| Class BQ | 6,027,176 |
| Class BR | 1,411,318 |
| Class BS | 8,922,565 |
| Class BT | 27,215,619 |
| Class BU | 780,567 |

| | |
|---|---|
| Class BV | 2,253,634 |
| Class BW | 2,268,713 |
| Expense Cell | 128,019 |
| **Total Investments in Markel CATCo Re Ltd.** | **$361,247,409** |

| *Preference Shares - Investments in CATCo-Re Ltd* | *$ Fair Value* |
|---|---|
| Class AE | 1,536,115 |
| Class AF | 898,753 |
| Class BF | 705,363 |
| Class BJ | 1,739,074 |
| Class BW | 582,346 |
| Class CM | 711,384 |
| Class DC | 248,639 |
| Class DE | 114,245 |
| Class DF | 373,316 |
| Class DG | 171,725 |
| Class DL | 1,455,090 |
| Class DM | 907,344 |
| Class DN | 1,042,388 |
| Class DP | 2,502,853 |
| Class DV | 567,772 |
| Class DZ | 332,657 |
| **Total Investments in CATCo-Re Ltd.** | **13,889,064** |

| *Investments in Markel CATCo-Re Ltd. - Aquilo Re* | *$ Fair Value* |
|---|---|
| Class AQ002 | 77,841 |
| Class AQ003 | 29,584 |
| Class AQ004 | 8,571 |
| **Total Investments in Markel CATCo Re Ltd. - Aquilo Re** | **$115,996** |
| | |
| **Total Investments in Preference Shares** | **$375,252,469** |

Included within the Company's investment in Master Funds is cash and cash equivalents held in trust by the Master Fund representing the Company's proportionate share of derivative transactions entered into by the Master Fund amounting to approximately $113,652,588 (31 December 2016: $ 85,882,181) as of 31 December 2017.

The preference shares relating to Reinsurance Protections are valued at $31,200,000 (31 December 2016: $Nil) representing the unamortised portion of premium paid and claims recoverable as at 31 December 2017.

As at 31 December 2017, 66.16% of total investments held by the Master Funds are classified as Side Pocket Investments (31 December 2016: 10.50%).

In accordance with FASB ASC Sub-topic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient are not required to be classified within the fair value hierarchy. As the Company's investments as at 31 December 2017 comprised solely of investments in other investment companies, the Master Fund, which are valued using the net asset value per share (or its equivalent) practical expedient, no fair value hierarchy has been disclosed.

The Company considers all short-term investments with daily liquidity as cash equivalents and are classified as Level 1 within the fair value hierarchy. No cash equivalents were held as at 31 December 2017 (31 December 2016: $Nil).

The table below summarises information about the significant unobservable inputs used in determining the fair value of the Master Funds' Level 3 assets:

| Type of Investment | Valuation Technique | Unobservable Input | Range |
|---|---|---|---|
| Preference Shares | Premium earned | Premiums earned - straight line for uniform perils | 12 months |
| | | Premiums earned - seasonality adjusted for non-uniform perils | 5 to 6 months |
| | Loss reserves | Loss reserves* | 0 to contractual limit |
| | Risk margin | Risk margin | 0% to 7.5% |

* Based on proprietary models and historical loss analysis data as well as assessments from counter-parties.

As described in Note 6, significant increases or decreases in loss reserves of the Reinsurers would result in a significantly lower or higher fair value measurement.

### 3. CONCENTRATION OF CREDIT RISK

In the normal course of business, the Company maintains its cash balances, (not assets supporting retrocessional reinsurance transactions) in financial institutions, which at times may exceed federally insured limits. The Company is subject to credit risk to the extent any financial institution with which it conducts business is unable to fulfill contractual obligations on its behalf. Management monitors the financial condition of such financial institutions and does not anticipate any losses from these counterparties. At 31 December 2017 and 2016, cash and cash equivalents are held with HSBC Bank Bermuda Ltd. which has a credit rating of A- as issued by Standard & Poor's.

### 4. CONCENTRATION OF REINSURANCE RISK

The following table illustrates the diversified risk profile of the Reinsurer's portfolio by geography and peril as at 31 December 2017 and 2016. Reinsurance Protections purchased specifically to meet the desired level of risk as set out in the Company's investment strategy have not been considered.

*Geographic Distribution*

| | | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|---|
| 1. | North America/Caribbean | 44% | 39% |
| 2. | All Other | 17% | 17% |
| 3. | Europe | 10% | 10% |
| 4. | Global Backup Protection | 6% | 9% |
| 5. | Japan | 6% | 7% |
| 6. | Global Marine/Energy/Terrorism/Aviation/Satellite | 6% | 6% |
| 7. | Mexico/Central America/ South America | 5% | 6% |
| 8. | Australia/New Zealand | 4% | 4% |
| 9. | Asia Excluding Japan | 2% | 2% |

*Exposure by Risk Peril*

| | | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|---|
| 1. | Wind | 38% | 35% |
| 2. | Earthquake | 18% | 21% |
| 3. | Backup Protection | 14% | 21% |
| 4. | Any Natural Peril | 10% | 8% |
| 5. | Marine/Energy/Aviation/Satellite | 4% | 4% |
| 6. | Winterstorm/Wildfire | 4% | 3% |

7. Severe Convective Storm 4% 2%
8. Other 4% 2%
9. Terrorism 2% 2%
10. Flood 2% 2%

## 5. INVESTMENTS IN MASTER FUNDS, AT FAIR VALUE

The following table summarises the Company's Investments in the Master Funds:

| | **31 Dec. 2017** | **31 Dec. 2016** |
|---|---|---|
| Investment in Markel CATCo Reinsurance Fund Ltd. - Markel CATCo Diversified Fund, at fair value | $338,085,861 | $446,049,992 |
| Investment in CATCo Reinsurance Fund Ltd. - CATCo Diversified Fund, at fair value | $9,606,604 | $17,066,354 |
| Investments in Master Funds, at fair value | $347,692,465 | $463,116,346 |

As of 31 December 2017, the total balance of investments held in the Master Funds of $347,692,465 (31 December 2016: $463,116,346) is exclusive of undeployed cash, accruals (including management and performance fee), derivative financial instruments and other assets and liabilities recorded by the Master Funds. The total investment in Preference Shares held by the Master Funds of $318,391,685 (2016: $375,252,469) is net of these holdbacks (Note 2).

The net investment loss allocated from Master Funds, and the net realised gain and net decrease in unrealised appreciation on securities allocated from Master Funds in the Statements of Operations consisted of the combined results from the Company's Investments in the Master Funds as detailed below:

| (Expressed in United States Dollars) | 2017 Investment in Master Fund | 2017 Investment in CATCo Diversified Fund | 2017 Total | 2016 Investment in Master Fund | 2016 Investment in CATCo Diversified Fund | 2016 Total |
|---|---|---|---|---|---|---|
| Net investment loss allocated from Master Funds | | | | | | |
| Interest | $ 855,847 | $ - | $ 855,847 | $ 141,428 | $ 1,313 | $ 142,741 |
| Miscellaneous income | - | - | - | - | 11,874 | 11,874 |
| Management fee | (6,516,021) | (162,853) | (6,678,874) | (6,435,246) | (304,472) | (6,739,718) |
| Performance fee | (1,373) | - | (1,373) [(a)] | (3,483,332) | (423,636) | (3,906,968) |
| Professional fees and other | (346,146) | (10,763) | (356,909) | (270,343) | (42,589) | (312,932) |
| Administrative fee | (200,983) | (15,765) | (216,748) | (201,816) | (27,417) | (229,233) |
| Net investment loss allocated from Master Funds | $ (6,208,676) | $ (189,381) | $ (6,398,057) | $ (10,249,309) | $ (784,927) | $(11,034,236) |
| Net realised gain and net increase in unrealised depreciation on securities allocated from Master Funds | | | | | | |
| Net realised gain on securities[(b)] | $ 44,749,677 | $ 1,381,330 | $ 46,131,007 | $ 4,672,504 | $ 52,991,392 | $ 57,663,896 |
| Net increase in unrealised depreciation on securities[(c)] | (170,924,879) | (1,150,054) | (172,074,933) | 36,926,797 | (48,076,736) | (11,149,939) |
| Net (loss)/ gain on securities allocated from Master Funds | $ (126,175,202) | $ 231,276 | $(125,943,926) | $ 41,599,301 | $ 4,914,656 | $ 46,513,957 |

a) Performance fee relates to SPI releases during 2017

b) Includes gross realised gain on securities of: 2017- $59,362,678 (2016: $63,572,316) and gross realised loss on securities of: 2017- $13,231,671 (2016: $5,908,420)

c) Includes gross increase in unrealised appreciation on securities of: 2017 - $49,629,713 (2016: $70,091,133) and gross decrease in unrealised appreciation on securities of: 2017- $221,704,646 (2016: $81,241,072)

**6. LOSS RESERVES**

The following disclosures on loss reserves are included for information purposes and relate specifically to the Reinsurers and are reflected through the valuations of investments held by the Company.

The reserve for unpaid losses and loss expenses recorded by the Reinsurers includes estimates for losses incurred but not reported as well as losses pending settlement. The Reinsurers make a provision for losses on contracts only when an event that is covered by the contract has occurred. When a potential loss event has occurred, the Reinsurers use proprietary models and historical loss analysis data as well as assessments from counter-parties to estimate the level of reserves required. The process of estimating loss reserves is a complex exercise, involving many variables and a reliance on actuarial modeled catastrophe loss analysis. However, there is no precise method for evaluating the adequacy of loss reserves when industry loss estimates are not final, and actual results could differ from original estimates.

In addition, the Reinsurers record risk margin to reflect uncertainty surrounding cash flows relating to loss reserves. The risk margin is set by the actuarial team of Markel CATCo Investment Management Ltd and/or CATCo Investment Management Ltd. (who are, respectively, the "Insurance Manager" in relation to the Reinsurer or CATCo-Re Ltd., as the case may be).

Future adjustments to the amounts recorded as of year-end, resulting from the continual review process, as well as differences between estimates and ultimate settlements, will be reflected in the Reinsurers' Statements of Operations in future periods when such adjustments become known. Future developments may result in losses and loss expenses materially greater or less than the reserve provided.

The Reinsurer's loss reserves for losses pertaining to Hurricanes Harvey, Irma and Maria and the California Wildfires represent the Insurance Manager's best estimate of ultimate settlement values. The reserves are subject to significant uncertainty due to industry loss estimates varying from final insured losses. A significant range of industry loss estimates is evident within the actual reinsured client losses reported to the Reinsurer. The timing and the amount of losses reported to the Reinsurer is in the control of third parties, and has a direct effect on loss reserves, which may require re-estimation as new information becomes available.

The Insurance Manager believes that the total loss reserve established for the 2017 loss events are sufficient to provide for all unpaid losses and loss expenses with respect to Hurricanes Harvey, Irma and Maria and the California Wildfires, based on the industry information currently available. However, there is still a level of industry uncertainty with regard to the final insured loss impact of the 2017 loss events. Therefore, actual results may materially differ if actual reinsured client losses differ from the established loss reserves. The significant uncertainty underlying the industry loss estimates could result in the need to further adjust loss reserves, either in the event that reserves are found to be insufficient or, conversely, if loss reserves are found to be too conservative.

As part of the reserving process, the Insurance Manager reviews loss reserves on a monthly basis and will make adjustments, if necessary. Future adjustments in loss reserves could have further material impact on investor earnings, which may result in either an increase or decrease to the valuation of the 2017 investments held by the Company. As at 31 December 2017, Side Pocket Investments amounting to 55 per cent of the Ordinary Share NAV were established. The Side Pocket Investments reflect 100 per cent of any potential liability that may exist with the Reinsurer's counterparties in excess of the loss reserves held by the Reinsurer. These Side Pocket Investments will be released should they no longer be required by the reinsurance counterparties. In order to provide a level of sensitivity analysis around the Company's held reserves, the Insurance Manager's professional actuaries have examined the projected impact of both a 20 per cent increase and decrease in the applied industry insured loss estimates for the 2017 hurricane events and the 2017 California wildfires. The results of this analysis are that a 20 per cent increase in the applied industry insured loss estimates is expected to represent a reduction in the 2017 annual NAV return of circa 8 per cent. In addition, a 20 per cent decrease in the applied industry insured loss estimates is expected to represent an increase in the 2017 annual NAV return of circa 9 per cent.

During 2017, the Reinsurer paid claims of $400,161,779 (31 December 2016: $50,431,965) predominantly in relation to the 2017 Hurricane Irma, Hurricane Harvey and Hurricane Maria events and the 2016 Jubilee Oil Field and Canada Wildfire events. CATCo-Re Ltd. paid claims of $1,889,027 (31 December 2016: $32,007,856) predominantly in relation to the U.S. Severe Convective Storm events.

**7. CAPITAL SHARE TRANSACTIONS**

As of 31 December 2017, the Company has authorised share capital of 1,500,000,000 (31 December 2016: 1,500,000,000) unclassified shares of US$0.0001 each and Class B Shares ("B Shares") of such nominal value as the Board may determine upon issue.

As of 31 December 2017, the Company has issued 391,666,430 (31 December 2016: 273,224,673) Class 1 ordinary shares (the "Ordinary Shares") and 546,367,863 (31 December 2016: 102,510,018) Class C Shares ("C Shares").

Transactions in shares during the year, the shares outstanding and the net asset value ("NAV") per share are as follows:

**31 December 2017**

| | Beginning shares | Adjustment following Share Capital Consolidation | Share Issuance | Ending Shares | Ending Net Assets | | Ending NAV Per Share |
|---|---|---|---|---|---|---|---|
| Class 1 Ordinary Shares | 273,224,673 | 82,835,718 | 35,606,039 | 391,666,430 | $349,165,708 | | $0.8915 |
| Class C Shares | 102,510,018 | (102,510,018) | 546,367,863 | 546,367,863 | $535,440,506 | * | $0.9800 |
| | | | | | $884,606,214 | | |

**31 December 2016**

| | Beginning Shares | Adjustment following Share Capital Consolidation | Share Issuance | Ending Shares | Ending Net Assets | | Ending NAV Per Share |
|---|---|---|---|---|---|---|---|
| Class 1 Ordinary Shares | 273,224,673 | - | - | 273,224,673 | $355,855,825 | | $1.3024 |
| Class C Shares | 91,835,018 | - | 10,675,000 | 102,510,018 | $107,761,300 | ** | $1.0512 |
| | | | | | $463,617,125 | | |

* Net of issuance costs of $10,927,358
** Net of issuance costs of $208,719

The Company has been established as a closed-ended fund and, as such, shareholders do not have the right to redeem their shares. The shares are held in trust by Link Market Services (the "Depository") in accordance with the Depository Agreement between the Company and the Depository. The Depository holds the shares and in turn issues depository interests in respect of the underlying shares which have the same rights and characteristics of the shares.

The Board has the ability to issue C Shares during any period when the Master Fund has designated one or more investments as Side Pocket Investments. This typically will happen if a covered or other pre-determined event has recently occurred or seems likely to occur under an Insurance-Linked Instrument. In such circumstances, only those shareholders on the date that the investment has been designated as a Side Pocket Investment will participate in the potential losses and premiums attributable to such Side Pocket Investment. Any shares issued when Side Pocket Investments exist will be as C Shares that will participate in all of the Master Fund's portfolio other than in respect of potential losses and premiums attributable to any Side Pocket Investments in existence at the time of issue. If no Side Pocket Investments are in existence at the time of proposed issue, it is expected that the Company will issue further Ordinary Shares.

On 26 January 2017, the Board declared a dividend of 0.07180 per share in respect of the Ordinary Shares. The record date for these dividends was 3 February 2017 and the ex-dividend date was 2 February 2017. The dividends were paid to shareholders on 17 February 2017. On 31 May 2017, the Company completed its conversion of 102,510,018 Class C Shares at a rate of $1.2636 into Ordinary Shares of 82,835,718.

**8. INVESTMENT MANAGEMENT AGREEMENT**

Pursuant to the Investment Management Agreement dated 8 December 2015, the Investment Manager is empowered to formulate the overall investment strategy to be carried out by the Company and to exercise full discretion in the management of the trading, investment transactions and related borrowing activities of the Company in order to implement such strategy. The Investment Manager earns a fee for such services (Note 9).

### 9. RELATED PARTY TRANSACTIONS

The Investment Manager of the Company is also the Investment Manager of the Master Fund and the Insurance Manager of the Reinsurer. CIML is the Investment Manager of CATCo Diversified Fund and the Insurance Manager of CATCo-Re Ltd.

The Investment Manager is entitled to a management fee, calculated and payable monthly in arrears equal to 1/12 of 1.5% of the net asset value of the Company, which is not attributable to the Company's investment in the Master Funds' shares as at the last calendar day of each calendar month. Management fees related to the investment in the Master Funds shares are charged in the Master Funds and allocated to the Company. Performance fees are charged in the Master Funds and allocated to the Company.

Markel, which holds the entire share capital of the Investment Manager, holds 5.16% (31 December 2016: 0%) of the voting rights of the Ordinary Shares and 0% (31 December 2016: 24.39%) of the voting rights of the C Shares issued in the Company as of 31 December 2017.

In addition, two of the Directors of the Company are also shareholders of the Company. The Directors holdings are immaterial, representing below 1% of the Company NAV.

### 10. ADMINISTRATIVE FEE

SS&C Fund Services (Bermuda) Ltd, a division of SS&C GlobeOp serves as the Company's administrator (the "Administrator") and performs certain administrative services on behalf of the Company. The Administrator is a licensed fund administrator pursuant to the provisions of the Bermuda Investment Funds Act. The Administrator receives a fixed monthly fee.

Please refer to Note 13 for subsequent appointment of new administrator effective 19 January 2018.

### 11. FINANCIAL HIGHLIGHTS

Financial highlights for the years ended 31 December 2017 and 2016 are as follows:

| | 2017 | | | 2016 | |
|---|---|---|---|---|---|
| *United States Dollar* | **Class 1 Ordinary Shares** | **Class C Shares** | | **Class 1 Ordinary Shares** | **Class C Shares** |
| | | | | | |
| Per Share operating performance | | | | | |
| | | | | | |
| Net Asset Value, beginning of year | $1.3024 | $1.0000 | | $1.2705 | $0.9800 |
| | | | | | |
| Income (loss) from investment operations: | | | | | |
| | | | | | |
| Net investment loss | (0.0040) | - | | (0.0065) | (0.0044) |
| Performance Fee* | (0.0004) | - | | (0.0105) | (0.0083) |
| Management Fee | (0.0178) | - | | (0.0191) | (0.0153) |
| Net (loss) gain on investments | (0.3169) | - | | 0.1342 | 0.0992 |
| | | | | | |
| | | | | | |
| Total from investment operations | (0.3391) | 0.0000 | | 0.0981 | 0.0712 |
| | | | | | |
| Dividend | (0.0718) | - | | (0.0662) | - |
| Premium on issuance | 0.0016 | - | | - | - |
| Offering cost | (0.0016) | (0.0200) | | - | - |
| | | | | | |
| Net Asset Value, end of year | $0.8915 | $0.9800 | | $1.3024 | $1.0512 |
| | | | | | |
| | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Total net asset value return | | | | | |
| | | | | | |
| Total net asset value return before performance fee | (26.00)% | -% | | 8.56% | 8.12% |
| Performance fee* | (0.03)% | -% | | (0.83)% | (0.85)% |
| | | | | | |
| | | | | | |
| Total net asset value return after performance fee | (26.03)%^ | -% | | 7.73%+ | 7.27% |
| | | | | | |
| | | | | | |
| Ratios to average net assets | | | | | |
| | | | | | |
| Expenses other than performance fee | (2.09)% | -% | | (2.24)% | (2.05)% |
| Performance fee*^ ˚ | (0.08)% | -% | | (0.88)% | (0.80)% |
| | | | | | |
| | | | | | |
| Total expenses after performance fee | (2.01)% | -% | | (3.12)% | (2.85)% |
| | | | | | |
| | | | | | |
| Net investment loss | (1.70)% | -% | | (2.84)% | (2.86)% |
| | | | | | |

+ Adjusting the opening capital to reflect the dividend declared on 29 January 2016, the normalised total return for 2016 is equivalent to 8.12%

^ Adjusting the opening capital to reflect the dividend declared on 26 January 2017, the normalised total return for 2017 is equivalent to -27.59%

* The performance fee is charged in the Master Funds

˚ Performance fee relates to crystalized performance fee from Side Pocket investments

The ratios to weighted average net assets are calculated for each class of shares taken as a whole. An individual shareholder's return and ratios to weighted average net assets may vary from these amounts based on the timing of capital transactions. Returns and ratios shown above are for the years ended 31 December 2017 and 2016. The per share amounts and ratios reflect income and expenses allocated from the Master Funds.

## 12. INDEMNIFICATIONS OR WARRANTIES

In the ordinary course of its business, the Company may enter into contracts or agreements that contain indemnifications or warranties. Future events could occur that lead to the execution of these provisions against the Company. Based on its history and experience, management believes that the likelihood of such an event is remote.

## 13. SUBSEQUENT EVENTS

Effective 19 January 2018, the Board of Directors has approved the appointment of Centaur Fund Services (Bermuda) Limited as the Company's administrator. Centaur Fund Services (Bermuda) Limited is a licensed and regulated fund administrator pursuant to the provisions of the Bermuda Monetary Authority under the Bermuda Investments Funds Act 2006.

On 31 January 2018, the Board declared a final dividend of $0.05476 per share in respect of the Ordinary Shares. The record date for this dividend was 9 February 2018 and the ex-dividend date was 8 February 2018. The final dividend was paid to shareholders on 26 February 2018.

These Financial Statements were approved by the Board and available for issuance on 9 March 2018. Subsequent events have been evaluated through this date.

**For further information:**

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