

## **TransRe Zurich Ltd**

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### **Financial Condition Report**

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**As at 31 December 2017**



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### About this document

This document is the Financial Condition Report (“FCR”) for TransRe Zurich Ltd (“TRZ”) as at 31 December 2017.

This FCR covers TRZ and its branch office in Dubai, TransRe Zurich Ltd (Dubai Branch) on a solo basis.

TRZ’s functional and presentational currency is CHF.

### Directors’ statement

The Board of Directors is responsible for preparing the FCR in accordance with the FINMA Circular 2016/2 Disclosure – Insurers.

Each of the Directors confirms that, to the best of his knowledge:

- throughout the financial year in question, TRZ has complied; and
- it is reasonable to believe that, at the date of the publication of the FCR, TRZ continues to comply, and will continue to comply in future,

in all material respects with the requirements of the Swiss regulation.

On behalf of the board

Alain D. Manfré  
Chairman of the Board

Jonathan Sharland  
Chief Executive Officer

30 April 2018



## Management summary

TRZ is a wholly owned subsidiary of Transatlantic Reinsurance Company (“TRC”) and part of the TransRe group of companies (“TransRe”). TRZ provides TransRe with a platform to write business in Switzerland, Continental Europe e.g. Spain, Italy, the Netherlands, and in the Middle East and North Africa region (“MENA”). TRZ’s ultimate parent undertaking is Alleghany Corporation (“Alleghany”).

TRZ commenced trading under the name of Guardian Reinsurance Company on January 1977 before being acquired by TRC in 1996. The Company has a C1 licence to write non-life and life reinsurance and is regulated by the Swiss Financial Market Supervisory Authority FINMA. TRZ has furthermore a licence to write compulsory health reinsurance in Switzerland. TRZ benefits from the same financial strength ratings as TRC, being ratings of A+ by both S&P and A.M. Best with a stable outlook.

TRZ is a specialist non-life and life reinsurance company concentrating on providing protection for cedants and predominantly not competing with them in their own direct markets. Many of TRZ’s senior management and underwriting teams have long tenure with TransRe and we value enduring relationships with our client base.

For 2018 we are continuing to focus on underwriting excellence, enhancing our client relationships and navigating emerging risks and ever-changing political environments.

## Performance

TRZ’s strategy is to concentrate foremost on achieving underwriting profitability, not on adding premium volume, consistent with the group target of book value growth over time.

TRZ accesses business through both broker and direct distribution channels and writes a diverse portfolio of treaty reinsurance business, avoiding over-dependence on any one class. We adopt a lead approach to our business, combining technical analysis with underwriting expertise and strong cycle management. TRZ purchases reinsurance protection in line with our risk tolerances, to manage volatility within our solvency capital requirement. Our business strategy during 2017 is broadly consistent with the prior year.

TRZ’s assets are prudently invested to ensure access to funds at short notice, if required. The investment portfolio is currently made up exclusively of fixed income securities. These have been invested taking account of the liquidity requirements of TRZ along with the nature and timing of insurance liabilities. Investments are made up of:

- government bonds;
- corporate bonds; and
- cash and deposits.

Net investment income is recognised in the statement of profit and loss on a statutory basis.

## Corporate governance and risk management

TRZ has an established governance framework and internal control system; this helps TRZ to maintain robust local governance.

TRZ’s Board maintains ultimate responsibility for the oversight of TRZ. The Board delegates authority for day-to-day management of some aspects of the business to certain functions. The Board operates under the guidance of formal terms of reference which are agreed by the Board.



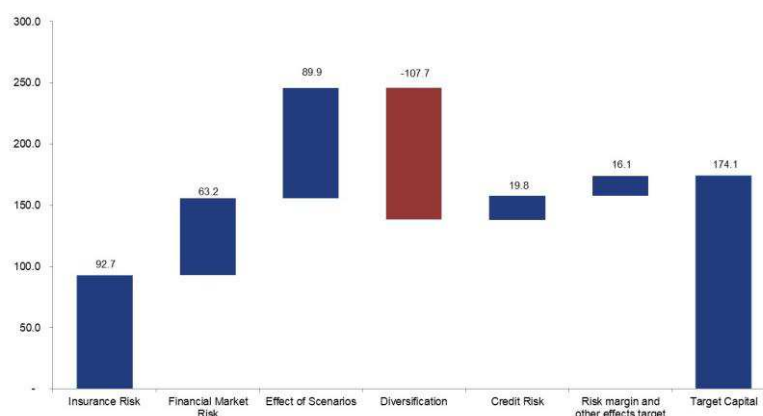
TRZ adopts an approach to remuneration which it believes supports and encourages appropriate behaviour that is aligned with TransRe's vision and values and Alleghany's Code of Business Conduct and Ethics.

The members of TRZ's Board possess the skills, knowledge and experience required in order to undertake their roles and responsibilities for overseeing TRZ.

### Risk profile

TRZ underwrites a diversified portfolio of property and casualty and life reinsurance, across multiple regions. TRZ's SST risk profile is shown in the chart below:

*Figure 1: SST risk profile by risk type before the impact of diversification*



As evidenced in the chart, both the underwriting and market risk are significant for TRZ, however TRZ benefits from well diversified portfolios. In order to help mitigate underwriting risks, TRZ maintains a disciplined underwriting philosophy that is supported by risk appetites reflecting our portfolio.

TRZ benefits from a comprehensive retrocession (reinsurance) programme that provides protection for TransRe globally as well as TRZ specifically.

TRZ undertakes stress and scenario testing as part of the Own Risk and Solvency Assessment ("ORSA"). Scenario tests are used to test the resilience of an insurer from shocks to the market.

The results of the analysis showed that the most material impacts on the SST target capital would arise from a series of significant natural catastrophe events affecting North Western Europe or a joint terror attack on major European cities. The analysis undertaken indicates TRZ is strongly capitalised and it would take an extreme event together with a retrocession failure to breach the available capital. TRZ's underwriting risk profile is therefore resilient to severe shocks and is within the Board approved risk appetite.

### Valuation

An analysis of the differences between the valuation of assets and liabilities under SST framework in comparison to statutory valuation is provided in Section E below. This section provides a background to the methods adopted under the SST, including the required inputs and any judgements or assumptions made.

Technical provisions under the SST are the amount of capital TRZ needs to hold in reserve for claims and premiums net of commissions and other expenses in order to fulfil all future liabilities arising out of its reinsurance contracts.



Best estimate liabilities are the probability weighted average of future cash flows, discounted back to the relevant balance sheet date using risk free discount rates.

The market value margin represents an allowance for the cost of capital necessary to support the policies to which TRZ is obligated at the valuation date.

TRZ uses the statutory insurance liabilities as the starting point for determining the SST technical provisions. Adjustments are made to move from the statutory basis to the SST basis. These adjustments are detailed within Section E2.

### Capital management

The shareholders' equity of a reinsurance entity are placed into Tiers 1, 2 or 3 based on their ability to absorb losses, Tier 1 being the most able to do so. Below is a summary of the statutory shareholders' equity held by TRZ and a comparison to TRZ's regulatory capital requirements (the amount of capital the firm is required to hold).

*Figure 2: Statutory shareholders' equity by tier at 31 December 2017*

Tier	Instrument(s)	Value (CHF '000)
Tier 1	Ordinary paid-up share capital	27'000
	Legal and other reserves	223'715
	Reconciliation reserve	-901
Tier 2	Not Applicable	-
Tier 3	Not Applicable	-
<b>Total statutory shareholders' equity</b>		<b>249'814</b>

### Solvency

The SST has been in place since 2011. For the SST 2018, TRZ applied the StandRe model issued by FINMA for the first time.

*Figure 3: Capital requirements at 31 December 2017*

	Value (CHF '000)
Risk-bearing capital	300'144
Target capital	174'054

TRZ's SST Ratio was 179.6%.



## A. Business activities

### A.1 Company information

#### TransRe Zurich Ltd

Sihlstrasse 38  
8001 Zurich, Switzerland

Firm Reference Number (UID): CHE-107.872.361  
Legal Entity Identifier: 213800QMSSWIO7459N54

#### Branch office

TransRe Zurich Ltd (Dubai Branch)  
Unit 19, Level 1, Gate Village Building 3  
DIFC, PO Box 127676, Dubai UAE

Firm Reference Number: F002629  
DIFC Registered Number: 1695

#### External auditors

Ernst & Young Ltd  
Maagplatz 1  
8005 Zurich, Switzerland

#### Regulator

Swiss Financial Market Supervisory Authority FINMA  
Laupenstrasse 27  
3003 Bern, Switzerland

### A.2 Background

TRZ is a private limited company, limited by shares, with its registered office in Switzerland. It is a wholly owned subsidiary of Transatlantic Reinsurance Company ("TRC"), which is a reinsurance company domiciled in New York, USA. TRZ provides the TransRe group with its main platform to write business in Switzerland, Continental Europe and the MENA region, not otherwise served by TransRe's wider regional office distribution network. TRZ is headquartered in Zurich and commenced underwriting risks under the name of Guardian Reinsurance Company effective from 1 January 1977. Guardian Reinsurance Company was acquired by TRC from Guardian Royal Exchange plc, London, UK, in 1996.

TRZ's ultimate parent undertaking is Alleghany, a company incorporated in Delaware, USA. Alleghany is listed on the New York Stock Exchange ("NYSE": Y). Further information on Alleghany is available at [www.alleghany.com](http://www.alleghany.com).

In addition to TRC and Alleghany, Transatlantic Holdings, Inc. ("TRH"), incorporated in Delaware, USA, is an indirect parent and holder of a qualifying holding in TRZ.

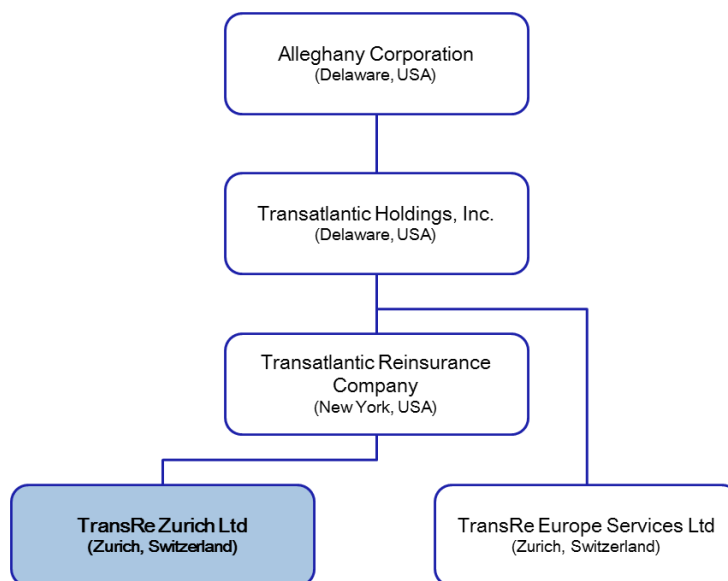
Other than TRC, TRH and Alleghany, there are no other holders of qualifying holdings in TRZ. A simplified group structure chart is shown below. The Alleghany group is subject to group supervision by the New Hampshire Department of Insurance, NH, USA.



In 2014, TRZ established a branch office within the Dubai International Financial Centre (“DIFC”), for which licence was granted by the Dubai Financial Services Authority (“DFSA”) at the end of the October 2014. This branch office is fully consolidated into TRZ.

TRZ has no employees. All reinsurance and management services are provided by TransRe Europe Services Ltd (“TRESL”), Zurich, an affiliated company of TRH.

*Figure 4: Organisational structure chart*



(All subsidiaries are 100% owned and controlled.)

TRZ offers reinsurance through treaty reinsurance arrangements covering non-life property and casualty as well as life lines of business on either a proportional or non-proportional basis. It underwrites a broad range of risks within those classes in multiple territories, thus maintaining a diversified portfolio without over-dependence on a single line of business. TRZ also benefits from shared functions made available through TransRe’s support and global operational infrastructure.

The core reinsurance portfolio of property and casualty treaties provides protection to cedants based globally, across a diverse range of classes. The protection provided includes coverage for a wide range of business events, enabling TransRe to better navigate underwriting cycles in multiple classes of business.

### **A.3 Market commentary**

The first half of 2017 was characterised by continued competitive trading conditions in both insurance and reinsurance markets, with excessive capacity available for most classes of business.

However, during the third quarter of the year the US experienced a succession of Hurricanes giving rise to catastrophic insurance and reinsurance claims and these were also added to by an earthquake in Mexico, collectively referred to as HIMM (Harvey, Irma, Maria and Mexico). These were then followed by devastating wildfires in California. The cumulative loss estimates were significantly greater than annual average catastrophe loss costs. The overall financial impact to TRZ from the combination of these catastrophic events was minor.





Both insurance and reinsurance markets expected to see notable firming of prices, terms and conditions as the 2017/18 renewal season approached. However, whilst improvements were seen, particularly in renewals concluded early in the season, the ability and willingness of investors in alternative capacity vehicles to re-load or inject fresh capital for the 2018 underwriting year, limited a stronger recovery.

Despite this we estimate that improvements for loss free classes were in the region of 0 to +5% with increases of +10% to +25% on loss impacted business. There is certainly no further talk of weakening rates but continued improvements will be hard fought.

We continue to see strong interest from clients in finding solutions for emerging risks, including cyber and socio-political classes. Our specialist teams continue to offer dedicated technical input and support as our knowledge evolves. Whilst there are new risks to consider in these classes, there are also opportunities to develop new products.

#### A.4 Strategy and portfolio

TRZ's strategy is to achieve long-term book value growth commensurate with the TransRe objective of being a global property/casualty reinsurer of choice, maximising the benefits of local presence and global service, writing all products in all territories.

TRZ also recognises that should there be a market turning event, the strategy and business plan may rapidly change, due to sudden limitations in available capacity or third party capital.

In the current low yield investment environment TRZ's focus on underwriting profitability is paramount to support the aim of book value growth.

Premium income distribution (based on gross written premium for the financial year 2017) by line of business and distribution by domicile of cedant is shown in Figures 5 and 6.

*Figure 5: Line of business (value)*

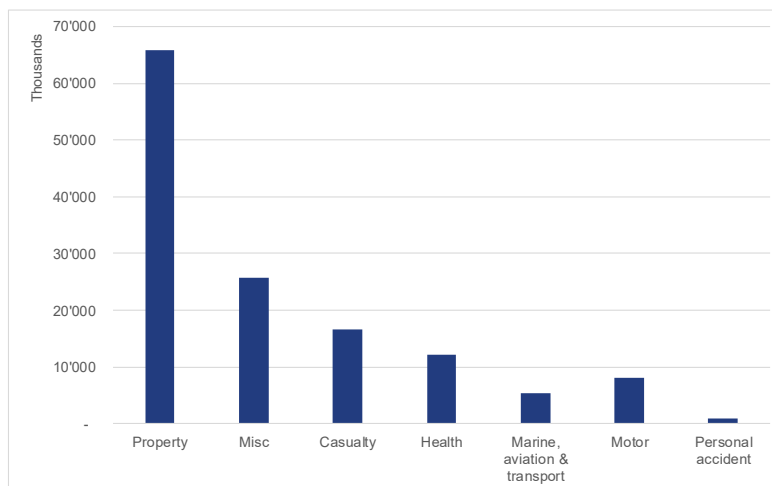
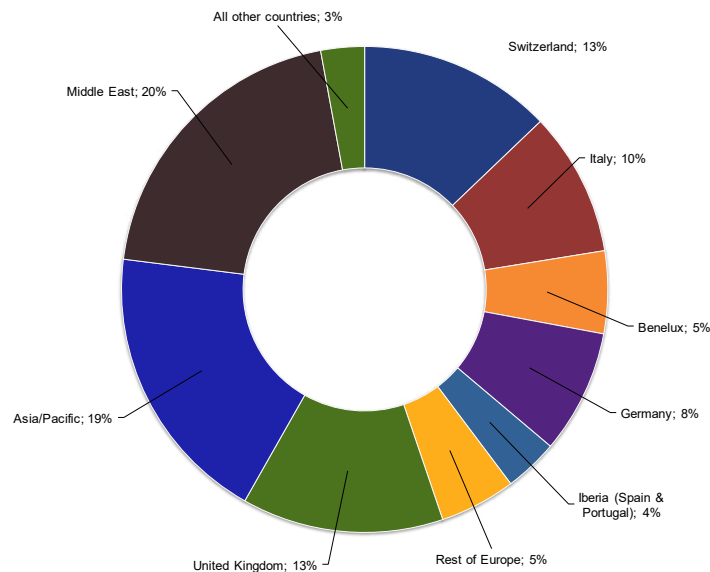




Figure 6: Geographical domicile of cedants



During the period under review no significant new classes of business were established. Premium volumes in some lines varied from budget, depending on the expected profitability and contribution to TRZ's business development.

#### A.5 Material transactions with affiliated companies

TRZ assumes two major excess of loss solvency covers from TRC branches in Sydney and Tokyo. On the other hand, TRZ has an excess of loss whole account retrocession agreement with TRC (as reinsurer) (the "TRC Whole Account XL") which covers losses on the non-life reinsurance book of business (per risk or event) in the amount of USD 80 million after the retention of USD 20 million.

Effective 1<sup>st</sup> October 2017, TRZ entered into an intragroup whole account quota share agreement with the German branch office of TRC.

In addition to the services received from TRESL and as a subsidiary of a large international group, TRZ receives certain intra-group services from its parent and other affiliated companies.



## B. Performance

### B.1 Underwriting performance

TRZ's gross written premium was CHF 134.9 million and 135.1 million for the financial years 2017 and 2016. Soft market conditions remained challenging due to excess capacity in the reinsurance market. Continuing benign catastrophic experience and increasing retentions by primary insurers combine to maintain pressure on reinsurance pricing.

TRZ focuses on non-proportional treaties which provide a better possibility of margin. At year-end 2017, the share of non-proportional treaties amounted to 44% of the total written book of business.

#### Underwriting performance by line of business

The table below summarises performance by lines of business. Figures are presented on both a gross basis and on a net basis after all outwards reinsurance.

Figure 7: Underwriting performance by line of business (Gross)

Gross CHF'000	Premiums written	Premiums earned	Other technical income	Claims incurred	Expenses	UW Results
Personal accident 2017	954	976	2	527	-132	1'372
Personal accident 2016	1'008	980	1	-51	-236	694
Health 2017	12'213	12'039	19	-9'763	-2'598	-303
Health 2016	18'658	19'710	55	-15'619	-4'687	-541
Motor 2017	8'125	6'889	50	-5'755	-2'190	-1'006
Motor 2016	7'221	8'139	78	-6'170	-3'068	-1'021
Marine, aviation, transport 2017	5'436	5'651	3	-1'331	-2'045	2'278
Marine, aviation, transport 2016	11'008	11'443	6	-11'868	-3'111	-3'530
Property 2017	65'836	69'027	47	-25'133	-10'589	33'352
Property 2016	58'177	60'806	156	-23'327	-11'081	26'554
Casualty 2017	16'533	18'776	76	-18'148	-8'632	-7'928
Casualty 2016	15'893	15'711	25	-17'856	-7'656	-9'776
Miscellaneous 2017	25'793	25'121	368	-22'591	-4'581	-1'683
Miscellaneous 2016	23'176	23'129	310	-20'782	-4'062	-1'405
<b>Total 2017</b>	<b>134'889</b>	<b>138'480</b>	<b>565</b>	<b>-82'194</b>	<b>-30'767</b>	<b>26'084</b>
<b>Total 2016</b>	<b>135'140</b>	<b>139'919</b>	<b>631</b>	<b>-95'674</b>	<b>-33'902</b>	<b>10'974</b>



Figure 8: Underwriting performance by line of business (Net)

Net CHF '000	Premiums written	Premiums earned	Other technical income	Claims incurred	Expenses	UW Results
Personal accident 2017	898	919	2	529	-132	1'319
Personal accident 2016	958	931	1	-41	-236	656
Health 2017	12'213	12'039	19	-9'763	-2'598	-303
Health 2016	18'658	19'710	55	-15'619	-4'687	-541
Motor 2017	8'125	6'889	50	-5'782	-2'190	-1'033
Motor 2016	7'221	8'139	78	-6'220	-3'068	-1'071
Marine, aviation, transport 2017	5'436	5'651	3	-1'338	-2'045	2'271
Marine, aviation, transport 2016	11'008	11'443	6	-11'883	-3'111	-3'546
Property 2017	31'803	35'182	47	-23'173	-7'592	4'464
Property 2016	27'113	29'665	24	-9'240	-8'531	11'918
Casualty 2017	16'533	18'776	76	-18'148	-8'632	-7'928
Casualty 2016	15'893	15'711	25	-17'856	-7'656	-9'776
Miscellaneous 2017	25'759	25'092	368	-22'551	-4'578	-1'669
Miscellaneous 2016	23'180	23'136	310	-20'697	-4'044	-1'295
<b>Total 2017</b>	<b>100'766</b>	<b>104'549</b>	<b>565</b>	<b>-80'226</b>	<b>-27'767</b>	<b>-2'879</b>
<b>Total 2016</b>	<b>104'030</b>	<b>108'736</b>	<b>499</b>	<b>-81'557</b>	<b>-31'333</b>	<b>-3'655</b>

### Personal accident

This portfolio consists mainly of non-proportional treaties with ceding companies domiciled in Europe. The class benefited from reserve releases.

### Health

The health portfolio comprises of various medical expense treaties in the Middle East and other health treaties in other European countries.

### Motor

The motor class comprises of various proportional treaties with ceding companies in the Middle East and Israel.

### Marine, aviation, transport

The marine, aviation and transport class comprises of treaties in Europe and the Middle East. The 2017 UW result benefited from reserve releases on major proportional treaties.

### Property

The property class consists mainly of non-proportional business. The majority of the business is domiciled in Europe and the MENA region. In 2017, various major loss events originated from agriculture and fire business occurred that had a significant impact on the property UW result.

### Casualty

The casualty portfolio consists mainly of proportional treaties for general and professional liabilities with ceding companies based in Europe. 2017 was impacted by adverse loss developments on prior underwriting years.



## Miscellaneous

The miscellaneous line of business consists of life and guaranty treaties thereof various large life treaties are in run-off.

## B.2 Investment performance

### Net investment income

Net investment income recognised in the statement of profit or loss includes interest income from fixed income securities, dividend income, realised gains and losses and movements in unrealised gains and losses on financial assets held at amortised costs, net of investment expenses and impairment losses on financial assets.

Interest income is recognised as accrued based on the effective interest method. Acquisition costs related to the purchase of bonds are capitalised and expensed over the duration of the investment.

### Financial investments

Return on investments for 2017 was 4.1% (2016: 2.2%). Further are as follows:

Figure 9: Investment Result

Asset Category (CHF '000)	Income	Net realised gain or loss	Net unrealised gain or loss	Net investment income	Total investment value
Fixed income securities 2017	9'628	-9'247	17'721	18'102	440'025
Fixed income securities 2016	11'560	-4'978	4'309	10'891	430'725
Investment fund 2017	592	-3'613	3'941	920	16'666
Investment fund 2016	695		8	703	29'143
<b>Total 2017</b>	<b>10'220</b>	<b>-12'860</b>	<b>21'663</b>	<b>19'023</b>	<b>456'691</b>
<b>Total 2016</b>	<b>12'255</b>	<b>-4'978</b>	<b>4'317</b>	<b>11'594</b>	<b>459'868</b>

TRZ's investment portfolio is made up of fixed income securities and a bond investment fund, which earned net investment income of CHF 10.2 million during the year.

Interest income is lower than in the prior financial year due to lower invested assets and matured securities which were reinvested at lower interest rates due to current market conditions.

## B.3 Performance of other activities

TRZ does not receive any income other than from its underwriting and investment activities. The Company has no financial or operating lease arrangements.

TRZ's reporting and presentational currency is CHF. The operating results and financial position of each non-CHF ledger are translated into CHF. All resulting exchange differences are recognised in the statement of profit and loss.

## B.4 Any other information

TRZ does not consider there is any other material information to disclose on its business and performance.



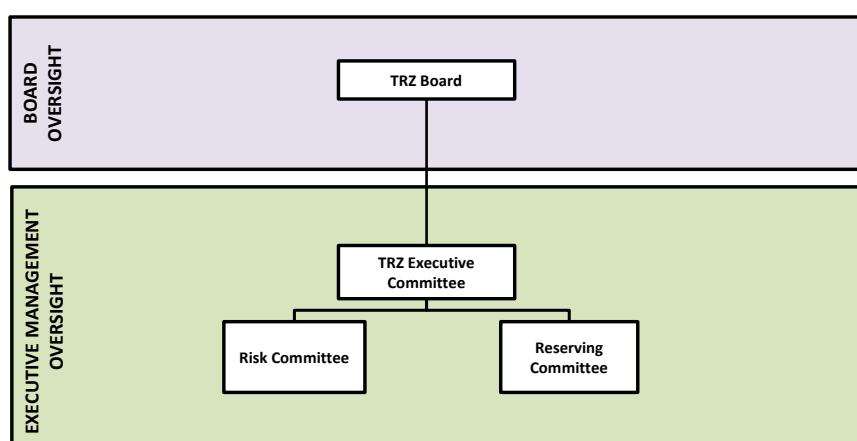
## C. Corporate governance and risk management

### C.1 General information on the system of governance

TRZ's governance structure reflects its membership of a large international group of companies, while ensuring that it maintains robust local governance arrangements.

The structure of the Company's key governance bodies is shown in Figure 10.

*Figure 10: Governance oversight and reporting lines*



TRZ's Board maintains ultimate responsibility for overseeing the running of the Company. Its responsibilities include:

- setting, promoting and demonstrating TRZ's culture, vision and values;
- setting TRZ's business strategy and monitoring performance against its business plan;
- approving TRZ's risk appetite and tolerances ensuring they are in line with TransRe global appetites;
- maintaining oversight of TRZ's compliance with relevant laws and regulation; and
- maintaining oversight as regards the effectiveness of TRZ's corporate governance framework and internal control framework.

The members of TRZ's Board are identified in Figure 11.

*Figure 11: Board members and committee memberships*

Board Member	Role
Alain D. Manfré	Independent non-executive chairman
Paul Bonny	Non-executive director
Matthew Mahoney	Non-executive director
Dr. Matthias Oertle	Independent non-executive director
Mike Sapnar	Non-executive director

The Board maintains terms of reference that are reviewed on a regular basis. There are no sub-committees through which the TRZ Board operates.



### Executive Committee

TRZ's Executive Committee is led by the CEO and reports to the Board. It is responsible for:

- day-to-day management and oversight of the business;
- development and execution of TRZ's business strategy;
- agreeing and recommending to the Board the annual budget and business plan;
- monitoring underwriting and investment performance; and
- ensuring the effectiveness of the three lines of defence model and ultimately, TRZ's internal control framework.

The Executive Committee reports to the Board through the CEO as a standing agenda item.

The Executive Committee maintains two sub-committees that report into it as shown in Figure 10. Terms of reference are maintained for all mentioned committees and are reviewed at least annually.

### **Relevant functions**

Each of the relevant functions within TRZ is operationally independent of each other, with its own function holder, although the CEO is also responsible for the Underwriting Department and the Head Legal & Compliance holds various functions as outline below. These functions have their own teams and reporting lines. The resource needs are reviewed on at least an annual basis and the function holder is responsible for ensuring its function is adequately resourced.

All control functions report to the Board and/or the Executive Committee. Further information on the authority, resources and operational independence of the control functions is included in Sections C2 (Risk Management function), C4 (Compliance function) and C5 (Internal Audit function).

*Figure 12: Relevant functions*

<b>Relevant functions</b>	<b>Holder</b>
Control functions	
Risk Management System	Risk Manager
Compliance	Head Legal & Compliance
Internal Audit	Director of Internal Audit
The function of effectively running the firm:	
Executive Management	CEO
Underwriting	CEO
Finance	CFO
Actuarial	Responsible Actuary
Claims	Head of Claims
Any other function which is of specific importance to the sound and prudent management of the firm:	
HR and Legal	Head Legal & Compliance

There were no material changes in the Company's governance structure in the 12 months ending 31 December 2017.



## C.2 Risk Management System including the ORSA

TRZ's Enterprise Risk Management ("ERM") framework has been developed to enable the board and senior management to understand and appropriately manage and mitigate the risks associated with TRZ's objectives over the short, medium and longer term in a manner that is commensurate with TRZ's risk profile and business arrangements.

The ERM framework seeks to engender a culture of no significant surprises and to ensure adequate tools are available to manage the most important risks for TRZ, improve decision-making and to support the achievement of its business objectives. In summary, the purpose of TRZ's ERM framework is to:

- actively sponsor and foster a risk awareness culture across the Company, supporting staff in making risk management based judgements, encouraging effective management of exposures within its stated risk appetite;
- ensure a clear, coherent risk strategy that includes policies, standards, risk appetites and clarity of ownership for risks;
- ensure risk is taken into account in key business decisions;
- ensure that the 'three lines of defence' model operates effectively;
- implement risk strategies and policies that align with TRZ's strategic and operational objectives;
- ensure risks and emerging risks are identified and understood and assessed on a forward-looking basis to allow management to take proactive steps; and
- sustain a robust ORSA process that reflects management's view of risk and capital assessment.

TRZ's ERM framework is supported by a comprehensive set of policies and guidelines to help ensure adequate processes and procedures are in place to manage all types of risk, which are supported by a comprehensive suite of management information.

By adopting this approach, TRZ believes it is able to effectively identify, measure, monitor, manage and report risks at an individual contract level and at an aggregated level on an ongoing basis.

TRZ's senior management and risk owners identify key risks to the business, as part of a rolling risk identification and assessment programme. Risk causes and consequences, together with mitigating controls, are identified for each risk category. Key risks, owners and mitigating controls are recorded in a risk register; which is presented to management on a quarterly basis for review and discussion.

The risks recorded in the register form part of TRZ's ORSA process. TRZ's Board receives reports from TRZ's Risk Manager which consider key risks to TRZ, aggregations and exposures across the key ERM pillars.

TRZ's Risk Management function is integrated into TransRe and Alleghany through the governance reporting lines to TRZ's CEO and TRZ's Board and involvement in key decision making forums. In addition, the Risk Management function's roles and responsibilities include:

- developing, communicating and implementing systems, processes and procedures for the management and evaluation of risk accumulations and providing key risk indicator reports;
- working alongside other key control functions and ensuring existing control activities and reports are developed into the risk and control reporting framework;





- coordinating with the key control functions to ensure internal policies, controls and procedures for identifying and managing key risks are documented in sufficient detail to allow for effective compliance, testing and auditing;
- coordinating documentation of the key internal policies, procedures and controls for the management of risks identified in the risk register; and
- coordinating and presenting the risk report to the Risk Committee consisting of key risk exposures and capital position.

By adopting such an approach, ERM and risk management more broadly are key considerations as part of the decision making process.

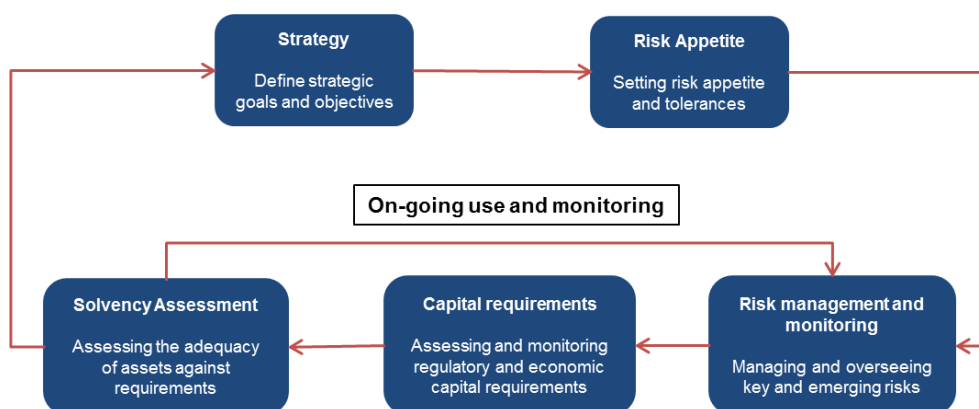
### Own Risk and Solvency Assessment

The ORSA process considers the Company's own solvency assessment given its risk profile, business objectives and capital management strategy against its regulatory solvency requirement in order to determine whether the Company holds sufficient capital over its entire planning period. The ORSA also considers the impact on TRZ should it be subject to significant losses arising from both insurance and non-insurance events; against such extreme events, the ORSA considers what actions TRZ management would undertake to mitigate the impact of such events.

TRZ produces an ORSA report on at least an annual basis. The ORSA is a key management tool and is linked to its business planning and strategy, risks the Company is exposed to and the associated capital.

The ORSA process can be diagrammatically represented as follows:

*Figure 13: TRZ's ORSA process*



The ORSA process provides TRZ with a mechanism to assess the risks it faces and to determine the necessary level of capital required to ensure the Company meets its strategic and business objectives. The ORSA is TRZ's view of its exposure to underwriting and non-underwriting risks and its solvency position and documents how the Company has reached its conclusions. The ORSA aims to assess, in a continuous and forward looking manner, the overall solvency needs, whilst being mindful of its risk profile and business environment.

TRZ's Risk Management function coordinates the relevant processes with subject matter experts across the business and prepares the ORSA report for review and discussion by the Risk Committee, the Executive Committee and ultimately TRZ's Board.



### C.3 Internal control system

Within TRZ, there is a robust internal control system that includes:

- the corporate governance framework, procedures and controls;
- a financial control framework;
- independent control functions which comprise of the Actuarial, Compliance and Risk Management functions; and
- independent assurance provided by the Internal Audit function.

The financial control framework is designed to ensure that:

- risks relevant to the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework have been identified and documented;
- TRZ is in compliance with group Sarbanes Oxley requirements; and
- there are sufficient and effective controls in place (both manual and automated) to mitigate these risks and to prevent or detect material misstatements in the financial statements and disclosures.

The local financial statements are subject to rigorous controls in the production and review leading up to publishing. The insurance liabilities are produced using best practice actuarial methods that are subject to independent internal and external review. The financial statements are subject to external audit and are presented to the Board for sign-off prior to publishing.

In addition to the above, the Internal Audit function, through planned and commissioned reviews of TRZ's processes, provides an independent opinion on the internal control framework.

### C.4 Implementation of TRZ's Compliance function

TRZ's Compliance function seeks to promote an organisational culture committed to integrity, ethical conduct and compliance with law, and to set standards, policies and procedures that provide reasonable assurance that TRZ acts in a manner consistent with its local compliance and regulatory obligations and within TransRe's overarching compliance requirements.

The Compliance function is headed up by TRZ's Head Legal & Compliance who has a direct reporting line to the CEO of TRZ and TRC's Chief Compliance Officer. For the branch office in Dubai, the Compliance function is outsourced to an external provider who has regular exchange with TRZ's Head Legal & Compliance also reports into the TRZ Executive Committee and the Risk Committee.

TRZ's Compliance function reports to the Board and Executive Committee, as well as to TransRe's group compliance department. The Compliance function is responsible for reporting any breaches, or non-compliance with policies or any other relevant rules and regulations to senior management. The Compliance function has sufficient authority to carry out its functions on its own initiative without obstruction from management and other staff members.

The Compliance function's responsibilities include:

- advising the Board on compliance with related laws and regulations;
- providing training and guidance regarding applicable law and regulation and internal policies, and clearly communicating ethical guidance;
- assessing the possible impact of any changes in the legal and regulatory environment on the operations of TRZ;



- identifying and assessing compliance risks relevant to TRZ and managing the control environment that mitigates those risks;
- undertaking compliance monitoring and making recommendations to improve the effectiveness of compliance practices; and
- identifying TRZ compliance training needs and working with TransRe's Corporate Compliance Department and Human Resources to implement effective compliance training programmes.

### **C.5 Internal Audit function**

TRZ's Internal Audit function is an independent function and provides objective challenge and assurance over TRZ.

The Internal Audit function supports TRZ in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The Internal Audit function is led by the TransRe Director of Internal Audit, based in New York, USA and is registered as the Internal Audit function within the FINMA business plan.

The day-to-day activities are performed by TransRe's Internal Audit Department. The audit plan is submitted annually to the TRZ Board for approval. Internal Audit reports are distributed to TRZ's Board and Executive Committee and to TRH's Audit Committee. A report from the Internal Audit function is a standing agenda item at the Board meetings in which outstanding internal audit actions are tracked and progress reported.

TRH's Audit Committee together with the management of the Internal Audit function ensure that the Internal Audit function maintains independency and objectivity.

In addition to reporting into TRZ's Board, the Internal Audit function is in regular contact with TRZ's Compliance Officer to evaluate the effectiveness and adequacy of the internal control system and other areas of governance, as well as to discuss progress against the annual internal audit plan.

### **C.6 Any other information**

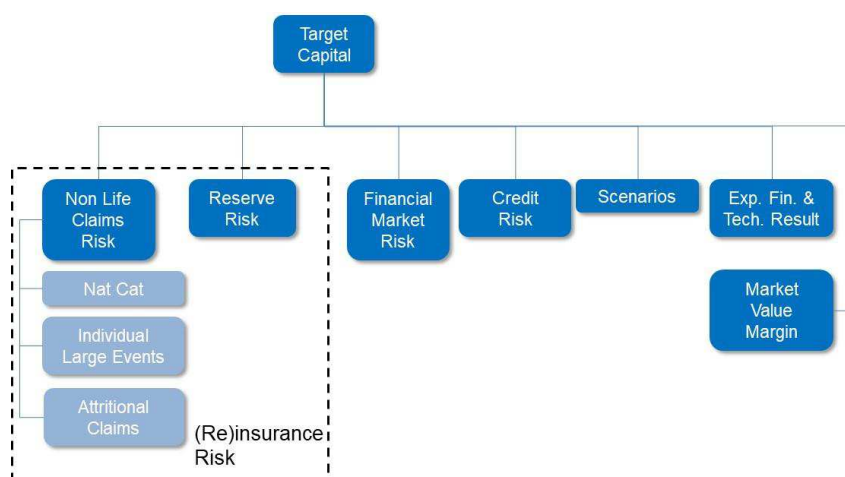
TRZ's system of governance and its risk management has not materially changed during the 12 months period to 31 December 2017. TRZ does not consider there is any other material information to disclose on its system of governance.



## D. Risk profile

Under the Swiss Solvency Test (“SST”), TRZ’s Target Capital is calculated using the StandRe model for the claims and reserve risks i.e. attritional and individual large loss events and its internal model for nat cat events. The SST adopts a risk-based and total balance sheet approach providing a market-consistent assessment of the value of TRZ’s assets and liabilities. Possible changes to these balance sheet positions over the SST year are then modelled in order to arrive at the total required capital.

Figure 14: TRZ’s SST Model



The above diagram does not include the effect of diversification benefits. Each of the key risk categories and keys risks relevant to TRZ are described in further detail below.

### D.1 Insurance risk

TRZ underwrites a diversified portfolio of property and casualty as well as life reinsurance across multiple regions and classes.

Key underwriting risks to which TRZ is exposed include:

- Premium / Underwriting risk
  - underwriting outside of appetite;
  - excess exposures in certain classes and/or territories;
  - underwriting below the technical price or without adequate risk transfer.
- Retrocession risk
  - failure of retrocession counterparties or retrocession programmes.
- Reserve risk
  - reserve risks, including inadequate reserving due to flaws in the provisioning/reserving methodology or in the application of the methodology, inadequate Incurred But Not Reported (“IBNR”) Reserves and inadequate Incurred But Not Enough Reported (“IBNER”) Reserves.
- Catastrophe Risk
  - excessive aggregation/catastrophe risks in a single region/location.
- Lapse risk
  - the uncertainty arising from the risk of loss or adverse change in the value of insurance liabilities as a result of the discontinuance of reinsurance policies.



TRZ maintains a number of risk mitigation techniques and approaches to manage the risks associated with its insurance risk profile. Further information on the monitoring and approach is provided below.

### **Premium / underwriting risk management and mitigation techniques**

The Company maintains a clear underwriting philosophy that is supported by risk appetites set at the aggregate level as well as individual class and per risk, procedures and controls in relation to pricing, rigorous risk selection criteria and the ability to underwrite a diverse range of risks across multiple classes and geographies. TRZ's main risk concentration relates to natural catastrophe exposure in Switzerland and Northern Europe. Moreover TRZ assumes significant intragroup risks via retrocessions from other TransRe offices, which are retroceded under the TRC Whole Account XL to TRC. This implies a credit risk from TRC.

TRZ assesses and mitigates these risks by having in place a number of key controls and processes, including:

- ongoing monitoring and exposure management that includes assessing individual and aggregate exposures across all lines of business;
- exposures assessed and tracked against risk tolerances; and
- regular rate monitoring reporting.

Furthermore, ongoing reviews of underwriting activities, including semi-annual underwriting performance reviews, pricing adequacy reviews and rate monitoring supplement the oversight framework.

### **Retrocession risk management**

TRZ benefits from a comprehensive retrocession programme that provides protection for TransRe globally as well as TRZ specifically. Risks associated with retrocession are managed and mitigated by ensuring that all retrocession placements are subject to approval and must comply with TransRe's group-wide retrocession procedures (which include minimum credit quality and counterparty limits approved by the Alleghany Reinsurance Security Committee) and delegated retrocession purchasing authorities.

The Company does not have any exposure to any special purpose vehicles.

### **Reserve risk management**

Reserve risk is managed by TRZ's Actuarial function with oversight provided by the Company's Reserving Committee. Key controls to manage this risk include:

- reserving risk controls that include major activity reports, high cost claim alerts, major loss memos and retrocession transaction alerts;
- quarterly reserve reviews;
- a comprehensive annual reserve study by TRH; and
- independent validation of reserves on group level.

### **Risk sensitivity for underwriting risks**

TRZ undertakes stress and scenario testing with the results presented to the TRZ Board and as part of its ORSA process.

As part of the ORSA process, the current and the projected solvency positions over the business planning period are calculated following adverse stresses.



The results of the analysis showed that the most material impacts on the SST Ratio would arise from a series of significant natural catastrophe event affecting North Western Europe or a joint terror attack on major European cities. The analysis undertaken indicates TRZ is strongly capitalised and it would take an extreme event together with a retrocession failure to breach the minimal required SST Ratio. TRZ's underwriting risk profile is therefore resilient to severe shocks and is within the Board approved risk appetite.

### Process(es) for monitoring the effectiveness of risk mitigation techniques

As a subsidiary of a globally active reinsurance company, TRZ benefits from a robust risk management framework that oversees its risk profile via various governance committees throughout the Company, TransRe and Alleghany, the ORSA process, TRZ's risk register and the stress and scenario testing TRZ performs.

## D.2 Financial market risk

Financial market risk is the risk of loss or adverse change in TRZ's financial situation resulting from changes in the value of its assets and liabilities caused by the volatility of market prices of assets, liabilities and financial instruments.

For TRZ, financial market risk comprises of the following key components:

*Figure 15: Financial market risk components*



The TRZ Board regularly reviews TRZ's investment strategy which is based on four key principles:

1. preserve capital;
2. increase surplus;
3. maintain liquidity; and
4. optimise after tax total return on investments, subject to (1)-(3) above.

TRZ's investment strategy forms the basis for the mandate given to TransRe's investment manager (BlackRock). The mandate includes limits on certain classes and types of investments, restriction on investments in certain industries, sector and geographical limits, restriction on credit quality and a prohibited list of companies which would result in excessive concentration of underwriting and investment risk. The execution of TRZ's investment strategy is subject to ongoing monitoring and scrutiny by the local CFO.

TRZ has a material risk concentration to the US Government and the USD; this is managed through ongoing review and monitoring by the local CFO and BlackRock.

TRZ is exposed to the following key financial market risks:

### Interest rate risk

Movements in interest rates affect the level and timing of cash flows for TRZ and the fair value of fixed income securities. As interest rates rise, the fair value of fixed income portfolios declines and conversely, as interest rates decline, the fair value of fixed income portfolios rises. To minimise this risk, TRZ adheres to investment policy guidelines developed by TRZ's Board in line with its strategy and TransRe's overall objectives. These guidelines direct the Company to invest



in high-quality issuers and, in particular, the strategy is to position its fixed income securities based on its view of future interest rates and the yield curve, balanced with liquidity requirements and the duration of its technical liabilities.

### Spread risk

This relates to the potential financial loss TRZ may suffer due to a change in the spread that an asset trades at relative to comparable risk free assets.

### Foreign currency risk

TRZ's asset strategy aims to maintain currencies in proportion to the currencies of its technical provisions, thereby mitigating the potential impact of foreign exchange and interest rate risk on TRZ's solvency position.

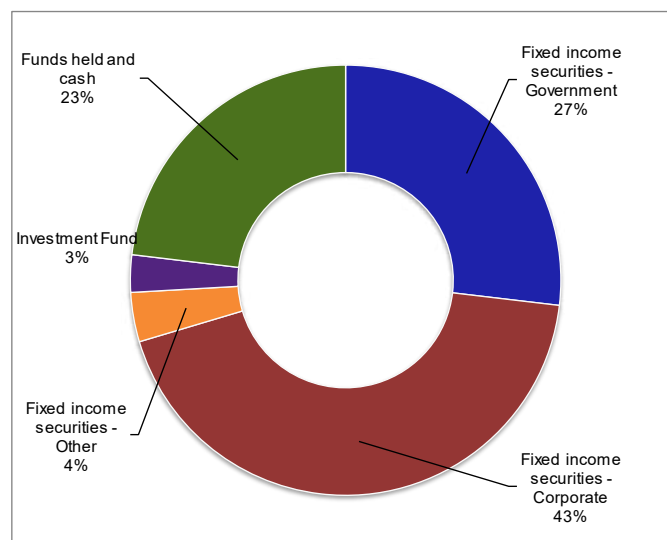
### Market risk management and mitigation techniques

TRZ maintains a number of risk mitigation techniques and approaches to manage the risks associated with market risk. Key techniques and controls that are in place include:

- mandates and guidelines provided to external investment managers, which include:
  - regulatory compliance;
  - duration;
  - benchmark portfolio;
  - credit quality;
  - sector limitations;
  - issuer limitations; and
  - currency;
- Board of Directors mandate and oversight;
- stress testing; and
- market risk analyses, including extreme market and currency stress tests as part of the SST and ORSA exercises.

TRZ's investment portfolio is split across the following asset classes:

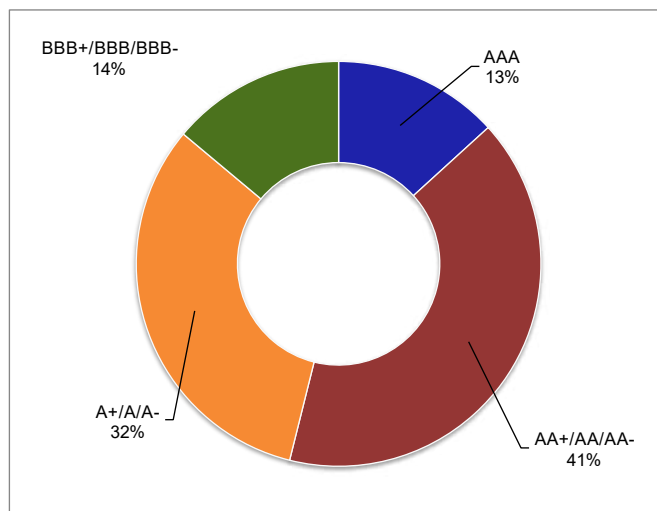
*Figure 16: Asset breakdown (% of Portfolio)*





The credit quality of TRZ's investment portfolio is split as follows:

*Figure 17: Credit quality of the investments*



### **Risk sensitivity for market risks**

TRZ performs stress and scenario testing as part of its approach to managing market risk. Results are presented at the TRZ Board and considered as part of the ORSA process.

Under all of these scenarios, the analysis indicated that TRZ was strongly capitalised and was able to withstand these shocks without breaching its minimal required SST Ratio.

### **Process(es) for monitoring the effectiveness of risk mitigation techniques**

TRZ benefits from ongoing oversight of its investment portfolio by TransRe's Treasury function which is supplemented by oversight provided by TRZ's CFO.

TRZ does not use derivative instruments nor hold assets that are not admitted to trading on regulated financial markets. Assets are managed in such a way as to limit excessive reliance on any particular asset, issuer or group of undertakings, or geographical area that would represent an excessive accumulation of risk to the portfolio as a whole.

### **D.3 Counterparty default (credit risk)**

Credit risk is assumed whenever TRZ is exposed to a loss if another party fails to perform its financial obligations to the Company, including the failure to perform them in a timely manner. This includes default by brokers, retrocessionaires, customers, investment counterparties, and suppliers. Included within this category is the management of the credit risk associated with the TRC Whole Account XL described in Section A5.

#### **Brokers / intermediaries / retrocessionaires**

Similar to other insurance and reinsurance companies, TRZ has a concentration risk with the international brokers and intermediaries, as they represent a major conduit of business to the Company. All brokers, intermediaries and retrocessionaires are subject to ongoing review.

Prior to transacting with brokers, cedants or ceded reinsurers for the first time a Know Your Counterparty ("KYC") check is carried out.



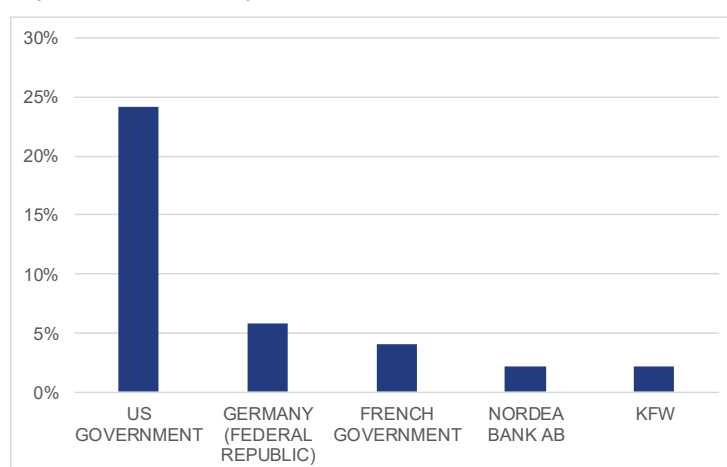


Retrocessionaires must go through a credit and security assessment which is overseen by Alleghany's Reinsurance Security Committee and TransRe's Global Risk Management function ("GRM") based in New York. Once approved, they are placed on TransRe's approved Security List. All prospective markets and proposed programme limits are reviewed against the Security List prior to placement and in some cases require specific GRM approval prior to placement. The Security List designates separate short-tail and long-tail programme limits for each retrocessionaire.

### Investment counterparties

TRZ maintains a diversified highly rated investment portfolio in its major currencies: USD, Euros, CHF, AUD and GBP with its main investment exposure being to the US Government.

*Figure 18: Top five portfolio issuer exposures*



TRZ's credit risk management strategies outline the credit rating requirements for its investments. Adherence with this helps to ensure investments are selected in a way that enables the effective management of the risk of counterparty default to an acceptable level in line with TRZ and TransRe approved risk appetite and tolerances. The credit management strategy also takes into account the exposure to credit spreads.

To aid compliance with rating requirements in TRZ's credit risk management strategy and to minimise the risk of counterparty failure arising from external parties, TRZ has established key risk indicators which are consistent with its investment strategy and investment risk appetite and tolerances. These indicators take into account, but do not rely solely on, the financial security rating and credit rating assigned by external rating agencies.

TRZ uses external credit assessments primarily to:

- review the credit quality of assets in its investment portfolios; and
- review the credit quality of its retrocessionaires.

TRZ and TransRe do not rely solely on one rating agency and give consideration to a range of views provided by rating agencies as well as their own market knowledge and intelligence provided by professional investment managers.



Key controls that aid in mitigating credit risk include:

- approved retrocessionaire lists;
- mandates and guidelines provided to external investment managers, which include:
  - regulatory compliance;
  - duration;
  - benchmark portfolio;
  - credit quality;
  - sector limitations; and
  - issuer limitations.

### **Risk sensitivity for credit risks**

Although credit risk is a material risk to TRZ, the sensitivity of the SST Ratio to credit defaults of TRZ's counterparties has also been considered. This demonstrated that TRZ is resilient to a range of events including severe counterparty rating downgrades or failure of TRC to meet its obligations under the TRC Whole Account XL.

### **Process(es) for monitoring the effectiveness of risk mitigation techniques**

TRZ is able to leverage its membership of a globally active reinsurance group to continually monitor and assess the effectiveness of its controls. TRZ's Risk Committee reviews the risks and effectiveness of controls on a regular basis as well as its risk profile. Information is provided to key forums to enable the monitoring of reinsurance recoverables and excessive counterparty exposures to be tracked and action taken to enhance existing processes where appropriate.

The Company benefits furthermore from the additional oversight provided by both the TransRe Counterparty & Credit Risk Committee and Alleghany's Reinsurance Security Committee, which approves counterparties and monitors the credit quality of the retrocessionaires on TransRe's security list.

## **D.4 Operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is diverse in nature and permeates all business activities but remains a distinct form of risk in its own right. Operational risk within TRZ has been divided into the following key risk areas:

- Regulatory and legal – the risk of legal or regulatory sanctions or loss caused by a failure to comply with applicable laws, regulations, internal policy and standards of best practice.
- Financial crime, including internal and external fraud – the risk that the firm might be used to further financial crime.
- Financial & accounting – the risks associated with financial reporting and integrity of financial information.
- People – the risk that people do not follow TRZ's procedures, practices and/or rules, thus deviating from expected behaviour in a way that could damage TRZ.
- Business continuity management – the risk associated with the failure to appropriately manage unforeseen events.
- Processing failures, including IT system failures – the risks associated with IT systems.
- Cyber risk – the risks associated with cyber-attacks



- Model risk – the risk that outputs from models used by TRZ are incorrect or flawed due to errors in the design or operation or management's failure to understand the limitations in the output of the models.
- Outsourcing – failures relating to the outsourcing of key activities.
- External events and other changes – failure to react to changes in the external business environment.

TRZ does not have any material concentrations to operational risk.

Quarterly, senior managers identify the key risks, causes and consequences together with relevant mitigating controls, within their function/span of control. The results of the assessment are recorded in the Company's risk register and reviewed by the Risk Committee.

### Key controls

Key controls that aid in mitigating this risk include:

- Risk Committee oversight;
- policies and procedures, including the group's code of conduct, business continuity plans and succession planning;
- service level agreements;
- purchase of insurances; and
- underwriting audits performed by the Claims Department.

### Process for monitoring the effectiveness of risk mitigation techniques

TransRe has established an operational risk framework that monitors and records:

- key risks facing the Company, including their mitigating controls and their effectiveness;
- the environment TRZ operates; and
- emerging risks and the mitigating steps taken to monitor or address them.

The framework is supported by policies and procedures and a strong corporate culture that encourages early notification of operational events or losses. This enables the business to learn from events or near losses and to continually enhance its framework.

## D.5 Other material risks

Liquidity risk: Liquidity risk would arise if the Company did not have sufficient financial resources available to enable it to meet its obligations as they fall due, or could secure them only at excessive cost. TRZ has limited liquidity risk. As at 31 December 2017, TRZ maintained its investments in high quality liquid assets held in currencies matching its liabilities and claim duration profile. Key controls that aid in mitigating this risk include:

- asset/liability assessment performed every quarter;
- quarterly case reserving exercise;
- Board monitoring;
- quarterly balance sheet review; and
- half-yearly profitability reviews.

Franchise/reputation risk: TRZ recognises that its long-term success depends on its relationship with clients, brokers, rating agencies, regulators and capital providers and on the strength of the TransRe brand. Consequently, TRZ and TransRe will not accept risks, both underwriting and non-underwriting, that may materially impair or impact the reputation of TRZ or TransRe.



Group risk: As a wholly owned subsidiary of a large international group, there is a risk TRZ could be adversely affected by the actions of another company within the group. Should such an event arise TRZ is able to rely on its own unencumbered capital.

Emerging risks: On an ongoing basis, TransRe undertakes horizon scanning with a view to identifying new and emerging risks. Annually, TransRe holds a Global Emerging Risk Forum in New York with senior level executives and employees from across the world attending. Where new and emerging risks are identified, these are tracked and reported on at key fora. This helps to ensure TRZ is able to react quickly should the environment in which it operates in change.

#### **D.6 Any other information**

TRZ does not consider there is any other material information to disclose on its risk profile.



## E. Valuation

Under the SST assets and liabilities are presented on an economic basis. TRZ prepares its statutory financial statements in accordance with valuation guidelines in the Swiss Insurance Supervision Ordinance and the Swiss Code of Obligation.

The statutory valuation is used where consistent with economic basis under the SST. Assets and liabilities measured at cost have been revalued to economic value. The SST also requires specific valuation approaches for some assets and liabilities, which have been followed.

Company law requires management to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent when preparing the financial statements. TRZ has followed a consistent approach in selecting its valuation approaches under the SST. These judgements and estimates are based on management's knowledge as well as current factors and circumstances that may impact business performance, together with appropriate predictions of future events and actions. Actual results may differ from those estimates, possibly significantly. To the extent that actual experience differs from the assumptions used, TRZ's financial position, results of operations and cash flows could be materially affected.

The following sections describe the valuation approaches used by TRZ for valuing its assets and liabilities.

### E.1 Assets

The material classes of assets shown on TRZ's SST balance sheet including their values and corresponding values shown in TRZ's financial statements are summarised in the table below.

*Figure 19: Assets – Statutory to SST reconciliation*

Assets (CHF '000)	SST <sup>1)</sup>	Financial Statements	Difference
<i>Investments</i>			
Fixed income securities – Government	159'311	159'595	-284
Fixed income securities – Corporate	266'957	258'391	8'566
Fixed income securities – Other	22'861	22'039	822
Investment fund	16'701	16'666	35
<i>Other assets</i>			
Funds held by ceding companies	116'821	116'676	145
Cash and cash equivalents	20'479	20'523	-43
Reinsurance recoverable <sup>2)</sup>	28'058	29'902	-1'844
Receivable from reinsurance operations	20'797	20'920	-123
Other receivable	341	341	0
Other assets	310	310	0
Accrued income and prepaid expenses	3'888	3'887	1
<b>Total assets</b>	<b>656'525</b>	<b>649'250</b>	<b>7'275</b>

1) The SST balance sheet is calculated based on foreign exchange rates provided by FINMA.

2) Refer to Figure 20: Technical Provisions – Statutory to SST reconciliation



The following sections provide further details on the specific valuation policies that TRZ has applied to produce its SST balance sheet.

## **Financial instruments**

### Recognition and de-recognition of investments

A financial asset is initially recognised on the date the Company becomes committed to purchase the asset at its fair value plus directly related acquisition costs. A financial asset is de-recognised when the Company's rights to receive cash flows from the asset have expired or where the risks and rewards of ownership have been substantially transferred by the Company.

### Valuation differences between the statutory and SST balance sheets

In accordance with article 110 of the Swiss Insurance Supervision Ordinance, fixed income securities are valued at amortised costs whereas investments funds are valued at fair value.

Under the SST, fixed income securities are re-valued at fair value which is the amount that would be received to sell an asset or settle a liability in an orderly transaction between willing, able and knowledgeable market participants at the measurement date.

## **Reinsurance recoverable**

For the differences in the valuation methodology between statutory and SST balance sheets see Section E2.

## **Reinsurance and intermediaries balances**

Reinsurance and intermediaries balances consist of 'Funds held by ceding companies', 'Receivables from reinsurance operations', 'Funds held under reinsurance treaties' and 'Reinsurance balances payable'. Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. Receivables and payables are recognised at the amount expected to be received or paid when due. Due to the short term nature of TRZ's reinsurance receivables and payables, amounts are not discounted under the SST.

## **Other receivables (trade not insurance)**

Under the SST the valuation and presentation of TRZ's other receivables and payables is consistent with the treatment for external financial reporting.

## **Cash and cash equivalents**

Cash and cash equivalents comprises of cash on hand and demand deposits with banks.

## **Foreign currency**

TRZ presents its financial statements and SST reporting in CHF, which is TRZ's functional currency. The Company applies a consistent policy for translating transactions and balances in currencies other than the relevant currency of presentation between its financial statements and SST reporting.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. For TRZ gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in non-CHF currencies, are recognised in the statement of profit or loss.



FINMA provides foreign exchange rates and yield curves for major currencies i.e. USD, EUR, GBP and JPY which are applied to re-value the SST balance sheet.

## E.2 Technical provisions

TRZ holds technical provisions to represent the current amount that is required to fulfil its expected future financial obligations arising out of its reinsurance contracts.

Under the SST, best estimate liabilities are calculated which represent the probability weighted average of future cash flows, discounted back to the relevant balance sheet date using risk free discount rates.

Reserves are set by treaty for unearned premiums, outstanding claims, IBNR claims and contingent commissions, adjusting them each quarter based on the emerging experience. For statutory reporting the reserves are on an undiscounted “best-estimate” basis. In addition, provisions for future life benefits are held in respect of long-term life treaties, to cover the discounted value of future claims less future premiums. These values form the basis of the market values of the technical liabilities.

### Technical provisions basis, methodologies and key assumptions

TRZ uses the statutory financial framework as the starting basis for determining the SST technical provisions.

The following sections outline the key methodologies and assumptions in determining the technical provisions. Where relevant, adjustments to the statutory basis to move to the SST basis are highlighted.

*Figure 20: Technical Provisions – Statutory to SST reconciliation*

Technical provisions (CHF '000)	Assumed	Ceded	Net
Statutory Technical Provisions	387'428	-29'902	357'526
Replacement of earned technical provisions to ultimate liabilities	-12'758	821	-11'937
Discounting	-2'881	941	-1'940
Removal of statutory provisions	-27'225	-	-27'225
Restatement FINMA exchange rates	-141	82	-59
<b>SST Technical provisions</b>	<b>344'423</b>	<b>-28'058</b>	<b>316'365</b>

The following sections outline the key methodologies and assumptions in determining the technical provisions.

#### Unearned premium reserve (“UPR”)

For statutory reporting UPR are based on ceding company accounts, where available, or based on underlying earning patterns in system. The statutory UPR is booked gross of commissions and brokerage. Under the SST, the UPR is removed completely as the value of the liabilities is projected to ultimate taking into account the offsetting impact of unwritten premiums.

#### Methodologies for loss reserves and IBNR

TransRe uses the same methods to estimate loss reserves across all branches within the group.



All analysis and calculations are based on the assumption that the reported case reserves from cedants are correct. Loss reserves and therefore IBNR calculation are based on the following methods:

#### Incurred Bornhuetter-Ferguson (“BF”)

IBNR reserves are projected by multiplying the IBNR factor by the a priori initial expected loss. The latter is the product of the earned premium and initial loss ratio.

#### Expected Loss Ratio approach

Ultimate loss costs are projected by multiplying the initial expected loss ratio by the earned premium. Loss reserves are calculated by subtracting the paid losses from the ultimate loss cost.

In establishing reserves for IBNR losses, three key actuarial judgements are used to project losses:

- Reported Loss development Factors (“LDFs”) – These factors are generally derived on a line of business level based on historic incurred loss developments. In case our data is not believed to be credible, external data or data from other TRC offices may be used in addition to select final factors.
- Initial Expected Loss Ratio (“IELR”) – These are determined on treaty or line of business level based on pricing loss ratios and analysis of prior UY’s ultimate loss ratios adjusted to current levels.
- Expected Loss Ratios (“ELR”) – In case where the BF method is not deemed to be appropriate, ELRs are selected. This typically applies to atypical or large treaties or treaties impacted by significant events. These treaties are assessed separately using treaty specific information.

Typically, non-proportional treaties are reserved using the BF method with LDFs and IELRs derived as described above on a line of business level. For proportional treaties, the IELR is usually derived on a per treaty level.

Estimates of reserves for IBNR claims take into account a number of assumptions with respect to factors that will affect ultimate losses. The techniques TRZ uses (described above) are employed to estimate ultimate losses, including the delay between the claim being reported to the insurer, and the insurer reporting the claim to TRZ. Expert judgement is employed to select the most appropriate method, particularly when the delays previously identified within the data fluctuate between claims.

During the loss settlement period, additional facts regarding individual claims and trends will emerge. As these facts and trends emerge, it usually becomes necessary to refine and adjust the loss reserves upward or downward; and even then the ultimate net liability calculated by TRZ may be materially different from the original estimates. There is potential for significant variation in the development of loss reserves when actual costs differ from those costs implied by the use of the assumptions employed in the process of setting reserves.

Estimates of reserves for unearned ultimate losses are based on the application of (I)ELRs to ultimate unearned premiums in line with the methodology for earned losses.

#### Unallocated loss adjustment expenses provision (“ULAE provision”)

At balance sheet cut-of date, TRZ calculates an estimated ULAE provision using standard actuarial methods. These are adjusted for a claims run-off to ultimate as well.





### Equalisation provision

The statutory financial statements further include an equalisation provision which should protect TRZ's capital in a major claim event. This provision is set as bulk reserve in the statutory balance sheet and is reduced to zero in the market value balance sheet under the SST.

### Provision for Future Life Policies

These are set, where necessary, for long term life business. They are the discounted value of expected future claims less expected future premiums, based on information sent by ceding companies.

### Contingent Commission Reserves

This is the difference between commission paid to date and the expected final sliding scale or profit commission, based on the estimated ultimate claims.

## E.3 Market Value Margin ("MVM")

The MVM, which is also known as the risk margin, represents the market value of the risk associated with acquiring a company or portfolio of liabilities and assets. It is the difference between the best estimate of the value of the net liabilities and the market value a rational investor would demand for them.

TRZ calculates the MVM as an approximated cost of capital which the regulator would require an investor to hold if he acquired and run-off TRZ's business. The Company follows the FINMA guidance to calculate the cost of capital at 6% of the statutory capital requirement i.e. CHF 15.4 million for the current SST.

## E.4 Other liabilities

The material classes of other liabilities shown on TRZ's SST balance sheet, their values and corresponding values shown in the Company's financial statements are summarised in the table below.

*Figure 21: Other liabilities – Statutory to SST reconciliation*

Other liabilities (CHF '000)	SST <sup>1)</sup>	Financial Statements	Difference
Funds held under reinsurance treaties	24	24	0
Reinsurance balances payable	8'089	8'162	-73
Other liabilities and accrued expenses	3'846	3'822	23
<b>Total other liabilities</b>	<b>11'958</b>	<b>12'008</b>	<b>-50</b>

1) The SST balance sheet is calculated based on foreign exchange rates provided by FINMA.

### Provisions

At 31 December 2017, TRZ held no provisions in its 2017 financial statements.

### Contingent liabilities

TRZ does not consider any contingent liabilities to exist as at 31 December 2017.

### Employee benefits

TRZ does not consider any employee benefit liabilities to exist as at 31 December 2017.

**E.5 Alternative methods for valuation**

TRZ does not use any alternative valuation methodologies.

**E.6 Any other information**

TRZ does not consider there is any other material information to disclose on its valuation for solvency purposes.



## F. Capital management

Capital management aims to:

- Meet the capital needs of the business, its business plan and strategy;
- Ensure the ongoing monitoring of capital against business requirements, as well as the assessments required by FINMA, the SST and by relevant credit rating agencies; and
- TRZ seeks to maintain capital buffer in excess of its calculated Target Capital under the SST.

Within this context, TRZ expects to:

- At all times maintain capital resources consistent with its regulatory requirements and risk appetites;
- At all times maintain adequate liquidity within its total financial resources to ensure ability to discharge its liabilities as and when they fall due;
- When entering into material new business transactions, ensure access to, and commitment of, adequate levels of financial resources to support the underwriting of new business and no material change to the residual post transaction risk profile of TRZ;
- Seek to utilise, as appropriate, intra-group financial arrangements to manage the transfer of risk and capital to ensure there is an efficient use and allocation of capital within TransRe.

TRZ has chosen a 3 year capital planning horizon. This is consistent with corporate planning and is mindful that if a market changing event were to occur, the business plan (and subsequently the ORSA) would need to be reconsidered.

Risks considered include both underwriting and non-underwriting activities. Where appropriate, these risks have been “stressed”, to enable TRZ to consider its capital position in the event of an extreme event and/or a combination of extreme events arising;

TRZ's shareholders' equity comprise ordinary paid-up share capital and net earnings from prior years allocated to legal and other reserves which are classified as Tier 1 capital.

The growth of TRZ's shareholders' equity is in line with TRZ's capital philosophy of self-financing and its moderate dividend policy. As set out in its articles of association, the Directors have the ability to cancel any dividend or other distribution at any time before actual payment if they consider that payment of the dividend or other distribution would cause TRZ to fail to meet any applicable capital or solvency requirement, including its SST.

As at 31 December 2017, the available statutory shareholders' equity of TRZ was as follows:

*Figure 22: Statutory shareholders' equity by tier at 31 December 2017*

Tier	Instruments(s)	Value (CHF '000)
Tier 1	Ordinary paid-up share capital	27'000
	Legal and other reserve	223'715
	Reconciliation reserve	-901
Tier 2		-
Tier 3		-
<b>Total statutory shareholders' equity</b>		<b>249'814</b>

During the financial year 2017, no changes to the ordinary paid-up share capital nor legal and other reserves was performed. The reconciliation reserve of CHF -901k consists of retained earnings brought forward (CHF -3'868k) and the net income for the financial year (CHF 2'967k).



Below is the reconciliation between the net assets in TRZ's 2017 Financial Statements and the excess of assets over liabilities as calculated for solvency purposes:

*Figure 23: Statutory to SST Reconciliation*

	31.12.2017 (CHF'000)	31.12.2016 (CHF'000)	Description
<b>Statutory shareholders' equity</b>	<b>249'814</b>	<b>249'546</b>	
Change in:			
Fixed income securities	10'091	12'630	Valued at amortised cost under statutory valuation principles which was changed to market value under the SST calculation
Technical provisions	41'102	25'454	Adjustment from statutory insurance reserves to SST technical provisions – refer to Figure 20
Foreign exchange	-863	-274	Adjustment to FINMA foreign exchange rates for SST purposes
Expected dividend payment	-	-2'700	Proposed dividend to the general meeting which is subject to approval
<b>SST Risk Bearing Capital</b>	<b>300'144</b>	<b>284'655</b>	

The principal differences between the statutory shareholders' equity and the SST Risk bearing capital are due to differences in investment valuation and the calculation of technical provisions.

Please see Section E1 for further information on the valuation of assets under SST, Section E2 for the reconciliation between the statutory and the SST technical provisions and Section E4 for other liabilities.

TRZ does not voluntarily disclose any other solvency ratios other than those reported on the shareholders' equity reporting template.



## G. Solvency

For the SST 2018, TRZ calculates its solvency position for the first time based on the StandRe model developed and issued by FINMA. For the nat cat module, TRZ uses an internal model based on an external vendor software which is used globally and consistent with all TransRe operations worldwide. This model has been implemented several years ago and was continuously developed since implementation. For the life risk, TRZ calculates two specific life scenarios which reflect its risk profile in this line of business.

Figure 24: SST Target Capital at 31 December 2017

Items	SST 2018 (CHF '000)	SST 2017 (CHF '000)
Insurance risk	92'710	61'812
<i>Claims risk – non-life</i>	63'422	41'447
<i>Reserve risk – non-life</i>	68'558	44'996
<i>Life risk</i>	-	7'481
<i>Insurance risk – diversification effects</i>	-39'270	-32'112
Financial market risk	63'219	60'799
<i>Interest rate risk</i>	22'646	28'537
<i>Spread risk</i>	26'385	25'915
<i>Currency risk</i>	59'856	55'228
<i>Financial market risk – diversification effects</i>	-45'668	-48'881
Effect of Scenarios on Target Capital	89'917	94'722
Less Diversification	-107'674	-97'932
Expected financial result	-3'201	-4'109
Expected technical result	3'655	5'148
Credit risk	19'791	14'143
Market value margin	15'637	10'776
<b>SST Target Capital</b>	<b>174'054</b>	<b>145'358</b>

### Calculation of the Capital Adequacy Ratio

Under the consideration of the Risk Bearing Capital outlined in Figure 23, the SST capital adequacy ratio amounts to 179.6% of 31 December 2017 (31 December 2016: 203.5%). This would mean that TRZ fulfils the minimal capital requirements.

#### G.1 Non-compliance with SST requirements

There have been no instances of non-compliance with the SST requirements by TRZ.

#### G.2 Any other information

The values as outlined above were submitted to FINMA as part of the SST 2017 assessment. The SST is subject to an assessment carried out by FINMA.

TRZ does not consider there is any other material information to disclose regarding capital management.



## Appendix 1: Abbreviations used in this report

A.M. Best	A.M. Best Company, Inc. and/or its affiliates
Alleghany	Alleghany Corporation
AUD	Australian Dollar
BF	Bornhuetter-Ferguson
BlackRock	BlackRock, Inc and BlackRock Investment Management (UK) Limited
CAR or SST Ratio	Capital Adequacy Ratio
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHF	Swiss Franc
CUO	Chief Underwriting Officer
DFSA	Dubai Financial Services Authority
DIFC	Dubai International Financial Centre
ELR	Expected Loss Ratio
ERM	Enterprise Risk Management
FCR	Financial Condition Report
FINMA	Swiss Financial Market Supervisory Authority
GBP	Great Britain Pound
GRM	Global Risk Management
HR	Human Resources
IBNER	Incurred but not Enough Reported
IBNR	Incurred but not Reported
IELR	Initial Expected Loss Ratio
IT	Information Technology
KYC	Know Your Counterparty
LDF	Loss Development Factor
MVM	Market Value Margin
NYSE	New York Stock Exchange
ORSA	Own Risk and Solvency Assessment
S&P	Standard & Poor's Financial Services LLC and/or its affiliates
SST	Swiss Solvency Test
TransRe	Collective term for TRH, its subsidiaries, branches and representatives
TRC	Transatlantic Reinsurance Company
TRC Whole Account XL	Whole account retrocession agreement between TRC and TRZ
TRESL	TransRe Europe Services Ltd
TRH	Transatlantic Holdings, Inc.
TRZ	TransRe Zurich Ltd
UK	United Kingdom
ULAE	Unallocated Loss Adjustment Expenses



UPR	Unearned Premium Reserve
US or USA	United States of America
USD	United States of America Dollar



## Appendix 2: Quantitative Templates

Templates
Performance Solo Reinsurance
Market-consistent Balance Sheet Solo
Solvency Solo





Financial condition report: quantitative template "Performance Solo  
Reinsurance"

Currency: CHF  
Amounts stated in millions

	Total		Personal accident		Health		Motor		Marine, aviation, transport		Property		Casualty		Miscellaneous	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
1 Gross premiums	135.140	134.889	1.008	0.954	18.658	12.213	7.221	8.125	11.008	5.436	58.177	65.836	15.893	16.533	23.176	25.793
2 Reinsurers' share of gross premiums	-31.110	-34.123	-0.050	-0.056	-	-	-	-	-	-	-31.064	-34.033	-	-	0.004	-0.034
3 Premiums for own account (1 + 2)	104.030	100.766	0.958	0.898	18.658	12.213	7.221	8.125	11.008	5.436	27.113	31.803	15.893	16.533	23.180	25.759
4 Change in unearned premium reserves	4.779	3.591	-0.027	0.022	1.053	-0.174	0.919	-1.236	0.435	0.215	2.629	3.192	-0.182	2.243	-0.047	-0.671
5 Reinsurers' share of change in unearned premium reserves	-0.073	0.192	0.000	-0.000	-	-	-	-	-	-	-0.077	0.188	-	-	0.003	0.005
6 Premiums earned for own account (3 + 4 + 5)	108.736	104.549	0.931	0.919	19.710	12.039	8.139	6.889	11.443	5.651	29.665	35.182	15.711	18.776	23.136	25.092
7 Other income from insurance business	0.499	0.565	0.001	0.002	0.055	0.019	0.078	0.050	0.006	0.003	0.024	0.047	0.025	0.076	0.310	0.368
8 Total income from underwriting business (6 + 7)	109.235	105.114	0.932	0.922	19.765	12.058	8.217	6.939	11.449	5.654	29.689	35.229	15.736	18.852	23.446	25.460
9 Payments for insurance claims (gross)	-138.709	-107.359	-0.181	-0.610	-21.520	-9.094	-6.285	-7.583	-18.257	-15.872	-55.804	-30.059	-13.684	-19.585	-22.978	-24.555
10 Reinsurers' share of payments for insurance claims	32.587	12.553	-	-	-	-	-	-	-	-	32.472	12.309	-	-	0.115	0.244
11 Change in technical provisions	43.034	25.165	0.129	1.137	5.901	-0.669	0.115	1.828	6.388	14.542	32.477	4.926	-4.171	1.437	2.195	1.964
12 Reinsurers' share of change in technical provisions	-18.469	-10.585	0.010	0.003	-	-	-0.050	-0.027	-0.015	-0.008	-18.385	-10.349	-	-	-0.029	-0.204
13 Change in technical provisions for unit-linked life insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14 Expenses for insurance claims for own account (9 + 10 + 11 + 12 + 13)	-81.557	-80.226	-0.041	0.529	-15.619	-9.763	-6.220	-5.782	-11.883	-1.338	-9.240	-23.173	-17.856	-18.148	-20.697	-22.551
15 Acquisition and administration expenses	-19.724	-19.955	-0.114	-0.037	-2.118	-1.353	-2.007	-1.478	-1.619	-1.460	-7.214	-6.951	-5.608	-6.690	-1.045	-1.986
16 Reinsurers' share of acquisition and administration expenses	2.568	3.000	0.000	0.000	-	-	-	-	-	-	2.550	2.997	-	-	0.018	0.003
17 Acquisition and administration expenses for own account (15 + 16)	-17.156	-16.955	-0.114	-0.037	-2.118	-1.353	-2.007	-1.478	-1.619	-1.460	-4.663	-3.954	-5.608	-6.690	-1.027	-1.983
18 Other underwriting expenses for own account	-14.177	-10.812	-0.121	-0.095	-2.570	-1.245	-1.061	-0.712	-1.492	2.935	-3.868	-7.155	-2.049	-1.942	-3.017	-2.599
19 Total expenses from underwriting business (14 + 17 + 18) (non-life insurance only)	-112.890	-107.993	-0.277	0.397	-20.306	-12.361	-9.288	-7.972	-14.995	0.137	-17.772	-34.282	-25.512	-26.780	-24.741	-27.132
20 Investment income	35.082	54.654														
21 Investment expenses	-23.877	-35.998														
22 Net investment income (20 + 21)	11.205	18.656														
23 Capital and interest income from unit-linked life insurance	-	-														
24 Other financial income	14.694	14.394														
25 Other financial expenses	-14.444	-24.867														
26 Operating result (8 + 14 + 17 + 18 + 22 + 23 + 24 + 25)	7.800	5.304														
27 Interest expenses for interest-bearing liabilities	-	-														
28 Other income	-	-														
29 Other expenses	-	-														
30 Extraordinary income/expenses	-	-														
31 Profit / loss before taxes (26 + 27 + 28 + 29 + 30)	7.800	5.304														
32 Direct taxes	-0.400	-2.337														
33 Profit / loss (31 + 32)	7.400	2.967														



Financial condition report: quantitative template "Market-consistent Balance Sheet Solo"

		31.12.2016 in CHF millions	Adjustments previous period in CHF millions	31.12.2017 in CHF millions
Market-consistent value of investments	Real estate	-	-	-
	Shareholdings	-	-	-
	Fixed-income securities	443.354	-	449.129
	Loans	-	-	-
	Mortgages	-	-	-
	Equities	-	-	-
	Other investments	-	-	-
	Collective investment schemes	28.974	-	16.701
	Alternative investments	-	-	-
	Other investments	-	-	-
	<b>Total investments</b>	<b>472.328</b>	<b>-</b>	<b>465.830</b>
Market-consistent value of other assets	Financial investments from unit-linked life insurance	-	-	-
	Receivables from derivative financial instruments	-	-	-
	Cash and cash equivalents	44.462	-	20.479
	Receivables from insurance business	34.763	-	137.618
	Other receivables	4.747	-	4.229
	Other assets	0.310	-	0.310
	<b>Total other assets</b>	<b>84.282</b>	<b>-</b>	<b>162.637</b>
<b>Total market-consistent value of assets</b>	<b>Total market-consistent value of assets</b>	<b>556.610</b>		<b>628.467</b>
Best estimate liabilities (BEL)	Best estimate of provisions for insurance liabilities			
	Direct insurance: life insurance business (excluding ALV)	-	-	-
	Direct insurance: non-life insurance business	-	-	-
	Direct insurance: health insurance business	-	-	-
	Direct insurance: unit-linked life insurance business	-	-	-
	Direct insurance: other business	-	-	-
	Outward reinsurance: life insurance business (excluding ALV)	14.845	-	16.455
	Outward reinsurance: non-life insurance business	274.636	-	327.968
	Outward reinsurance: health insurance business	-	-	-
	Outward reinsurance: unit-linked life insurance business	-	-	-
	Outward reinsurance: other business	-	-	-
	Reinsurers' share of best estimate of provisions for insurance liabilities			
	Direct insurance: life insurance business (excluding ALV)	-	-	-
	Direct insurance: non-life insurance business	-	-	-
	Direct insurance: health insurance business	-	-	-
	Direct insurance: unit-linked life insurance business	-	-	-
	Direct insurance: other business	-	-	-
	Outward reinsurance: life insurance business (excluding ALV)	-	-	-
	Outward reinsurance: non-life insurance business	-39.588	-	-28.058
	Outward reinsurance: health insurance business	-	-	-
	Outward reinsurance: unit-linked life insurance business	-	-	-
	Outward reinsurance: other business	-	-	-
Market-consistent value of other liabilities	Non-technical provisions	-	-	-
	Interest-bearing liabilities	-	-	-
	Liabilities from derivative financial instruments	-	-	-
	Deposits retained on ceded reinsurance	0.027	-	0.024
	Liabilities from insurance business	16.678	-	8.089
	Other liabilities	2.657	-	3.845
<b>Total BEL plus market-consistent value of other liabilities</b>	<b>Total BEL plus market-consistent value of other liabilities</b>	<b>269.255</b>		<b>328.323</b>
	<b>Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities</b>	<b>287.355</b>		<b>300.144</b>



## Financial condition report: quantitative template "Solvency Solo"

		31.12.2016	Adjustments previous period	31.12.2017
		in CHF millions	in CHF millions	in CHF millions
Derivation of RBC	Market-consistent value of assets minus total from best estimate liabilities plus market-consistent value of other liabilities	287.355		300.144
	Deductions	-2.700		-
	<b>Core capital</b>	<b>284.655</b>		<b>300.144</b>
	Supplementary capital	-		-
	<b>RBC</b>	<b>284.655</b>	-	<b>300.144</b>

		31.12.2016	Adjustments previous period	31.12.2017
		in CHF millions	in CHF millions	in CHF millions
Derivation of target capital	Underwriting risk	61.812		92.710
	Market risk	60.799		63.219
	Diversification effects	-97.933		-107.674
	Credit risk	14.143		19.791
	Risk margin and other effects on target capital	106.537		106.008
	<b>Target capital</b>	<b>145.358</b>		<b>174.054</b>

		31.12.2016	Adjustments previous period	31.12.2017
		in %	in %	in %
<b>SST ratio</b>	Risk-bearing capital / target capital	203.5%		179.6%



### **Appendix 3: Auditor's report**

The FCR was not subject to audit.

The annual financial statement comprising of the income statement, balance sheet and notes, for the year ended 31 December 2017, were audited. The report of the statutory auditor including the financial statements is attached.

## **Report of the statutory auditor**

with financial statements as of 31 December 2017 of

**TransRe Zurich Ltd, Zurich**

To the General Meeting of  
**TransRe Zurich Ltd, Zurich**

Zurich, 16 April 2018

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

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

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

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

### **Auditor's responsibility**

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

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

### **Opinion**

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

## Report on other legal requirements

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

Ernst & Young Ltd



Rolf Bächler  
Licensed audit expert  
(Auditor in charge)



Sergio Sardo  
US certified Public Accountant (CPA)

## Enclosures

- ▶ Financial statements (balance sheet, income statement and notes)
- ▶ Proposal for allocation of profit / loss

# TransRe Zurich Ltd, Zurich

## Income statement

For the years ended 31 December

In CHF '000	Notes	2017	2016
<b>Reinsurance account</b>			
Gross written premiums		134'889	135'140
Ceded written premiums		-34'123	-31'110
Net written premiums		100'766	104'030
Change in the provision for unearned premiums, gross		3'591	4'779
Change in the provision for unearned premiums, ceded		192	-73
Net earned premium		104'549	108'736
Other technical result		565	499
<b>Total reinsurance revenues</b>		<b>105'114</b>	<b>109'235</b>
Claims paid, gross		-107'359	-138'709
Claims paid, ceded		12'553	32'587
Change in the provision for claims outstanding, gross		24'847	42'137
Change in the provision for claims outstanding, ceded		-10'585	-18'469
Change in the provision for future policy benefits, gross		318	897
<b>Claims incurred, net</b>		<b>-80'226</b>	<b>-81'557</b>
Acquisition costs, gross		-19'955	-19'724
Acquisition costs, ceded		3'000	2'568
Operating expenses		-10'812	-14'177
<b>Total reinsurance expenses</b>		<b>-27'767</b>	<b>-31'333</b>
<b>Reinsurance result</b>		<b>-2'879</b>	<b>-3'655</b>
Investment income	1	54'654	35'082
Investment charges	1	-35'998	-23'877
<b>Investment result</b>		<b>18'656</b>	<b>11'205</b>
Other financial income		14'394	14'694
Other financial expenses		-24'867	-14'444
<b>Operating result</b>		<b>5'304</b>	<b>7'800</b>
<b>Income before taxes</b>		<b>5'304</b>	<b>7'800</b>
Taxes		-2'337	-400
<b>Net income for the financial year</b>		<b>2'967</b>	<b>7'400</b>

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



# TransRe Zurich Ltd, Zurich

## Balance sheet

As of 31 December

### Assets

In CHF '000	Notes	2017	2016
<b>Investments</b>			
Fixed income securities		440'025	430'725
Investment funds		16'666	29'143
<b>Total investments</b>		<b>456'691</b>	459'868
Funds held by ceding companies		116'676	20'889
Cash and cash equivalents		20'523	44'591
Reinsurance recoverable	2	29'902	41'312
Receivables from reinsurance operations	3	20'920	13'870
Other receivables		341	605
Other assets		310	310
Accrued income and prepaid expenses		3'887	4'156
<b>Total assets</b>		<b>649'250</b>	585'601

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

# TransRe Zurich Ltd, Zurich

## Balance sheet

As of 31 December

### Liabilities and shareholders' equity

In CHF '000	Notes	2017	2016
<b>Liabilities</b>			
<b>Technical provisions, gross</b>	2		
Provisions for unearned premiums		20'827	15'556
Provisions for claims outstanding		358'305	292'530
Provisions for future policy benefits		11'107	10'980
Provisions for commissions outstanding		-2'811	-2'407
<b>Total technical provisions, gross</b>		<b>387'428</b>	<b>316'659</b>
Funds held under reinsurance treaties		24	27
Reinsurance balances payable	4	8'162	16'699
Other liabilities		3'718	2'567
Accrued expenses and deferred income		104	103
<b>Total liabilities</b>		<b>399'436</b>	<b>336'055</b>
<b>Shareholders' equity</b>			
	5		
Share capital		27'000	27'000
Legal reserve		14'215	14'215
Other reserves		209'500	209'500
Retained earnings brought forward		-3'868	-8'569
Net income for the financial year		2'967	7'400
<b>Total shareholders' equity</b>		<b>249'814</b>	<b>249'546</b>
<b>Total liabilities and shareholders' equity</b>		<b>649'250</b>	<b>585'601</b>

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

# TransRe Zurich Ltd, Zurich

## Notes

### Significant accounting principles

#### General remarks

TransRe Zurich Ltd is a reinsurance company domiciled in Zurich, owned by Transatlantic Reinsurance Company, New York. The TransRe group of companies and branches are wholly-owned by Transatlantic Holdings Inc., which in turn is a wholly-owned subsidiary of the Alleghany Corporation, New York, a company listed on the New York Stock Exchange.

TransRe Zurich Ltd has no employees. All reinsurance and management services are provided by TransRe Europe Services Ltd, Zurich, an affiliated company of Transatlantic Holdings, Inc.

#### Basis of presentation

The financial statements are prepared in accordance with Swiss Company Law.

#### Time period

The 2017 financial year comprises the accounting period from 1 January 2017 to 31 December 2017.

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

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

#### Foreign currency translation

Foreign currency positions in the balance sheet are translated at the exchange rate at the balance sheet date. Transactions in foreign currencies within the income statement are converted into Swiss francs at exchange rate applied for the respective quarter. Unrealised gains and losses on foreign exchange translations are recognised in the income statement. The relevant exchange rates at the balance sheet date are shown below.

CHF per foreign currency unit		31.12.2016	31.03.2017	30.06.2017	30.09.2017	31.12.2017
GBP	Great Britain Pound Sterling	1.2805	1.2391	1.2417	1.2489	1.3277
USD	United States Dollar	1.0115	1.0106	0.9638	0.9627	0.9842
AUD	Australia Dollar	0.7533	0.7645	0.7169	0.7678	0.7474
EUR	Euro	1.0784	1.0674	1.0867	1.1435	1.1678
ILS	Israel New Shekel	0.2646	0.2730	0.2717	0.2692	0.2823
SAR	Saudi Arabia Riyal	0.2697	0.2695	0.2570	0.2567	0.2624
AED	United Arab Emirates Dirham	0.2754	0.2752	0.2624	0.2621	0.2679

# TransRe Zurich Ltd, Zurich

## Notes

### Significant accounting principles

#### **Investments**

Fixed income securities are carried at amortised cost, less necessary adjustments. Investment funds are carried at market value. The valuation principles prescribed by the FINMA are observed.

#### **Receivables**

Deposits with ceding companies, receivables from reinsurance operations and other receivables are recognised at the nominal value less any necessary adjustment.

#### **Technical provisions**

The technical provisions are calculated in accordance with the requirements of the FINMA circular 2011/03.

Provisions for unearned premiums are based on information provided by clients or own calculated unearned premiums provisions which are determined per treaty based on underlying accrual development factors by line of business.

Provisions for claims outstanding are established based on account statements provided by our clients and own estimates of expected claims experience, which are drawn from empirical statistics. These include provisions for claims incurred but not reported and unallocated loss adjustment expenses.

Provisions for future policy benefits are set up according to information provided by ceding companies. Any additional provision for not reported or unfavourable developments of existing reserves are calculated by our actuaries.

Provisions for commissions outstanding consist of profit and sliding-scale commissions on a net basis, calculated based on the contractual features and claims developments.

#### **Reinsurance balances payables**

Deposits retained from reinsurance treaties, reinsurance balances payables and other creditors are held at redemption value.

# TransRe Zurich Ltd, Zurich

## Notes

Additional information on the financial statements

### 1. Investment result

In CHF '000	2017	2016
Interest income from fixed income securities	9'628	11'560
Dividend income	592	695
Realised gains on sale of investments	3'784	6'594
Unrealised gains on investment valuation	40'650	16'233
<b>Investment income</b>	<b>54'654</b>	<b>35'082</b>
Investment management expenses	-367	-389
Realised losses on sale of investments	-16'644	-11'572
Unrealised losses on investment valuation	-18'987	-11'916
<b>Investment charges</b>	<b>-35'998</b>	<b>-23'877</b>
<b>Investment result</b>	<b>18'656</b>	<b>11'205</b>

### 2. Technical provisions

In CHF '000	2017			2016		
	Gross	Ceded	Net	Gross	Ceded	Net
Provisions for unearned premiums	20'827	-130	20'697	15'556	-64	15'492
Provisions for claims outstanding	358'305	-29'264	329'041	292'530	-40'855	251'675
Provisions for future policy benefits	11'107	-	11'107	10'980	-	10'980
Provisions for commissions outstanding	-2'811	-508	-3'319	-2'407	-393	-2'800
<b>Total technical provisions</b>	<b>387'428</b>	<b>-29'902</b>	<b>357'526</b>	<b>316'659</b>	<b>-41'312</b>	<b>275'347</b>

### 3. Receivables from reinsurance operations

In CHF '000	2017	2016
Receivables from brokers	13'363	7'778
Receivables from ceding companies	7'557	6'092
<b>Total receivables from reinsurance operations</b>	<b>20'920</b>	<b>13'870</b>

### 4. Reinsurance balances payable

In CHF '000	2017	2016
Balances payable to brokers	4'232	11'453
Balances payable to ceding companies	3'930	5'246
<b>Total reinsurance balances payable</b>	<b>8'162</b>	<b>16'699</b>

# TransRe Zurich Ltd, Zurich

## Notes

Additional information on the financial statements

### 5. Change in shareholder's equity

In CHF '000	Share Capital	Legal Reserves	Other Reserves	Retained earnings brought forward	Total Shareholder's equity
Shareholder's equity as of 31 December 2015	27'000	14'215	209'500	-5'869	<b>244'846</b>
Allocation to reserves					-
Ordinary dividend for the previous year				-2'700	<b>-2'700</b>
Net income for the financial year				7'400	<b>7'400</b>
<b>Shareholder's equity as of 31 December 2016</b>	27'000	14'215	209'500	-1'169	<b>249'546</b>
Allocation to reserves					-
Ordinary dividend for the previous year				-2'700	<b>-2'700</b>
Net income for the financial year				2'967	<b>2'967</b>
<b>Shareholder's equity as of 31 December 2017</b>	27'000	14'215	209'500	-902	<b>249'814</b>

# TransRe Zurich Ltd, Zurich

## Notes

Additional information on the financial statements

In CHF '000		2017	2016
<b>Claims on, technical reserves and other obligations towards affiliated companies</b>			
Receivables from reinsurance operations		6'829	1'947
Deposits with ceding companies		90'064	-
Deposits retained from ceded reinsurance business		-	-
Reinsurance balances payables		1'424	1'947
Other receivables		-	144
Other liabilities		2'957	2'502
Technical provisions	Gross	115'866	37'600
Technical provisions	Ceded	25'756	37'614
<b>Security deposits</b>			
Deposited securities to secure the technical provisions in favour of ceding companies		9'034	12'094
<b>Pledged assets</b>			
Pledged cash at bank due to existing letters of credit		8'052	8'188
<b>Contingent liabilities</b>			
Letters of credit		6'084	6'165
<b>Auditing fees</b>			
Fee paid for audit services		183	144
Fee paid for other services		-	-
<b>Total fees paid to the auditors</b>		<b>183</b>	<b>144</b>

# TransRe Zurich Ltd, Zurich

## Proposal for allocation of net income

The general meeting to be held in Zurich on 17 May 2018 has at its disposal the following loss:

In CHF	2017	2016
Retained earnings brought forward from previous year	-3'868'674	-8'569'130
Net income for the financial year	2'966'531	7'400'456
Disposable loss	-902'143	-1'168'674

The Board of Directors proposes to the General Meeting to allocate the disposable loss as follows:

In CHF	2017	2016
Dividend (-% /10%)	-	2'700'000
Allocation to other reserves	-	-
Balance carried forward	-902'143	-3'868'674
Disposable loss	-902'143	-1'168'674