

TransRe Zurich Ltd

Financial Condition Report

As at 31 December 2018



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About this document

This document is the Financial Condition Report (“FCR”) for TransRe Zurich Ltd (“TRZ”) as at 31 December 2018.

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 2019



Management summary

TRZ is a wholly owned subsidiary of Transatlantic Reinsurance Company (“TRC”) and provides TransRe group (“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. TRZ has a C1 licence to write non-life and life reinsurance and is regulated by the Swiss Financial Market Supervisory Authority FINMA. TRZ benefits from the same financial strength ratings as TRC, being ratings of A+ by both S&P and A.M. Best.

TRZ is a specialist non-life and life reinsurance company concentrating on providing protection for cedants and 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 2019 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 2018 was 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 predominately exclusively of fixed income securities. These have been invested taking account of the liquidity requirements of TRZ along with the nature and timing of technical provisions. Investments are made up of:

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

Net investment income is recognised in the income statement 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.

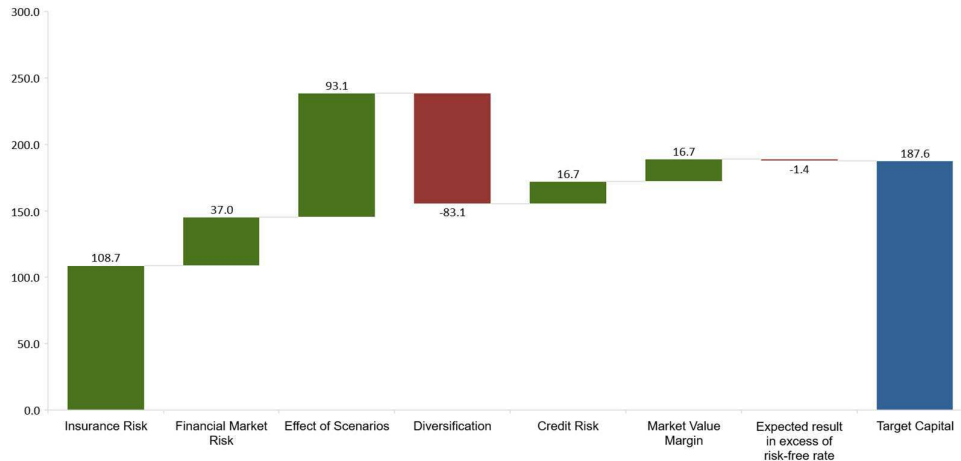


The members of TRZ's Board possess the skills, knowledge and experience required in order to undertake their roles and responsibilities for overseeing TRZ.

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, the underwriting risk is the most significant for TRZ, however TRZ benefits from a well-diversified portfolio. In order to help mitigate underwriting risks, TRZ maintains a disciplined underwriting philosophy that is supported by risk appetites reflecting our portfolio. The significant impact of scenarios is mainly due to insurance related risk as well, but also due to important intra-group risk transfer.

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 large terror attack on a major European city. 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 in order to fulfil all future liabilities arising out of its reinsurance contracts, taking into account cash-flows arising out of premiums, acquisition costs and other expenses.



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 statutory technical provision 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 2018

Tier	Instrument(s)	Value (CHF '000)
Tier 1	Ordinary paid-up share capital	27'000
	Legal and other reserves	223'715
	Reconciliation reserve	1'394
Tier 2	Not Applicable	-
Tier 3	Not Applicable	-
Total statutory shareholders' equity		252'109

Solvency

The SST has been in place since 2011. For the SST 2019, TRZ applied the standard model components provided by FINMA for all but the Nat Cat risk where an internal model is used.

Figure 3: Capital requirements at 31 December 2018

	Value (CHF '000)
Risk-bearing capital	277'304
Target capital	187'629

TRZ's SST Ratio was 152.4%.



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 TRC, which is a reinsurance company domiciled in New York, USA. TRZ provides TransRe 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.

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.

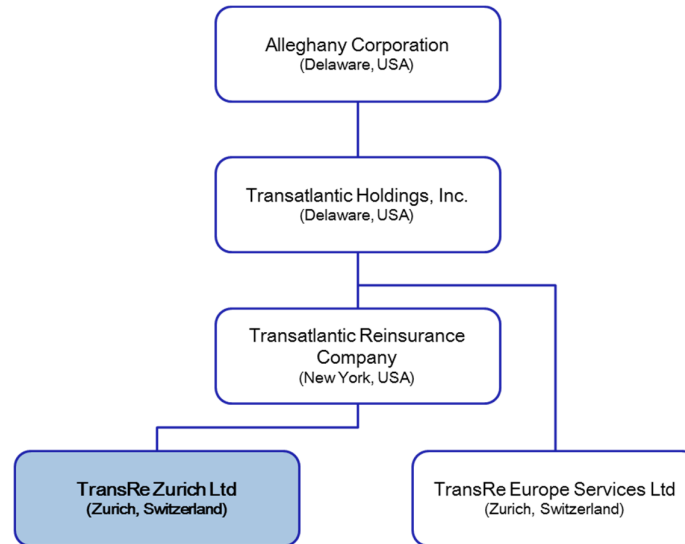
Other than TRC, TRH and Alleghany, there are no other holders of qualifying holdings in TRZ. A simplified group structure chart is shown below. The Alleghany group is subject to group supervision by the New Hampshire Department of Insurance, NH, USA.



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 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 TRZ to better navigate underwriting cycles in multiple classes of business.

In 2018, TransRe initiated the re-organisation project for its operations in Continental Europe and the Middle East. The goal of the restructuring is to set-up a unified reinsurance entity in Luxembourg as part of the European Economic Area in order to – among other reasons – cover all relevant markets of TransRe in Continental Europe, consolidate the capital, and benefit from regulatory passporting within the European Single Market (also after the UK will have presumably left the European Union). To achieve this, TRZ will be re-domiciled to Luxembourg. Subsequently, the Luxembourg legal entity will take over the business of all branches of TRC in Continental Europe (i.e., from the TRC Munich, Paris and Zurich branches). Since a separate Swiss service company will no longer be necessary at such stage, TRESL will be merged into TRZ prior to the re-domiciliation.



In order to benefit from the simplified merger procedure under the Swiss Merger Act, TRH will transfer its shares in TRESL to TRC by way of contribution in preparation of the merger, thereby making TRC the sole shareholder of both TRESL and TRZ.

TRESL will be merged into TRZ by way of absorption merger pursuant to the Swiss Merger Act. The merger shall be implemented and registered with the Zurich commercial register in the second quarter of 2019, after the audited financial statements of TRZ and TRESL are available, but with retroactive effect for accounting and tax purposes as of 1 January 2019. All employees of TRESL will transfer to TRZ in the context of the merger.

Upon the re-domiciliation of TRZ to Luxembourg it will establish a branch office in Zurich, which will be located at the same office premises as occupied by TRZ today. The day to day business activities of TRZ in Zurich will carry on unchanged and uninterrupted during and after this process.

A.3 Market commentary

Competitive trading conditions in both insurance and reinsurance markets persist. Fuelled by excessive capital, rates remain under pressure and widening coverage is commonplace. New categories of emerging risk including cyber, telematics/autonomous driving and socio-political classes are developing and seeking cover from an industry whose knowledge is still evolving. Other developments include the implementation of Artificial Intelligence and the arrival of “InsurTech” which has attracted many new entrepreneurs to the industry. All these new developments will bring potential perils but also great opportunity if handled correctly.

During 2018, the global market experienced multiple loss events, such as Typhoons, with scale to cause an impact to TRZ’s profitability.

Other on-going challenges such as Brexit and global political upheaval are constantly monitored to assess potential and future impact on the business.

A.4 Strategy and portfolio

TRZ’s strategy is to achieve long-term book value growth commensurate with the TransRe group 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 2018) by line of business and distribution by domicile of cedant is shown in Figures 5 and 6.



Figure 5: Line of business (value)

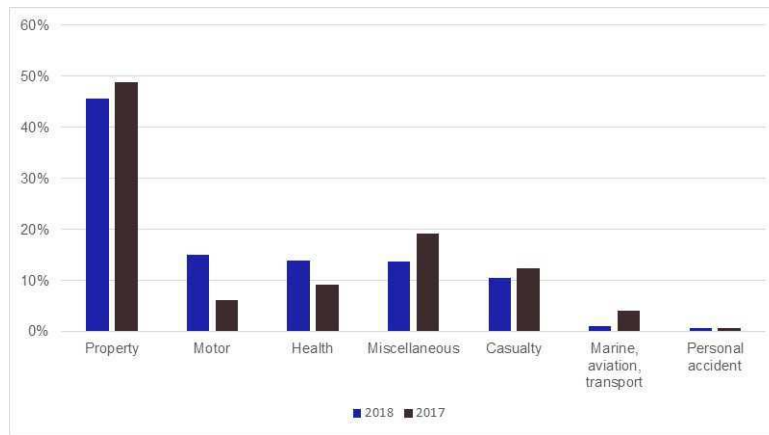
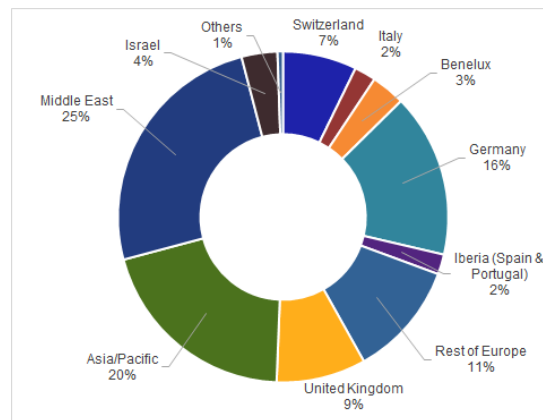


Figure 6: Geographical domicile of cedants



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. Additionally, TRZ assumes an intragroup whole account quota share agreement with the TRC branch office in Munich. On the other hand, TRZ has an excess of loss whole account retrocession agreement with TRC (the "TRC Whole Account XL") which covers losses on the non-life reinsurance book of business (per risk or event).

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 194.6 million and 134.9 million for the financial years 2018 and 2017. 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.

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 2018	1'200	1'185	3	-562	-216	410
Personal accident 2017	954	976	2	527	-132	1'372
Health 2018	26'897	18'919	20	-17'749	-3'803	-2'613
Health 2017	12'213	12'039	19	-9'763	-2'598	-303
Motor 2018	29'185	25'113	75	-19'890	-8'555	-3'257
Motor 2017	8'125	6'889	50	-5'755	-2'190	-1'006
Marine, aviation, transport 2018	2'073	2'628	9	1'205	-722	3'120
Marine, aviation, transport 2017	5'436	5'651	3	-1'331	-2'045	2'279
Property 2018	88'584	89'412	80	-130'881	-10'578	-51'967
Property 2017	65'836	69'027	47	-25'133	-10'590	33'352
Casualty 2018	20'226	20'835	220	-22'042	-4'693	-5'680
Casualty 2017	16'533	18'776	76	-18'148	-8'632	-7'928
Miscellaneous 2018	26'446	26'138	434	-19'130	-4'526	2'916
Miscellaneous 2017	25'793	25'121	368	-22'591	-4'581	-1'682
Total 2018	194'611	184'230	841	-209'049	-33'094	-57'072
Total 2017	134'889	138'480	565	-82'194	-30'767	26'084



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 2018	1'147	1'132	3	-559	-216	360
<i>Personal accident 2017</i>	<i>898</i>	<i>919</i>	<i>2</i>	<i>529</i>	<i>-132</i>	<i>1'319</i>
Health 2018	26'897	18'919	20	-17'749	-3'803	-2'613
<i>Health 2017</i>	<i>12'213</i>	<i>12'039</i>	<i>19</i>	<i>-9'763</i>	<i>-2'598</i>	<i>-303</i>
Motor 2018	29'185	25'113	75	-19'919	-8'555	-3'286
<i>Motor 2017</i>	<i>8'125</i>	<i>6'889</i>	<i>50</i>	<i>-5'782</i>	<i>-2'190</i>	<i>-1'033</i>
Marine, aviation, transport 2018	2'073	2'628	9	1'204	-722	3'119
<i>Marine, aviation, transport 2017</i>	<i>5'436</i>	<i>5'651</i>	<i>3</i>	<i>-1'338</i>	<i>-2'045</i>	<i>2'271</i>
Property 2018	33'650	33'869	80	-25'934	-6'300	1'715
<i>Property 2017</i>	<i>31'803</i>	<i>35'182</i>	<i>47</i>	<i>-23'173</i>	<i>-7'593</i>	<i>4'464</i>
Casualty 2018	20'226	20'835	220	-22'042	-4'693	-5'680
<i>Casualty 2017</i>	<i>16'533</i>	<i>18'776</i>	<i>76</i>	<i>-18'148</i>	<i>-8'632</i>	<i>-7'928</i>
Miscellaneous 2018	26'442	26'126	434	-19'102	-4'525	2'933
<i>Miscellaneous 2017</i>	<i>25'759</i>	<i>25'092</i>	<i>368</i>	<i>-22'551</i>	<i>-4'578</i>	<i>-1'669</i>
Total 2018	139'620	128'622	841	-104'101	-28'815	-3'453
<i>Total 2017</i>	<i>100'766</i>	<i>104'549</i>	<i>565</i>	<i>-80'226</i>	<i>-27'767</i>	<i>-2'879</i>

Personal accident

Slight increase on the business volume was noted on the personal accident line of business which consists mainly of non-proportional business. The development is in line with expectations.

Health

Health premium increased in line with business plan to grow in the medical expense business with ceding companies domiciled in the Middle East.

Motor

Motor premium increased due to new proportional treaties in various markets.

Marine, aviation, transport

Marine, aviation, transport line of business contains run-off business on which a positive loss development was noted during 2018.

Property

The property business increased slightly. Various significant losses incurred which were – at least partly – recovered through the retrocession in place.

Casualty

On the casualty business, negative loss development was experienced during 2018 on losses which were reported in prior years.

Miscellaneous

The miscellaneous line of business consists of life and guaranty treaties thereof various large life treaties are in run-off. Positive development was noted over the business year 2018.



B.2 Investment performance

Net investment income

Net investment income recognised in the income statement 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

TRZ's investment portfolio is made up of fixed income securities and a bond investment fund, which earned net investment income of CHF 8.3 million during the year.

Interest income is lower than in the prior financial year due to lower amount of invested assets and matured securities which were reinvested at lower interest rates due to current market conditions. The return on investments for 2018 was 0.8% (2017: 4.1%).

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 2018	7'972	-237	-3'315	4'420	420'453
<i>Fixed income securities 2017</i>	<i>9'628</i>	<i>-9'247</i>	<i>17'721</i>	<i>18'102</i>	<i>440'025</i>
Investment fund 2018	311	0	-722	-411	15'944
<i>Investment fund 2017</i>	<i>592</i>	<i>-3'613</i>	<i>3'941</i>	<i>920</i>	<i>16'666</i>
Total 2018	8'283	-237	-4'037	4'009	436'397
<i>Total 2017</i>	<i>10'220</i>	<i>-12'860</i>	<i>21'663</i>	<i>19'023</i>	<i>456'691</i>

B.3 Performance of other activities

TRZ does not receive any income other than from its underwriting and investment activities. TRZ has no material 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 income statement.

B.4 Any other information

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



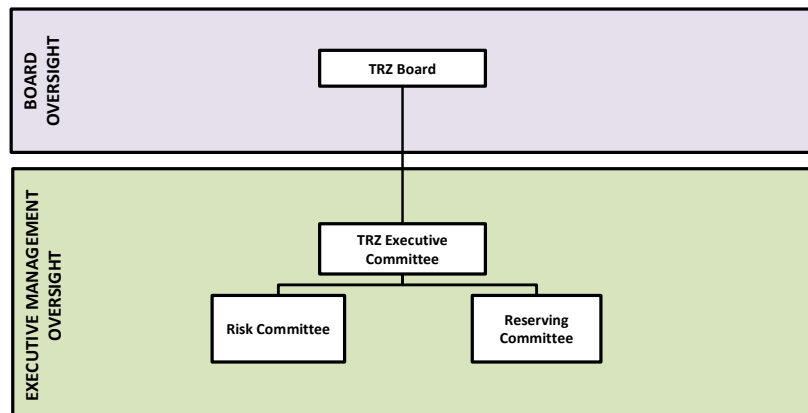
C. Corporate governance and risk management

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 TRZ'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 TRZ. 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 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

Relevant functions	Holder
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 TRZ's governance structure in the 12 months ending 31 December 2018.



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 TRZ, 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.

The "three lines of defence" model has three separate groups – the business functions, risk management, compliance and actuarial functions and internal auditors working together at different stages to provide increased protection against wide array of risks.

TRZ's ERM framework is supported by a comprehensive set of risk policies and guidelines to ensure adequate processes and procedures are in place to manage all types of risk, which is supported by a suite of management information. The framework, as a minimum, is aligned with the regulatory requirements under FINMA regulations.

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 and are used as an input in TRZ's internal audit programme.

TRZ adheres to the practices and principles established by TransRe, which include:

1. detailed risk appetites and tolerances;
2. first, second and third lines of defence;
3. underwriting guidelines and appetites;
4. inclusion in the group retrocession arrangements;



5. shared functions with other TransRe operations (e.g. claims, risk and catastrophe modelling); and
6. policies and procedures.

The Risk Management function is integrated into the organisation through the governance reporting lines to TRC's Chief Risk Officer ("CRO") and involvement in key decision making forums. Furthermore, the Risk Management Function leads the production of the ORSA, which incorporates key risks, stress and scenario analyses which are presented to senior management for review and discussion. Further information on the ORSA process is provided below.

TRZ's Risk Management function's 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

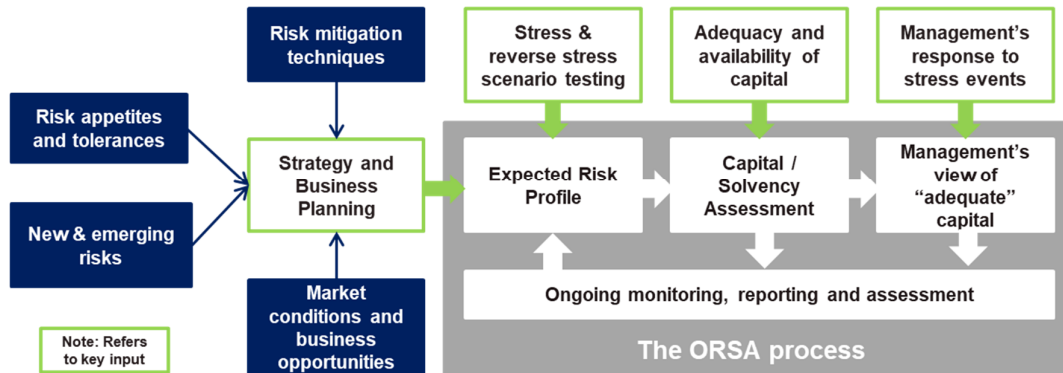
The ORSA process considers TRZ's own solvency assessment given its risk profile, business objectives and capital management strategy against its regulatory solvency requirement in order to determine whether additional capital is required. The ORSA also considers the impact on TRZ should it be subject 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 TRZ is exposed to and the associated capital.

TRZ's senior management has identified a number of business and event triggers that would result in the ORSA being re-run at any point during the year; these triggers are tracked by the Risk Management function.



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 TRZ 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 TRZ has reached its conclusions. The ORSA aims to assess, in a continuous and forward looking manner, the overall solvency needs of TRZ, 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. Once the report is reviewed, the ORSA and the amount of capital TRZ intends to maintain, based on its expected risk profile, is approved by TRZ's Board and the ORSA report is made available to FINMA.

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 technical provisions 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

The purpose of TRZ's Compliance function is 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 ("CCO"). TRZ's Head Legal & Compliance is responsible for ensuring that TransRe's compliance mission is implemented, coordinated and enforced within TRZ and reports any compliance violations or issues to the COO. 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 and 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

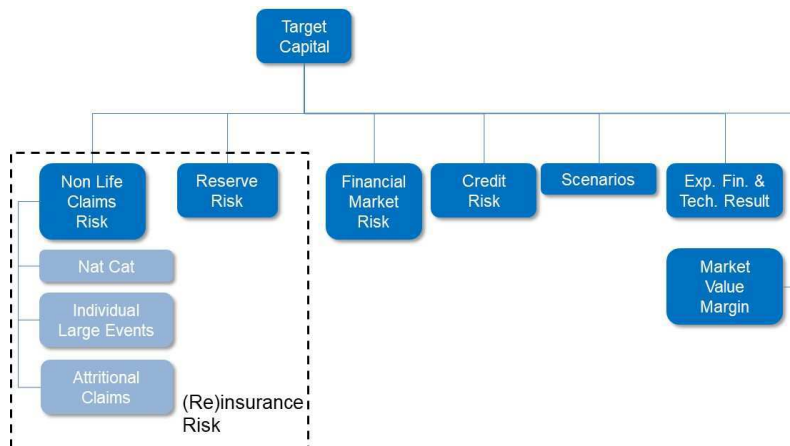
There have been no material changes to TRZ's system of governance in 2018. TRZ does not consider there is any other material information to disclose on its system of governance.



D. Risk profile

Under the Swiss Solvency Test (“SST”), TRZ’s Target Capital is calculated using the standard model components provided by FINMA for all but the Nat Cat risk where an internal model is used. 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 or dependencies between components. 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 IBNyR) Reserves and inadequate 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 technical provisions 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

TRZ 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 for 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.

TRZ 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 TRZ'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 TRZ, 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 TRZ 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.

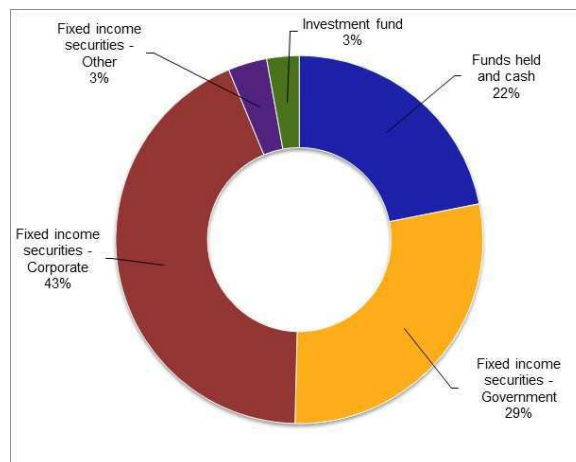
Market risk management and mitigation techniques

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 average credit quality of TRZ's investment portfolio is AA- (Standard & Poors) (2017: AA-).



The exposure is managed through ongoing review and monitoring by TRZ's CFO and the investment manager.

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 fulfil its financial obligations to TRZ, 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 agreement 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 TRZ. All brokers, intermediaries and retrocessionaires are subject to an ongoing review.

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

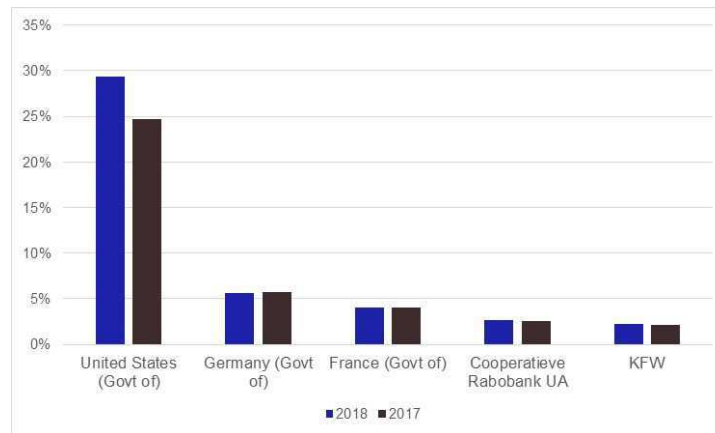
Retrocessionaires must go through a credit and security assessment which is overseen by Alleghany's Reinsurance Security Committee and TransRe's Global Risk Management function ("GRM") based in New York. Once approved, they are placed on TransRe's approved Security List. All prospective markets and proposed 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, EUR and CHF with its main investment exposure being to the US Government.



Figure 17: 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.

TRZ 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 TRZ'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 TRZ, 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 TRZ 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 2018, 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 18: Assets – Statutory to SST reconciliation

Assets (CHF '000)	SST ¹⁾	Financial Statements	Difference
<i>Investments</i>			
Fixed income securities – Government	156'166	159'197	-3'031
Fixed income securities – Corporate	243'823	242'113	1'710
Fixed income securities – Other	19'372	19'143	229
Investment fund	15'853	15'944	-90
<i>Other assets</i>			
Funds held by ceding companies	106'350	107'170	-820
Cash and cash equivalents	34'179	34'470	-291
Reinsurance recoverable ²⁾	114'994	126'964	-11'970
Receivable from reinsurance operations	52'158	52'871	-713
Other receivable	91	93	-2
Other assets	310	310	0
Accrued income and prepaid expenses	2'987	3'009	-22
Total assets	746'284	761'284	-15'000

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

2) Refer to Figure 19: 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 TRZ becomes committed to purchase the asset at its fair value plus directly related acquisition costs. A financial asset is de-recognised when TRZ's rights to receive cash flows from the asset have expired or where the risks and rewards of ownership have been substantially transferred by TRZ.

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. TRZ 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 income statement.



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 19: Technical Provisions – Statutory to SST reconciliation

Technical provisions (CHF '000)	Assumed	Ceded	Net
Statutory Technical Provisions	486'620	-126'964	359'656
Replacement of earned technical provisions to ultimate liabilities	-14'588	3'089	-11'499
Discounting	-9'221	6'959	-2'263
Removal of statutory provisions	-11'430	-	-11'430
Restatement FINMA exchange rates	-4'669	1'922	-2'748
SST Technical provisions	446'712	-114'994	331'717

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, net of any unwritten commissions.

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 the 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 expect an investor to require if he acquired and ran-off TRZ's business. TRZ follows the FINMA guidance to calculate the cost of capital at 6% of the statutory capital requirement i.e. CHF 16.2 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 TRZ's financial statements are summarised in the table below.

Figure 20: Other liabilities – Statutory to SST reconciliation

Other liabilities (CHF '000)	SST ¹⁾	Financial Statements	Difference
Funds held under reinsurance treaties	23	24	-1
Reinsurance balances payable	21'094	21'367	-273
Other liabilities and accrued expenses	1'150	1'164	-14
Total other liabilities	22'267	22'555	-287

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

Provisions

At 31 December 2018, TRZ held no provisions in its 2018 financial statements.

Contingent liabilities

TRZ does not consider any contingent liabilities to exist as at 31 December 2018.

Employee benefits

TRZ does not consider any employee benefit liabilities to exist as at 31 December 2018.

**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 2018, the available statutory shareholders' equity of TRZ was as follows:

Figure 21: Statutory shareholders' equity by tier at 31 December 2018

Tier	Instruments(s)	Value (CHF '000)
Tier 1	Ordinary paid-up share capital	27'000
	Legal and other reserve	223'715
	Reconciliation reserve	1'394
Tier 2		-
Tier 3		-
Total statutory shareholders' equity		252'109

During the financial year 2018, no changes to the ordinary paid-up share capital nor legal and other reserves were performed. The reconciliation reserve of CHF 1'394k consists of retained earnings brought forward (CHF -902k) and the net income for the financial year (CHF 2'296k).



Below is the reconciliation between the net assets in TRZ's 2018 Financial Statements and the excess of assets over liabilities as calculated for solvency purposes:

Figure 22: Statutory to SST Reconciliation

	31.12.2018 (CHF'000)	31.12.2017 (CHF'000)	Description
Statutory shareholders' equity	252'109	249'814	
Change in:			
Fixed income securities	2'744	10'091	Valued at amortised cost under statutory valuation principles which was changed to market value under the SST calculation
Technical provisions	25'191	41'102	Adjustment from statutory technical provisions to SST technical provisions – refer to Figure 20
Foreign exchange	-2'740	-863	Adjustment to FINMA foreign exchange rates for SST purposes
Expected dividend payment	-	-	Proposed dividend to the general meeting which is subject to approval
SST Risk Bearing Capital	277'305	300'144	

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 2019, TRZ calculates its solvency position based on the standard 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. 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 23: SST Target Capital at 31 December 2018

Items	SST 2019 (CHF '000)	SST 2018 (CHF '000)
Insurance risk	108'731	92'710
<i>Claims risk – non-life</i>	69'329	63'422
<i>Reserve risk – non-life</i>	85'431	68'558
<i>Life risk</i>	-	-
<i>Insurance risk – diversification effects</i>	-45'765	-39'270
Financial market risk	37'012	63'219
<i>Interest rate risk</i>	21'659	22'646
<i>Spread risk</i>	15'367	26'385
<i>Currency risk</i>	34'790	59'856
<i>Financial market risk – diversification effects</i>	-34'804	-45'668
Effect of Scenarios on Target Capital	93'079	89'917
Less Diversification	-83'149	-107'674
Expected financial result	-2'251	-3'201
Expected technical result	816	3'655
Credit risk	16'716	19'791
Market value margin	16'689	15'637
SST Target Capital	187'629	174'054

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 152.4% at 31 December 2018 (31 December 2017: 179.6%). This means that TRZ fulfils the minimum 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 presented to FINMA as part of the SST 2018 submission. 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
IBNyR	Incurred But Not Yet 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	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Gross premiums	134.889	194.611	0.954	1.200	12.213	26.897	8.125	29.185	5.436	2.073	65.836	88.584	16.533	20.226	25.793	26.446
Reinsurers' share of gross premiums	-34.123	-54.991	-0.056	-0.053	-	-	-	-	-	-	-34.033	-54.934	-	-	-0.034	-0.004
Premiums for own account (1 + 2)	100.766	139.620	0.898	1.147	12.213	26.897	8.125	29.185	5.436	2.073	31.803	33.650	16.533	20.226	25.759	26.442
Change in unearned premium reserves	3.591	-10.381	0.022	-0.015	-0.174	-7.978	-1.236	-4.072	0.215	0.555	3.192	0.828	2.243	0.609	-0.671	-0.308
Reinsurers' share of change in unearned premium reserves	0.192	-0.617	-0.000	-	-	-	-	-	-	-	0.188	-0.609	-	-	0.005	-0.008
Premiums earned for own account (3 + 4 + 5)	104.549	128.622	0.919	1.132	12.039	18.919	6.889	25.113	5.651	2.628	35.182	33.869	18.776	20.835	25.092	26.126
Other income from insurance business	0.565	0.841	0.002	0.003	0.019	0.020	0.050	0.075	0.003	0.009	0.047	0.080	0.076	0.220	0.368	0.434
Total income from underwriting business (6 + 7)	105.114	129.463	0.922	1.135	12.058	18.939	6.939	25.188	5.654	2.637	35.229	33.949	18.852	21.055	25.460	26.560
Payments for insurance claims (gross)	-107.359	-111.006	-0.610	-0.283	-9.094	-11.209	-7.583	-13.159	-15.872	-4.452	-30.059	-34.375	-19.585	-22.728	-24.555	-24.800
Reinsurers' share of payments for insurance claims	12.553	10.788	-	-	-	-	-	-	-	-	12.309	10.229	-	-	0.244	0.559
Change in technical provisions	25.165	-98.043	1.137	-0.279	-0.669	-6.540	1.828	-6.731	14.542	5.657	4.926	-96.506	1.437	0.686	1.964	5.670
Reinsurers' share of change in technical provisions	-10.585	94.160	0.003	0.003	-	-	-0.027	-0.029	-0.008	-0.001	-10.349	94.718	-	-	-0.204	-0.531
Change in technical provisions for unit-linked life insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses for insurance claims for own account (9 + 10 + 11 + 12 + 13)	-80.226	-104.101	0.529	-0.559	-9.763	-17.749	-5.782	-19.919	-1.338	1.204	-23.173	-25.934	-18.148	-22.042	-22.551	-19.102
Acquisition and administration expenses	-19.955	-21.918	-0.037	-0.118	-1.353	-2.159	-1.478	-6.373	-1.460	-0.494	-6.951	-7.635	-6.690	-2.883	-1.986	-2.256
Reinsurers' share of acquisition and administration expenses	3.000	4.279	0.000	-	-	-	-	-	-	-	2.997	4.278	-	-	0.003	0.001
Acquisition and administration expenses for own account (15 + 16)	-16.955	-17.639	-0.037	-0.118	-1.353	-2.159	-1.478	-6.373	-1.460	-0.494	-3.954	-3.357	-6.690	-2.883	-1.983	-2.255
Other underwriting expenses for own account	-10.812	-11.176	-0.095	-0.098	-1.245	-1.644	-0.712	-2.182	-0.584	-0.228	-3.639	-2.943	-1.942	-1.810	-2.595	-2.270
Total expenses from underwriting business (14 + 17 + 18) (non-life insurance only)	-107.993	-132.916	0.397	-0.775	-12.361	-21.552	-7.972	-28.474	-3.383	0.482	-30.765	-32.234	-26.780	-26.735	-27.129	-23.627
Investment income	54.654	29.216														
Investment expenses	-35.998	-25.614														
Net investment income (20 + 21)	18.656	3.602														
Capital and interest income from unit-linked life insurance	-	-														
Other financial income	14.394	48.158														
Other financial expenses	-24.867	-44.723														
Operating result (8 + 14 + 17 + 18 + 22 + 23 + 24 + 25)	5.304	3.584														
Interest expenses for interest-bearing liabilities	-	-														
Other income	-	-														
Other expenses	-	-														
Extraordinary income/expenses	-	-														
Profit / loss before taxes (26 + 27 + 28 + 29 + 30)	5.304	3.584														
Direct taxes	-2.337	-1.288														
Profit / loss (31 + 32)	2.967	2.296														



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

		31.12.2017	Adjustments previous period	31.12.2018
		in CHF millions	in CHF millions	in CHF millions
Market-consistent value of investments	Real estate	-	-	-
	Shareholdings	-	-	-
	Fixed-income securities	449.129	-	419.361
	Loans	-	-	-
	Mortgages	-	-	-
	Equities	-	-	-
	Other investments	-	-	-
	Collective investment schemes	16.701	-	15.853
	Alternative investments	-	-	-
	Other investments	-	-	-
	Total investments	465.830	-	435.214
	Financial investments from unit-linked life insurance	-	-	-
Market-consistent value of other assets	Receivables from derivative financial instruments	-	-	-
	Cash and cash equivalents	20.479	-	34.179
	Receivables from insurance business	137.618	-	158.508
	Other receivables	4.229	-	3.078
	Other assets	0.310	-	0.310
	Total other assets	162.636	-	196.075
Total market-consistent value of assets	Total market-consistent value of assets	628.466	-	631.289
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)	16.455	-	16.537
	Outward reinsurance: non-life insurance business	327.968	-	430.174
	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	-28.058	-	-114.994
	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	0.024	-	0.023
	Liabilities from insurance business	8.089	-	21.094
	Other liabilities	3.845	-	1.150
Total BEL plus market-consistent value of other liabilities	Total BEL plus market-consistent value of other liabilities	328.323	-	353.985
	Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	300.143	-	277.304



Financial condition report: quantitative template "Solvency Solo"

		31.12.2017	Adjustments previous period	31.12.2018
		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	300.143		277.304
	Deductions	-		-
	Core capital	300.143		277.304
	Supplementary capital	-		-
	RBC	300.143	-	277.304

		31.12.2017	Adjustments previous period	31.12.2018
		in CHF millions	in CHF millions	in CHF millions
Derivation of target capital	Underwriting risk	92.710		108.731
	Market risk	63.219		37.012
	Diversification effects	-107.674		-83.149
	Credit risk	19.791		16.716
	Risk margin and other effects on target capital	106.008		108.319
	Target capital	174.054		187.629

		31.12.2017	Adjustments previous period	31.12.2018
		in %	in %	in %
SST ratio	Risk-bearing capital / target capital	179.6%		152.4%



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 2018, were audited. The report of the statutory auditor including the financial statements is attached.

To the General Meeting of
TransRe Zurich Ltd, Zurich

Zurich, 23 April 2019

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 2018.

Board of Directors' responsibility

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of 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 2018 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

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

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

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

Ernst & Young Ltd



Rolf Bächler
(Qualified
Signature)

Licensed audit expert
(Auditor in charge)



Sergio Sardo
(Qualified
Signature)

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	2018	2017
Reinsurance account			
Gross written premiums		194'611	134'889
Ceded written premiums		-54'991	-34'123
Net written premiums		139'620	100'766
Change in the provision for unearned premiums, gross		-10'381	3'591
Change in the provision for unearned premiums, ceded		-617	192
Net earned premium		128'622	104'549
Other technical result		841	565
Total reinsurance revenues		129'463	105'114
Claims paid, gross		-111'006	-107'359
Claims paid, ceded		10'788	12'553
Change in the provision for claims outstanding, gross		-98'357	24'847
Change in the provision for claims outstanding, ceded		94'160	-10'585
Change in the provision for future policy benefits, gross		314	318
Claims incurred, net		-104'101	-80'226
Acquisition costs, gross		-21'918	-19'955
Acquisition costs, ceded		4'279	3'000
Operating expenses		-11'176	-10'812
Total reinsurance expenses		-28'815	-27'767
Reinsurance result		-3'453	-2'879
Investment income	1	29'216	54'654
Investment charges	1	-25'614	-35'998
Investment result		3'602	18'656
Other financial income		48'158	14'394
Other financial expenses		-44'723	-24'867
Operating result		3'584	5'304
Income before taxes		3'584	5'304
Taxes		-1'288	-2'337
Net income for the financial year		2'296	2'967

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	2018	2017
Investments			
Fixed income securities		420'453	440'025
Investment funds		15'944	16'666
Total investments		436'397	456'691
Funds held by ceding companies		107'170	116'676
Cash and cash equivalents		34'470	20'523
Reinsurance recoverable	2	126'964	29'902
Receivables from reinsurance operations	3	52'871	20'920
Other receivables		93	341
Other assets		310	310
Accrued income and prepaid expenses		3'009	3'887
Total assets		761'284	649'250

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	2018	2017
Liabilities			
Technical provisions, gross	2		
Provisions for unearned premiums		31'781	20'827
Provisions for claims outstanding		451'679	358'305
Provisions for future policy benefits		10'482	11'107
Provisions for commissions outstanding		-7'322	-2'811
Total technical provisions, gross		486'620	387'428
Funds held under reinsurance treaties		24	24
Reinsurance balances payable	4	21'367	8'162
Other liabilities		1'066	3'718
Accrued expenses and deferred income		98	104
Total liabilities		509'175	399'436
Shareholders' equity	5		
Share capital		27'000	27'000
Legal reserve		14'215	14'215
Other reserves		209'500	209'500
Retained earnings brought forward		-902	-3'868
Net income for the financial year		2'296	2'967
Total shareholders' equity		252'109	249'814
Total liabilities and shareholders' equity		761'284	649'250

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 2018 financial year comprises the accounting period from 1 January 2018 to 31 December 2018.

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		31.12.2017	31.03.2018	30.06.2018	30.09.2018	31.12.2018
AED	United Arab Emirates Dirham	0.2679	0.2554	0.2690	0.2655	0.2715
AUD	Australia Dollar	0.7474	0.7264	0.7471	0.7004	0.7335
EUR	Euro	1.1678	1.1547	1.1524	1.1268	1.1319
GBP	Great Britain Pound Sterling	1.3277	1.2917	1.3170	1.2513	1.2692
ILS	Israel New Shekel	0.2823	0.2723	0.2779	0.2693	0.2671
SAR	Saudi Arabia Riyal	0.2624	0.2501	0.2635	0.2600	0.2658
USD	United States Dollar	0.9842	0.9379	0.9881	0.9752	0.9972

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	2018	2017
Interest income from fixed income securities	7'972	9'628
Dividend income	311	592
Realised gains on sale of investments	573	3'784
Unrealised gains on investment valuation	20'360	40'650
Investment income	29'216	54'654
Investment management expenses	-407	-367
Realised losses on sale of investments	-810	-16'644
Unrealised losses on investment valuation	-24'397	-18'987
Investment charges	-25'614	-35'998
Investment result	3'602	18'656

2. Technical provisions

In CHF '000	2018			2017		
	Gross	Ceded	Net	Gross	Ceded	Net
Provisions for unearned premiums	31'781	-96	31'685	20'827	-130	20'697
Provisions for claims outstanding	451'679	-125'608	326'071	358'305	-29'264	329'041
Provisions for future policy benefits	10'482	-	10'482	11'107	-	11'107
Provisions for commissions outstanding	-7'322	-1'260	-8'582	-2'811	-508	-3'319
Total technical provisions	486'620	-126'964	359'656	387'428	-29'902	357'526

3. Receivables from reinsurance operations

In CHF '000	2018	2017
Receivables from brokers	25'162	13'363
Receivables from ceding companies	27'709	7'557
Total receivables from reinsurance operations	52'871	20'920

4. Reinsurance balances payable

In CHF '000	2018	2017
Balances payable to brokers	4'795	4'232
Balances payable to ceding companies	16'572	3'930
Total reinsurance balances payable	21'367	8'162

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 2016	27'000	14'215	209'500	-1'169	249'546
Allocation to reserves					-
Ordinary dividend for the previous year				-2'700	-2'700
Net income for the financial year				2'967	2'967
Shareholder's equity as of 31 December 2017	27'000	14'215	209'500	-902	249'813
Allocation to reserves					-
Ordinary dividend for the previous year				-	-
Net income for the financial year				2'296	2'296
Shareholder's equity as of 31 December 2018	27'000	14'215	209'500	1'394	252'109

TransRe Zurich Ltd, Zurich

Notes

Additional information on the financial statements

In CHF '000		2018	2017
Claims on, technical reserves and other obligations towards affiliated companies			
Receivables from reinsurance operations		22'726	6'829
Deposits with ceding companies		83'790	90'064
Deposits retained from ceded reinsurance business		-	-
Reinsurance balances payables		12'331	1'424
Other receivables		-	-
Other liabilities		-	2'957
Technical provisions	Gross	236'035	115'866
Technical provisions	Ceded	120'437	25'756
Security deposits			
Deposited securities to secure the technical provisions in favour of ceding companies		8'288	9'034
Pledged assets			
Pledged cash at bank due to existing letters of credit		8'069	8'052
Contingent liabilities			
Letters of credit		6'075	6'084
Auditing fees			
Fee paid for audit services		146	183
Fee paid for other services		-	-
Total fees paid to the auditors		146	183

TransRe Zurich Ltd, Zurich

Proposal for allocation of net income

The general meeting to be held in Zurich on 8 May 2019 has at its disposal the following loss:

In CHF	2018	2017
Retained earnings brought forward from previous year	-902'143	-3'868'674
Net income for the financial year	2'296'030	2'966'531
Disposable gain/loss	1'393'887	-902'143

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

In CHF	2018	2017
Dividend (-% / -%)	-	-
Allocation to other reserves	-	-
Balance carried forward	1'393'887	-902'143
Disposable gain/loss	1'393'887	-902'143