Financial Condition Report

of

Peak Reinsurance Company AG
Fortunagasse 28
8001 Zürich

For the business year ended in 2018
(covers period from 1.1.2018 until 31.12.2018)

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About this Document

This document is the Financial Condition Report ("FCR") for Peak Reinsurance AG as at 31 December 2018.

This FCR covers Peak Reinsurance AG on a solo basis.

Peak Reinsurance AG functional currency is USD presentational is CHF

Directors' statement

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

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

- Throughout the financial year in question, Peak Reinsurance has complied ; and
- It is reasonable to believe that, at the date of the publication of the FCR, Peak Reinsurance AG 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

Ulrich Fricker
member and Independent Non-Executive Director

Gianluca Mereu
Head of Finance

30 April 2019

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1. Overview and Management Summary

Peak Reinsurance AG Zurich (“Peak Re AG”, “we”, “us”, or the “Company”) is a wholly owned reinsurance subsidiary of Peak Reinsurance Company Limited (“the Parent Company”, “Peak Re Hong Kong”).

Peak Reinsurance AG is a privately owned limited company domiciled in Zurich, Switzerland, and was incorporated on September 26, 2016. It writing non-life reinsurance business as a licensed reinsurer by FINMA on 1 January 2017. All shares are held by Peak Reinsurance Company Ltd., Hong Kong. The company underwrites non-life proportional and non-proportional reinsurance treaties ceded by companies headquartered in the Europe, and India since 1. January 2018.

With shareholder’s equity of CHF 77.7million (previous year: CHF 47.1 million) following a capital injection in the form of additional paid in capital of CHF 35.4 million in Q4 2018. The Company reports a solvency ratio of 269% according to the Swiss Solvency Test (SST) Report 2019 and is rated A- (stable outlook) by AM Best.

For the period from 1st January to 31st December 2018 total Gross Written Premium increased by CHF 55.1m to CHF 67.5m due to expansion of business activities in Europe and India. The Net Earned Premium follows the same pattern from CHF 5.3m to CHF 6.9m. The underwriting margin increased by CHF 3.1m to CHF 1.2 due to absence of natural catastrophe losses and marginal loss activity in other Lines of Business. Similarly the combined ratio improved to 82.6% down from 213.3% a year ago.

In terms of financial performance, we reported on a Swiss statutory basis a net loss after taxes of CHF 4.8 (or USD 4.7 million net losses in reporting currency, CHF 0.1 million relate to foreign currency translation in Swiss national currency).

The result was mainly affected by negative investment result following the difficult market conditions in Q4-2018, negative impact of currency fluctuations most prominently with the Indian Rupee, and increased expenses from the outsourcing of services to the Group.

2. Introduction

The report presents information following the structure provided in FINMA’s circular 2016/2 Disclosure-insurers (Public Disclosure) dated 3 December 2016.
It provides information on Peak Reinsurance AG’s business activities, performance, corporate governance and risk management, risk profile, valuation, capital management and solvency.
Quantitative information refers to different frameworks applicable or mandatory to the Company: business activities related and performance results are presented on Swiss statutory basis. The disclosure is complemented with information in the quantitative reporting templates (see Appendix 1).

The risk profile section presents information for the Peak Reinsurance AG under IFRS or market value bases for insurance and credit risk, and a net economic asset value-based analysis of the market risk.

Valuation section presents the market-consistent balance sheet (MCBS) of the Peak Reinsurance AG following the Swiss Solvency Test (SST) principles. The SST MCBS is compared with the market value balance sheet (MVBS) of the Peak Reinsurance AG as of December 31, 2018.

Finally, the solvency section shows the regulatory capital adequacy of the Company based on SST.

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3. Financial condition report

3 A Business Activities

Peak Re AG plays an important role in the Peak Re Group strategy to establish its leadership position as a global reinsurer with strong Asia foothold, maintain a client-centric approach, being an agile reinsurer, creating value through technology.

The business focus is on underwriting selected reinsurance and insurance risks, mostly mainstream risks covered in Non-life.

Peak Re AG is targeting a diversified portfolio of business across Europe, India and selected areas outside Europe as part of Group strategy to provide speedy and attentive reinsurance solutions on a multi-line and long-term basis to clients.

The growth of the assumed reinsurance portfolio originates for a large part from increased business of existing clients and from the transfer of European business previously written through Peak Re Hong Kong.

All shares of Peak Reinsurance AG are held by Peak Reinsurance Company Ltd., Hong Kong which is ultimately owned by the Fosun Group, Shanghai, People's Republic of China (87% indirect shareholding in Peak Reinsurance AG) and the Prudential Insurance Company of America, New Jersey, USA (13% indirect shareholding). Peak Reinsurance AG has no subsidiary or branch offices.

The Company is licensed to operate as reinsurer as from 1.1.2017 by FINMA.

Peak Reinsurance AG has benefited from an 80% Whole Account Quota Share Retrocession Agreement with the Parent Company.

The Net after the 80% Quota share is protected by a per-event Excess of Loss retrocession tower ("XoL"), with limits depending on the territorial scope. For Europe the XoL tower provides USD22m of limit in excess of USD6m per event. For India the XoL tower provides USD11m of limit in excess of USD2m per event. Both XoL have reinstatement provisions.

Peak Re AG is further protected by an Annual Aggregate Loss cover providing USD 2m of limit after a retention of USD 4m for net event losses exceeding USD 1m. The Aggregate cover applies to both European and Indian losses, and there is no reinstatement provision as it is an annual cover.

The annual financial statements have been prepared in accordance with the provisions on commercial accounting of the Swiss Code of Obligations (CO).

Peak Reinsurance AG's external Auditor is Ernst & Young AG, Zürich.

In 2018 there were no extraordinary events to separately report.

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3 B Performance

Peak Reinsurance AG reported a net loss after taxes of CHF 4.8 million for the period 1st January to 31st December 2018.

Technical Result

The Company's main markets saw a significant change in the mix of countries due to the start of underwriting business in India in 2018. India became the largest country, generating 63% of total Gross Written Premiums. It is followed by Switzerland (12.5%), Italy (6.6%), France (4.5%) and Portugal and Belgium (each with 3.5%). These countries together accounted for 93.6% of the gross written premium.

The composition of the portfolio shows the following split by Line of Business: agriculture (57%), property (25%), motor (9%), engineering (5%), casualty (3%), and the other lines (2%). The allocation by treaty type shows 81% for proportional business and 19% non-proportional.

In the second year of operation Peak Re AG generated a positive reinsurance result of USD 1.2m.

Please refer to Appendix 1 for detailed split by line of business of the technical result.

In 2019 Peak Reinsurance AG is expected to grow following the group strategy to expand its presence in Europe and in India. Despite difficult market conditions our outstanding level of long term commitment to selected clients will allow us to improve the economic outlook.

Net investment result

Investments were held mainly in a well-diversified portfolio of fixed income instruments; the cash and short term debt portfolio was above 10% of the Assets under Management. The equity investments were sold before year end.

The net investment result shows a loss of CHF 1.2m, following difficult market conditions particularly in the 4th quarter of the year. CHF 3.0m worth of losses as per following table were recorded. This amount more than compensates the income on bonds, on asset backed securities, dividend on equities and interest on cash which added up to CHF 1.8m.

Income from investments

CHF 000	Income 2018	Net unrealized gains 2018	Net realized gains 2018	Total 2018	Income 2017	Net unrealized gains 2017	Net realized gains 2017	Total 2017
Fixed-interest securities	1'447	205		**1'652**	259		7	**266**
Loans	148			**148**	19			**19**
Shares	27			**27**	20			**20**
Other investments	13			**13**	278			**278**
Total	**1'635**	**205**	**-**	**1'840**	**576**	**-**	**7**	**583**

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Expenses from investments

CHF 000	Current expenses 2018	Net unrealized losses 2018	Net realized losses 2018	Total 2018	Current expenses 2017	Net unrealized losses 2017	Net realized losses 2017	Total 2017
Fixed-interest securities	86	1'742	611	**2'439**	9	-	7	**16**
Loans					-	-	-	**-**
Shares			589	**589**	-	-	-	**-**
Other investments					-	-	-	**-**
Total	**86**	**1'742**	**1'200**	**3'028**	**9**	**-**	**7**	**16**

The losses that were directly recognized in equity, are the ones deriving by the translation of the company reporting currency, USD, in the national currency CHF. Their amount was CHF 0.2 million at year end.

Other income and expenses

Other income and expenses include realized foreign exchange gains, capital tax

Total amount in 2018 was CHF 887’000 (which includes CHF 347 ‘000 capital tax paid) which compares to CHF 103’000 in prior year.

The increased cost of our outsourcing expenses, CHF 1.0m (CHF 0.1m in 2017), and our General and Admin Expenses, CHF 2.7m (CHF 3.5 in 2017) do contribute to final result of the year.

At the end of 2018 Peak Reinsurance AG had 7 employees (6 full time and one part time).

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3 C Corporate Governance and Risk Management

3 C 1 Corporate Governance

The Board of Directors and the Executive Management are composed as of end of 2018 as follows:

Board of Directors

Mr. Franz Hahn, Chairman,
Mrs. Cathy Chen, member
Mr. Ulrich Fricker, member and Independent Non-Executive Director

All three were re-elected at the AGM on April 15, 2019 for another year.

Executive management

Jacques Burri, Chief Executive Officer
Lawrence Cheng, Head of Underwriting
Gianluca Mereu, Head of Finance

No change in the Board of Directors or in Executive Management occurred during the reporting period.

C 2 Risk Management

Peak Re's Risk Management framework comprises a strong risk culture, a robust compliance framework and a clearly articulated risk ownership by the operational units, a risk management function and internal audit. Both the risk management function and the internal audit regularly report and advise the Board of Directors and Executive Management team on risk management matters, if needed also through ad-hoc risk analysis.

Peak Re AG has a documented risk management and governance framework.
The company's risk policy describes Peak Re AG's risk appetite and tolerance. It provides guidance on how the risks from underwriting and investment activities are being monitored and managed. It describes roles and responsibilities of relevant functions in the Company; identifies risk types and defines appetite for risks at company level that is in line with the one for the Peak Re Group.
The Enterprise Risk Management defines the range within which risks are to stay so as to ensure that the risk appetite is respected.

3 C 2.1 Risk Management Function

The risk management function is functionally independent of the business. The technical and business skills of the company risk officer positions him as business advisor on risk matters and helps foster a risk-aware culture in the business.

Risk management is first performed by the operating units ("1st line of defense"), the risk manager ("2nd line of defense") and the internal auditor PWC AG, Zürich ("3rd line of defense"). There have been no substantial changes to the risk management system during the reporting period except the engagement of PWC, Switzerland as the Internal Auditor.

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Operational risks such as those stemming from the legal and regulatory environment, bank relationships etc. did not experience any extraordinary exposures.

Some key functions of Peak Reinsurance AG are supported by an outsourcing agreement with Peak Reinsurance Company Ltd., Hong Kong and benefit from the group's scale and depth.

The risk management process is in the ultimate responsibility of the Board of Directors which reviews the Enterprise Risk Management Report quarterly.
The Board of Directors assesses the Risk Management process in the quarterly ERM Report which provides the overall risk situation of the Company including mitigating actions and compliance issues. Major changes to the operating environment, business development, extraordinary events are also included in the ERM report.

3 C 2.2 Actuarial Function

Consistent with FINMA guidelines, the Company has appointed a Responsible Actuary. As a subsidiary, of an international group, we have opted to obtain support from an external actuarial advisor to support us in this role, one who is familiar with local Swiss requirements and who meets the necessary experience credentials.

Although an external appointee, the Responsible Actuary is appropriately integral to the running of the Company, and his/her role includes (among other things) responsibility for:

- validation that an appropriate amount of reserves has been set;
- control of the Swiss Solvency Test process, including a control that the SST ratio is correctly calculated and including the determination of the Target Capital ("TC") and Risk Bearing Capital ("RBC") metrics; and
- periodic review and oversight of pricing.

The Responsible Actuary reports to the Executive Management and to the Board of Directors.

3 C 2.3 Compliance Function

The compliance function shall ensure that the major legal and regulatory obligations of the company are identified and assessed; reviews and assesses the appropriateness of the guidelines, processes and controls set up by the company in order to prevent compliance violations.

Further objectives are to protect Peak Re AG and its employees by avoiding

- Legal and regulatory risks,
- Conflicts of interests between the company and its employees and clients,
- Reputation risks.

The Board of Directors is responsible for compliance. As in the case with most other operational tasks, the operational responsibility for compliance is delegated to the Executive Management.

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The compliance reporting system is the basis for the regular reporting between the Compliance Officer and the Board of Directors and the Executive Management. It consists of a quarterly and of an ad-hoc reporting.

3 C 2.4 Internal Audit Function

Internal Audit function is an independent and outsourced function whose activity is guided by a philosophy of adding value to improve the operations of Peak Re AG. It assists the Board of Directors in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, internal control.

The Internal Audit function reports to the Board of Directors of Peak Re (the "Board").

The internal audit function of Peak Re prepares an activity report to the attention of the Board on an annual basis which steers the current status of compliance with the

- internal audit plan as approved by the Board,
- implementation of agreed measures resulting in audit reports.

3 C 3 Internal Control System

Processes with relevance for the reliability of financial reporting are identified within the Internal Control System and adequate and appropriate key controls are defined to mitigate financial reporting risk.

The Internal Control System (ICS) policy defines the risks subject to control, the control measures and control responsibilities as per the requirements of the FINMA circular 2017/02 "Corporate Governance".

The policy is reviewed and amended, if appropriate, on an annual basis by the Board of Directors of the Company (the "Board").

The ICS Policy implementation is reported regularly to the Board of Directors. Findings with a substantial, immediate impact on the operations shall be reported without delay to the CEO, Head of Risk & Compliance and the Chairman of the Board of Directors.

The ICS consists of automated and manual preventive and detective controls embedded in the process landscape. It applies to all business and operations areas: Underwriting, Pricing, Technical and Financial accounting and reporting, Claims, Investment Management, IT, Human Resources, Risk Management and Compliance.

3 D Risk profile

Peak Re assumes risk form reinsurance underwriting and investment activities. Peak Re has no appetite for operational risk and reputational risk. The company targets a diversified portfolio in terms of lines of business and geography covering all of the Property and Casualty lines of business in Europe and, as from 1.1.2018 on, in India to add value and provide diversification at Group level.

The diversification and retrocession aims at reducing concentration of risks and volatility, as well as the aggregate risk of the Company.

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The main risks that are monitored since considered material are:

- Insurance risk
- Market Risk
- Credit Risk

Peak Re has defined limits for the amount of risk the company is willing to assume in any one of its risk taking activities. Details are to be found in the following documents:

- Corporate Underwriting Guideline and Accumulation Control – this defines the capacities and limits deployed for P & C business per line of business
- Board Protocols on delegation of authorities.
- Investment Operational Manual – this defines the strategic asset allocation and limits for cash and short term deposits, fixed income, equities, real estate and private debt/private equity, if any, as well as the delegation of authorities to the Chief Investment Officer (CIO).

Risks are being evaluated and assumed as part of the daily operations of Peak Re. The company has developed a strong risk culture and implemented processes to assure that only those risks, which fall within its appetite and limits are being accepted.

Peak Re applies state of the art techniques to identify, quantify and manage risks. Risks from reinsurance underwriting and investment activities are identified and managed by using

a) A limits system,

b) ORSA.

Peak Re uses the Own Risk and Solvency Assessment (ORSA) applying the SST modelling framework.

Underwriting and Investment policies set the tone and influence the culture of risk management within the Company and define the limits of the Company's capacity for taking risk. The Board approves major decisions affecting the Company's risk profile or exposure.

Peak Re's risk landscape can be categorised by their source as:

- underwriting risk (premium and reserve risk),
- investment risk (market, credit, liquidity risk) and
- risks associated with the Company as such (operational, legal and compliance risk).

While limits and the ORSA process describe the techniques for identifying, tracking and managing of these

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risks, additional risk specific processes have been implemented:

- <u>Premium and Reserve Risk</u>

Premiums should be set at a level that corresponds with the level of risks underwritten. Premium risk is monitored prospectively and retrospectively. Prospective premium risk monitoring shall be implemented at the time contracts are written. This is achieved through the use of proprietary tools which compare Peak Re's view on premiums following the technical rating exercise (i.e. the "technical rate") with the prevailing price available in the market (i.e. the "market rate"). Over time, the market rate will fluctuate and may be above or below the Peak Re's technical rate due to the market cycle.

Following the decision to bind a treaty, there is a risk that a higher level of claims is observed than was expected at the time that premium was determined. This shall be picked up in the quarterly reserving effort, which includes a review of treaty level loss ratios.

Reserving risk arises due to unfavourable development in claims costs relative to Peak Re's opening reserve level. This may be due to adverse claims experience on policies written in the current financial year or due to deterioration in the ultimate claims forecast against prior financial years. Peak Re employs suitable methodology and assumptions to compute and make provision for its insurance liabilities. Such methodology and assumptions takes into account the business volume, claims experience, industry practice, types of reinsurance product, etc. Any reserving assumptions made is periodically reviewed (once a year by the Responsible Actuary in Switzerland) to ensure that due recognition has been given to changes in the composition of business portfolio, market and legal developments, etc.

Any claims reported are promptly recorded so that the relevant reserves will be provided for accordingly. The amounts of estimated and actual claims is compared from time to time to ensure adequate provisions are made for outstanding claims. The Board is notified of large claims (above USD 1 million) and will take timely actions as appropriate.

The Company's retrocession policy provides for guidance such that the exposures of Peak Re's business portfolio to huge losses owing to individual large risks and accumulations of losses could be reduced. Peak Re also assesses the security of the participating retrocessionaires (including of external retrocessionaires of the Group) and periodically, every quarter, reviews the collectability of the amounts due.

- <u>Market Risk</u>

Peak Re's investments are exposed to market risk, the risk of a price change in the capital market which can come from equities, interest rates, currency, and credit risk, the risk of a change in the financial situation of a counterparty.

Peak Re's investment risk monitoring process includes diversification and exposure limits, traditional asset/liability management practices, assessing the minimum weighted average credit quality of the bond portfolio and regularly monitoring currency mismatch risk and duration/interest rate risks. Peak Re also uses a traffic light system (by mean of monthly report to the Head of Finance and CEO) to facilitate the monitoring and communication of investment risk levels at country, currency and industry sector levels.

As of end of 2018 there were no assets invested in equity securities.

For its fixed income portfolio, Peak Re is exposed to interest rate movements and changes in spread reflecting counterparty risk. Peak Re tracks risks on a name, country and industry basis and considers cross balance sheet exposures from its credit and bond portfolios. If Peak Re becomes overexposed to any one country,

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rating level, name or industry, the portfolio shall be rebalanced or hedged.

The Company's Investment Policy also ensures that cash inflows from invested assets is regularly reviewed so that it is adequate to meet the cash outflows due for settling liabilities under different economic conditions. Timely actions should also be taken to identify any significant investment losses so that provisions will be made for them. During 2018 cash and cash equivalents were above 10% of Asset Under Management (AUM).

- Credit Risk

Credit risk represents the loss that Peak Re would incur if a counterparty (including a borrower if any) or an issuer of securities or other instruments Peak Re holds fails to perform under its contractual obligations to it, or upon deterioration in the credit quality of borrowers or other third parties whose securities or other instruments Peak Re holds. Peak Re's exposure to credit risk principally arises through its investing, credit and bond and reinsurance ceding activities, receivables and deposits from cedents.

Peak Re's credit risk management objectives are to maintain its high asset quality and minimize its concentration risk through a diversified, balanced and risk-weighted product portfolio. The Company continually monitors and seeks to improve its credit risk-related policies and guidelines to reflect changing risks in its business. To measure and manage its credit exposures, Peak Re uses a variety of tools on a daily basis, including assessment of counterparty risk. In addition, Peak Re's credit management system monitors credit exposure to individual counterparties. In the ordinary course of business, the Company may be subject to a concentration of credit risk to a particular counterparty, which Peak Re shall consider to manage through credit risk management policies setting exposure limits. Its dominant retrocessionaire is Peak Reinsurance Company Limited Hong Kong which itself employs retrocession and other risk mitigating techniques.

- Liquidity Risk

Liquidity risk refers to the risk of loss that may arise as a result of insufficient funds due to an unexpected sudden change in cash flow. In case of a major loss, Peak Re needs to have sufficient liquidity to pay claims in a timely manner to retain its main value proposition to ceding insurance companies. Peak Re monitors its liquidity position and as a precautionary protection keeps at least 5% of its shareholder and policyholder funds in cash. Peak Re AG's equity and fixed income instruments are mostly traded in public exchanges and company ensures her portfolio of fixed income securities is made of securities that can be easily liquidated.

- Operational Risk

Peak Re defines operational risk as the risk of loss from people, processes, systems and external events. Peak Re tracks these risks using risk registers, which define the risk owner, describe the risk, defines mitigating actions and quantify the residual risk.

To help mitigate against these risks, Peak Re adopted proper delegated authorities for underwriting and securities trading.

The Company has defined and uses policy/procedures to identify, prevent, detect and mitigate cyber security threats arising from network, e-mail and/or devices and measures to deal with cyber security threats timely and effectively. In addition, the Company runs a "Disaster Recovery Process" at least once a year to test the resilience of its information technology systems and access to critical business information in case of a network disruption, loss of data or security breach.

Peak Re has a business continuity plan (BCP) in place to identify viable measures and actions that the Company can take to continue and restore its position or business activities under different stressed conditions or in advance as precautionary measures.

Peak Re provides training to staff on how to respond to unforeseen external events such as a fire in the office or inaccessibility of office premises (in accordance with the BCP).

- Legal and Compliance Risk

The Head of Risk Management and Compliance and legal counsel of the Company is responsible for ensuring that the Company is in compliance with applicable laws and regulations, guidance notes, guidelines and code issued by relevant regulators (including FINMA) and standards and codes issued by industry bodies (if and as applicable).

The Anti Money Laundering /Counter Financing Terrorism (AML/CFT) policy of the Company establishes procedures for identifying any potential suspicious transactions and for reporting to the senior management, the Board and/or law enforcement authorities as appropriate.

- Internal Control

The monitoring of risk controls and the effective reporting are subject to Internal Audit.
The Internal Auditor exercise independent assessment of risk management and report to the Board on a regular basis and as necessary. The Board is responsible for oversight of all aspects of Peak Re' s risk management systems and measures and ensure proper implementation of this Policy. The internal audit function is outsourced to PWC.

- Risk Concentration and Accumulation

a. Assets

Relevant Concentrations

Peak Re AG's key retrocessionaire is the Parent Company (with AM Best rating of A-) through an intragroup Quota Share and further Excess of Loss protections. This credit risk is monitored closely, and should it become excessive mitigation via collateral or a letter of credit may be put in place.

Default Probabilities of the Relevant Exposures

There are no extraordinary exposures.

b. Liabilities

Peak Re AG expects to write a diversified portfolio of business and have limited risk accumulations on the liability side.

With regards to the quantitative aspects the SST Report 2019 as of 1.1.2019 showed the following risk posture:

The insurance risk of 39.3% % of Target Capital of USD 33.1 (as calculated as per April 2019) compares to 52.4% of the Traget Capital of USD 24.4 as of April 2018: it was mainly driven by the property reinsurance portfolio and its inherent exposure to Natural Catastrophe (Windstorm events in Northern Europe and earthquake risks in Switzerland). In 2018 Agriculture Line of Business in India and its exposure to draught and floods.

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The market risk (10.9% of Target Capital of USD 33.1 as calculated as per April 2019 which compares to 52.4% of the Target Capital of USD 24.4 as of April 2018) was mainly driven by the diversified fixed income portfolio and foreign exchange risk mainly between the CHF, Euro and USD.

The credit risk (43.5% of Target Capital of USD 33.1 as calculated as per April 2019 which compares to 23.0% of the Target Capital of USD 24.4 as of April 2018) was driven by three main elements:
1. Exposure to Peak Re Hong Kong: Our Parent Company provides an 80% intragroup quota share cover to support growth, Peak Re Hong Kong is A- rated with AM Best.
2. Unrated Indian cedants exposures: during 2018 we started to write Indian business. Most of the companies in the Indian market are unrated and this resulted in an increased charge for credit risk.
3. Equity capital: during 2018 the Parent company injected USD 35.5 million of equity capital into Peak Re AG to support business growth.

For a discussion of quantitative aspects refer to section G Solvency

- Reinsurance and risk mitigation techniques

Peak Re uses retrocession to manage overall risk limits for underwriting risk and hedging for foreign exchange or asset volatility management Risk Exposures.

The outward retrocession program adequately protects the capital base of the company against large risk and event losses.

3 E Valuation

Following table provides the Market consistent value of assets and liabilities in USD millions

The following table shows the statutory and market value balance sheets ("MVBS") as at 1 January 2019 and as at 1 January 2018, respectively:

Component	Statutory Balance Sheet 01.01.2019	Market Value Balance Sheet 01.01.2019	Statutory Balance Sheet 01.01.2018	Market Value Balance Sheet 01.01.2018
Assets	236.0	224.9	74.5	73.4
Liabilities	157.0	143.4	26.2	24.0
Equity/RBC	**79.0**	**81.5**	**48.3**	**49.4**

The Market Value Balance Sheet contains all business written or "bound" as at 31 December 2018. Bound business is assumed to be all business incepting 1 January 2019.
The difference between Statutory Balance Sheet and MVBS is due to:

- adjustment to market value for investments on the assets side,
- addition of liabilities for bound-but-not-incepted business as at 1 January 2019,

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- discounting of Best Estimate Loss Reserves,
- adjustment of Unearned Premium Reserve to Market Consistent Premium Liability, and
- exclusion of Equalisation Reserves.

Assets

The following table shows the breakdown of the statutory and MVBS assets as at 1 January 2019 and as at 1 January 2018, respectively:

Component	*SST 2019* Statutory Balance Sheet 01.01.2019	Market Value Balance Sheet 01.01.2019	*SST 2018* Statutory Balance Sheet 01.01.2018	Market Value Balance Sheet 01.01.2018
Retrocessionaires share of UPR	28.0	20.1	2.7	1.6
Cash and cash equivalents	26.9	26.9	11.2	11.2
Bonds	84.1	84.1	45.8	45.8
Equities	0.0	0.0	0.4	0.4
Due from ceding companies	55.8	55.8	4.8	4.8
Due from retrocessionaires	9.3	9.3	0.0	0.0
Deferred acquisition costs - insurance contracts	2.7	0.0	0.9	0.0
Other assets	1.4	1.4	0.7	1.7
Retrocessionnaire outstanding loss reserves	27.9	27.3	7.9	7.8
Total assets	**236.0**	**224.9**	**74.5**	**73.4**

There are observable market prices for all financial assets and these have been revalued at market value in the MVBS.

Fixed interest securities and Loans are valued at market value less required impairments in line with provision of CO art. 960b.

Shares and all other investments are valued at lower of cost or market value.

For all other assets the statutory value has been taken and valued at the market value.

The converted USD value of assets held in different SST currencies is shown in the table below:

Original currency	Market value SST 2019	SST2018
USD	163.6	49.4
EUR	17.8	12.7
CHF	2.7	10.8
GBP	0.8	0.5
JPY	40.1	0.0
Total	**224.9**	**73.4**

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Bonds

The bond position increases from USD 45.8 million to USD 84.1 million due to investment of the capital injection provided by the Parent Company into US government bonds:

	Market value	
Bonds by rating class	**SST 2019**	**SST2018**
US Government Bonds	35.5	0.0
AAA corporate bonds	0.0	0.0
AA corporate bonds	0.0	0.0
A corporate bonds	23.6	33.1
BBB corporate bonds	19.0	5.6
BB corporate bonds	0.0	7.1
B corporate bonds	6.0	0.0
Total	**84.1**	**45.8**

The average modified duration of the bonds has decreased from 4.3 years to 3.0 years due to the relative size of the capital injection, the pay-ins of which were invested into short term US government bonds (in particular) and due to the natural shifting by one year of the maturity, in general.

	Market value in USD million	
Bonds by modified duration (in years)	**SST 2019**	**SST2018**
<1 year	2.5	0.0
1-2 years	43.5	0.0
2-3 years	6.0	2.5
3-4 years	24.6	9.8
4-5 years	4.6	13.8
5-10 years	2.9	19.7
Average duration	**3.0**	**4.3**

Equities

At the end of 2018 we held no equity securities, although we may invest up to 5% of our total assets in this position during the 2019 year as per our investment policy provision.

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Provisions for insurance obligations

USD 000	Technical provisions (gross) 2018	Reinsurers' share 2018	Technical provisions written (net) 2018	Technical provisions (gross) 2017	Reinsurers' share 2017	Technical provisions written (net) 2017
Unearned premium reserve	34'969	27'975	6'994	3'427	2'741	685
Outstanding loss reserves	35'401	27'888	7'513	9'969	7'937	2'032
Equalisation reserve (SER)	1'700	-	1'700	1'500	-	1'500
Total	72'071	55'864	16'207	14'896	10'679	4'217

Retrocessionaire's Outstanding Loss Reserves

The market value of the retrocessionaire's outstanding loss reserves has been calculated as the difference between the market value of gross outstanding claims reserves and the market value of the net outstanding claims reserves. The market value of the net outstanding claims reserves has been estimated using the same approach as for the market value of the gross claims reserves. The same discount factors have been used for gross and net claims reserves.

Retrocessionaire Share of Unearned Premiums Reserve (UPR)

In calculating the ceded UPR we need to reflect the different pricing loss ratios for each contract and underwriting year. We therefore calculate the 2017 incepted business and 2018 bound-but-not-incepted business (i.e. treaties with inception date 1 January 2018) separately.

2018

The total ceded market-consistent UPR for policies incepted in 2017 is calculated as the difference between total gross market-consistent UPR and the total net market-consistent UPR.

2019

The total ceded market consistent UPR for policies incepting on 1 January 2018 is calculated as the difference between total gross market-consistent UPR and the total net market-consistent UPR.

Liabilities

The following table compares the MVBS Liabilities against the Statutory Balance Sheet Liabilities as at 1 January 2019 and as at 1 January 2018.

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Component	SST 2019 Statutory Balance Sheet 01.01.2019	SST 2019 Market Value Balance Sheet 01.01.2019	SST 2018 Statutory Balance Sheet 01.01.2018	SST 2018 Market Value Balance Sheet 01.01.2018
Unearned premium reserves	35.0	26.2	3.4	2.8
Outstanding clams reserves	35.0	34.5	10.0	10.0
Due to ceding companies	6.7	6.7	1.1	1.1
Due to retrocessionaires	72.7	72.7	8.9	8.9
Retrocessionaires' Deferred acquisition costs	2.1	0.0	0.7	0.0
Premium Deficiency Reserve	0.4	0.0	0.2	0.0
Other liabilities	3.5	3.5	0.5	1.2
Equalization reserves	1.7	0.0	1.5	0.0
Total liabilities	**157.0**	**143.4**	**26.2**	**24.0**

The outstanding claims reserves value in the MVBS has been estimated by discounting the statutory values. The UPR has been revalued to the market value and includes bound-but-not-incepted business. Equalisation reserves have been set to zero in the MVBS. For all other positions the statutory value has been taken as the market value.

The Other liabilities position includes amounts due to holding company, and other payables.

The converted USD value of liabilities held in different SST currencies is shown in the table below:

Original Currency	Market Value SST 2019	Market Value SST 2018
USD	76.8	9.6
JPY	43.1	0.0
EUR	18.9	6.1
CHF	3.7	8.3
GBP	0.2	0.0
DKK	0.2	0.0
NOK	0.2	0.0
SEK	0.2	0.0
CZK	0.1	0.0
Total	**143.4**	**24.0**

The gross IBNR reserves have been allocated to currencies based on premium currency split as estimated by using the Initial Expected Loss Ratio Method. Approximately USD 220 thousands of liabilities are in non-SST currencies, which have been mapped to the above SST parameter currencies according to the FINMA market risk guideline.

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Outstanding claims reserves

The market consistent value of the gross case reserves and IBNR is calculated by discounting the best estimate case reserves and IBNR. The discount factors are constructed from the sum of the yield curve given by the 2019 SST StandRe template, multiplied pair-wise with the paid payment pattern for each line of business.

Unearned premium reserves

In calculating the gross Unearned Premium Reserve we need to reflect the different pricing loss ratios for each contract and underwriting year. We therefore calculate the 2018 incepted business and 2019 bound-but-not-incepted (i.e. treaties with inception date 1 January 2019) business separately.

2018

The total gross market-consistent UPR for policies incepted in 2018 is calculated as the difference between the expected gross discounted claim and the gross future premiums.

The gross future premiums are the difference between the gross ultimate unearned premiums and the gross UPR. The maintenance expense ratio assumptions are based on assumptions from Peak Re AG.

2019

The total gross market consistent UPR arising from bound-but-not-incepted business (i.e. treaties with inception date 1 January 2019) is calculated as the difference between the gross expected discounted claims and the gross signed premiums for 1 January 2019.

The 1 January 2019 bound but not incepted exposure arises only from European treaties.

Market Value Margin

The Market Value Margin (“MVM”) has been calculated as defined in the Standard Model approach suggested in the FINMA Technical Document on the Swiss Solvency Test, which is dated 2 October 2006.

The three main components for the MVM calculation are Underwriting Risk for outstanding exposures as at 31 December 2019, Reserve Risk arising from the run-off of liabilities as at 31 December 2018, and Credit Risk arising from the run-off of ceded reserves.

The Underwriting Risk capital charge as at 31 December 2019 is equal to the diversified Attritional Event Premium (AEP), Individual Event 1 (large losses, IE1) and Nat Cat Events (NE) capital charge as at 1 January 2019 scaled in proportion to unearned premium as at 31 December 2019 divided by 2019 earned premium. The unexpired risk at 31 December 2019 is assumed to be fully earned during 2020.

The Reserve Risk capital charge as at 31 December 2019 has been estimated by rescaling the Reserve Risk capital requirement as at 31 December 2018 by the ratio “Expected reserves as at 31 December 2019 / Reserves as at 31 December 2018”. Reserve Risk is then decayed over time in line with projected net loss reserves.

The Credit Risk capital charge as at 31 December 2019 has been estimated using the Standard Model

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approach based on the expected ceded reserves as at 31 December 2019. It is assumed that all expected ceded reserves relate to the quota share treaty (QS) with the parent company. Credit Risk is then decayed over time in line with projected net loss reserves.

SST 2019		
Cost of capital	6%	
Millions USD	31.12.2018	31.12.2019
Non Life		
Underwriting Risk	10	**10.9**
Reserve Risk	17.8	8.9
Diversification	-7.4	-6.3
Required Risk capital	23.5	**15.2**
Non-Life Risk	20.4	13.6
Credit risk	3.2	1.6
Cost of Capital		**0.91**
Non-Life Risk		0.82
Credit risk		0.09
Discount Factor		**97.60%**
Discounted cost of capital		**0.89**
Non-Life Risk		0.80
Credit risk		0.09
MVM	**4.5**	

The MVM for SST 2019 amounts to USD 4.5 million.

The MVM increases slightly from USD 4.2 million in 2018 to USD 4.5 million in 2019. This year, we have used the new formula developed in the Stand Re template.

3 F Capital Management

Peak Re aims at Year-on-Year capital growth through retained earnings. Its long term investors are not primarily looking for dividends during the company's early years of establishment and as a result, Peak Re AG as well is not subject to dividend pressure. Capital management is the core of company strategy of being customer centric in that we co-operate with clients and intermediaries to develop risk and capital solutions to assist our clients to grow profitably, and we look at long term positive outcomes for both our cedents and ourselves.

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We have a capital planning process based on the Own Risk and Solvency Assessment (ORSA) process based on the SST modelling framework. The capital planning process targets:

- to identify, assess, monitor, manage and report the short and long term risks that PRAG faces or may face; and
- to determine the own funds necessary to ensure that the solvency needs are met all the time.

The ORSA requires Peak Re AG to assess own risks and associated economic and regulatory capital needs.

In the process we consider following factors:

- Strategic objectives
- Current and future risk profile
- Any capital buffers required

The ORSA at Peak Re AG is forward-looking across the business planning horizon, i.e. 3 years, it encompasses all material risks, including those which are not captured in the SCR of the SST, such as reputational risks.

Shareholders' equity increased in 2018 by USD 30.9m (CHF 30m) due to a capital injection by mean of additional paid in equity capital of USD 35.5 (increase of the "Kapitaleinlagereserve" of CHF 35.4m) and as per 31 December 2018 amounted to USD 79.1m (CHF 77.7m) up from USD 48.2m (CHF 47.1m) as per 31. December 2017. The current amount of equity capital is shown after deduction of the net loss after taxes of USD 4.7m (CHF4.8m).

The equity capital was composed of a fully paid in share capital of USD 9.8m (or CHF 10.0m), a capital surplus reserves ("Kapitaleinlagereserven") of USD 70.0m (CHF 70.4m) and an Organisation Fund of USD 8.9m (CHF 9.0m). Equity and solvency capital are managed with the ORSA process with a time horizon of three years.
No hybrid, conditional or mezzanine capital instruments were used.

USD 000	Share capital	Statutory capital reserves	Voluntary retained earnings	Treasury shares	Total equity	
As of 31 Dec 2017		**9'837**	**43'335**			53'1 72
Profit (Loss) for the period			(4'889)		(4'889)	
As of 31 Dec 2018	**9'837**	**43'335**	**- 4'889**	**-**	**48'283**	
Additional Paid in capital		35'500			35'500	
Profit (Loss) for the period			(4'731)		(4'731)	
As of 31 Dec 2018	**9'837**	**78'835**	**- 9'619**	**-**	**79'053**	

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Valuation differences between the shareholder's equity position of USD 79.1 million or CHF 77.7 million and the Economic Balance sheet are explained in detail above in chapter 3 E Valuation.

3 G Solvency

The company uses the official version of the StandRe Model (v6.1) for reinsurers published by FINMA in January 2019 (StandRe) for all risks excluding Natural Catastrophe (CAT), and an internal model for CAT risk. The Company's capital and retrocession posture was managed by means of the ORSA process which at Peak Reinsurance AG banks upon the Swiss Solvency Test methodology.

The results of the SST 2019 report and a comparison with the previous SST report as submitted to FINMA are as follows:

SST Model Component	SST 2019	SST 2018	Variance in amount	Variance in percentage
Premium Risk - Attritional (AEP) – net-gross discounted	13.6	3.7	9.9	267%
Premium Risk - Individual (IE1) – net-gross discounted	19.7	6.3	13.4	212.4%
Premium Risk - Nat Cat (NE) – net-gross discounted	16.7	10.7	6.0	56.2%
Diversification	*(25.3)*	*(9.1)*	*(16.2)*	*177.9%*
Premium Risk - Total – net-gross discounted	24.7	11.7	13.0	111.1%
Premium Risk - Total - net discounted	11.1	11.7	(0.6)	-5.0%
Reserve Risk - Attritional (AER) net discounted	2.6	1.0	1.6	159.8%
Reserve Risk - Individual (IE2) net discounted	6.6	7.0	(0.4)	-5.2%
Diversification	*(2.4)*	*(0.9)*	*(1.5)*	*166.4%*
Reserve Risk - Total net discounted	6.8	7.0	(0.2)	-2.4%
Diversification	*(5.0)*	*(5.9)*	*0.9*	*-15.8%*
Insurance Risk - Total net discounted	13.0	12.8	0.2	1.5%
Market Risk	*3.6*	5.5	(1.9)	-34.1%
Scenarios	0.0	0.0	0.0	0.0%
Diversification	*(2.5)*	*(4.8)*	*2.3*	*-47.7%*
Insurance & Market Risk & Scenarios	**14.1**	**13.5**	**0.6**	**4.4%**
Expected Insurance Result	0.4	2.8	(2.4)	-84.4%
Expected Financial Performance Over 1 Year Risk Free	(0.3)	(1.8)	1.5	-84.0%
Insurance plus Market including expected result	**14.2**	**14.5**	**(0.3)**	**-1.7%**
Credit Risk	14.4	5.6	8.8	157.1%
Insurance & Market & Credit including expected result	**28.6**	**20.1**	**8.5**	**42.5%**
Market Value Margin	4.5	4.2	0.3	6.7%
Target Capital	**33.1**	**24.4**	**8.7**	**35.8%**
Risk Bearing Capital (RBC) - pre capital injection	**81.5**	**49.4**	**32.1**	**65.0%**
SST Ratio	**269%**	**224%**	**45%**	**20.0%**

Peak Re AG's solvency ratio increased by 45 percentage points from 224% in 2018 to 269% in 2019. The largest component of the Target Capital is Natural Catastrophe risk (NE) which makes up USD 16.7 million of the USD 33.1 million Target Capital on an undiversified basis.

The Solvency Ratio as calculated under the Swiss Solvency Test and submitted to FINMA was above the minimum threshold required by law and kept at a comfortable level above 200%.

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No extraordinary events occurred requiring a recalculation of the Solvency as per the SST.

Peak Reinsurance AG did not use an internal solvency model for the SST 2018 and 2019.

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4. Audited Balance Sheet on a statutory basis

For the Period January 1, 2018 to December 31, 2018
(Expressed in thousands of CHF)

Assets

CHF thousands	**Note**	**31.12.2018**	**31.12.2017**
Investments		82'539	44'850
Fixed-interest securities		79'177	40'128
Loans	1	3'362	4'301
Shares		-	421
Cash and cash equivalents		26'363	10'946
Reinsurers' share of technical provisions	5	54'832	10'406
Property and equipment		28	33
Deferred acquisition costs, Net	2	527	-
Insurance receivables	3	63'914	4'707
Other receivables	7	380	1'187
Other assets		988	423
Prepaid expenses	4	11	10
TOTAL ASSETS		**229'582**	**72'562**

Liabilities and equity

CHF thousands	**Note**	**31.12.2018**	**31.12.2017**
Technical provisions	5	70'741	14'516
Unearned Premium Reserve		34'324	3'339
Outstanding Loss Reserve		34'748	9'715
Equalisation reserve (SER)		1'669	1'462
Insurance payables	6	55'231	10'426
Other liabilities	7	25'954	569
TOTAL LIABILITIES		**151'926**	**25'511**
Share capital		10'000	10'000
Legal capital reserves		79'462	44'055
Reserves from capital contributions		70'462	35'055
Organization fund		9'000	9'000
Legal retained earnings			
Voluntary retained earnings		-11'806	-7'004
Loss carried forward		-7'004	
Loss		-4'802	-7'004
Total equity	**8**	**77'656**	**47'051**
TOTAL LIABILITIES AND EQUITY		**229'582**	**72'562**

See accompanying notes to audited financial statements

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4. Audited Profit and Loss Statement of a statutory basis

CHF 000	Note	2018	2017
Gross premium written		67'569	12'438
Premiums ceded to reinsurers		-54'424	-10'088
Net premiums written		**13'145**	**2'350**
Change in unearned premium reserves	10	-30'769	-3'357
Change in reinsurers' share of unearned premium reserves	10	24'615	2'686
Net premiums earned		**6'991**	**1'679**
Total technical income		**6'991**	**1'679**
Gross claims and claim expenses paid		-2'455	473
Reinsurer's share of claims and claim expenses		1'971	-379
Change in technical provisions	10	-25'047	-11'210
Change in reinsurers' share of technical provisions	10	19'462	7'776
Net claims and claim expenses incurred		**-6'069**	**-3'340**
Acquisition costs and administrative expenses		-11'546	-5'973
Change in deferred acquisition costs , assumed reinsurance	9	2'619	
Reinsurers' share of acquisition costs and administrative expenses		7'687	2'205
Change in deferred acquisition costs, Reinsurers' share	9	-2'095	
Net acquisition costs and administrative expenses		**-3'335**	**-3'767**
Other technical expenses own business		-127	-52
Total technical expenses		**-9'531**	**-7'159**
Income from investments	12	1'840	583
Expenses from investments	13	-3'028	-16
Net income from investments		**-1'188**	**567**
Other financial income		-	227
Other financial expenses		-540	-
Operating result		**-4'268**	**-4'686**
Other income		-	-
Foreign exchange on currency translation to national currency		-187	-2'215
Other expenses	14	-347	-103
Extraordinary income/expenses		-	-
Profit/loss before tax		**-4'802**	**-7'004**
Income tax expense		-	-
LOSS		**-4'802**	**-7'004**

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6. Audited Cash flow statement of a statutory basis

in Thousands CHF	31.12.2018	31.12.2017
Profit/loss	-4'802	-7'004
Depreciation, amortization and write-downs on ...		
Property and equipment	9	31
Investments*		
Net realized gains/losses on investments fixed-interest securities	1'447	1'089
Net realized gains/losses on investments loans	148	41
Net realized gains/losses on investments shares	-562	20
Net realized gains/losses on other investments	13	
Net unrealized gains/losses on investments fixed-interest securities	-2'234	
Net unrealized gains/losses on investments shares	-	-540
Increase/decrease in		
Unearned premium reserves	6'192	668
Technical provisions	25'203	11'151
Increase/decrease in assets and liabilities		
Purchase/Proceeds from sale of fixed-interest securities	-45'346	-35'163
Purchase/Proceeds from sale of loans	970	-4'301
Purchase/Proceeds from sale of shares	424	-489
Reinsurance share of technical provisions	-19'583	-7'735
Deferred acquisition costs	-703	
Insurance receivables	-59'173	-4'707
Other receivables	-2'218	0
Other assets	-	-45
Foreign exchange gains and losses Reinsurance activities	-2'581	63
Prepaid expenses	3	45
Insurance payables	54'244	1'038
Other liabilities	15'975	569
Changes in other operating assets and liabilities	12'506	2'193
Cash flow from operating activities	**-19'987**	**-43'075**
Purchase of property and equipment	-3	-33
Cash flow from investing activities	**-3**	**-33**
Issuance of shares	35'407	54'055
Cash flow from financing activities	35'407	54'055
Change in cash and cash equivalents	**15'417**	**10'946**
Statement:		
Cash and cash equivalents as of 1 January	-10'946	-
Cash and cash equivalents as of 31 December	26'363	10'946
Change in cash and cash equivalents	**15'417**	**10'946**

7. Notes to the Financial Statements

Notes to Financial Statements

December 31, 2017
(Expressed in thousands of CHF)

1. **Basis of preparation**

The annual financial statements have been prepared in accordance with the provisions on commercial accounting of the Swiss Code of Obligations (CO) (Art. 957-963b CO, applicable as of January 1, 2013 Apart from the CO, the provisions of the Swiss Ordinance on the Supervision of Private Insurance Companies (Art. 5-6a AVO-FINMA, applicable as of December 15, 2015) have been applied.

The company was founded on 26th September 2016.

2. **Accounting principles**

The Company's accounting principles are in line with those prescribed by the CO and AVO-FINMA. The accounting and valuation principles applied for the balance sheet items are as follows.

(a) ***Investments***

Fixed interest securities and Loans are valued at market value less required impairments in line with provision of CO art. 960b.

Shares and all other investments are valued at lower of cost or market value.

(b) ***Cash and cash equivalents***

Cash and cash equivalents and other highly liquid investments with maturity of less than three months are carried in the balance sheet at nominal value.

(c) ***Deferred acquisition costs***

Deferred acquisition costs (DAC) are costs that vary with and are directly related to the acquisition of new and renewal business, including for example commissions and certain underwriting and policy issue expenses, these costs, newly from this year, are deferred and subsequently amortized over the period in which the related premiums are earned.
Last year such costs were not deferred and amortised to income over the periods in which the premiums are earned but were expensed in the year.

(d) ***Reinsurance receivable***

Reinsurance receivable are recognised when due and recorded net of commissions, brokerage, premium taxes and other levies on premium, unless the contract specifies otherwise, and are booked at nominal value.

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(Expressed in thousands of CHF)

(e) ***Technical provisions***

Technical provisions comprise unearned premium reserves, outstanding losses and loss expense reserves, provisions for unexpired risk reserve, equalization reserves.

Unearned premium reserves is earned respectively amortized over the period of exposure to risk of the underlying contract.

Outstanding losses comprise estimates of the amount of reported losses and loss expenses received from the ceding insurance companies plus a provision for losses incurred but not reported ("IBNR"). The IBNR provision is estimated by management based on reports from industry sources, including initial estimates of aggregate industry losses, individual loss estimates received from ceding companies and brokers, output from commercially available catastrophe loss models and actuarial analysis using historical data available to the Company on the business assumed together with industry data.

Equalization reserves are set in accordance with FINMA Circular 2011/3 and the company approved business plan. These reserves are booked in addition to the best estimate for claims reserves.

(f) ***Foreign Currencies remeasurement and translation***

The Company maintains its accounts in its functional currency: USD and the annual financial statements prepared in USD and is presented in CHF, the national reporting currency. Expenses and income in foreign currencies are translated at the prevailing rate at the date when the transactions are carried out. At period end, monetary assets and liabilities in foreign currencies are revalued at year-end exchange rates. The resulting exchange-rates differences are included in the income statement. The aggregate unrealized exchange loss remains in the income statement while the aggregate unrealized exchange gain is deferred.

For the statutory closing, the financial statements are presented in CHF. For this purpose, the USD accounts are translated in CHF using the year end rate for balance sheet, average rate for income statement and historical rates for the equity. A resulting foreign currency translation loss is shown in the income statement while a gain is deferred.

The exchange rates used for year end 2018 and 2017 respectively are presented below:

	Balance Sheet		**Income Statement**		**Equity (historical rates)**	
Currency	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
USD	0.9815	0.9745	0.9755	0.9797	0.9974	1.0166

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Notes to Financial Statements
For the Period January 1, 2018 to December 31, 2018
(Expressed in thousands of CHF)

1. Loans

CHF 000	31.12.2018	31.12.2017
Investments in senior secured loans	3'362	4'301
Total	**3'362**	**4'301**

2. Deferred acquisition costs, Net

CHF 000	31.12.2018	31.12.2017
Deferred acquisition costs, assumed reinsurance	2'635	0
Deferred acquisition costs, ceded reinsurance	-2'108	0
Total	**527**	**-**

3. Insurance receivables

	Third-party	Intercompany Participants	Total	Third-party	Intercompany Participants	Total
CHF 000	31.12.2018	31.12.2018	31.12.2018	31.12.2017	31.12.2017	31.12.2017
Receivables from insurance companies	54'781	9'133	63'914	4'707	-	**4'707**
Total	**54'781**	**9'133**	**63'914**	**4'707**	**-**	**4'707**

4. Prepaid expenses

CHF 000	31.12.2018	31.12.2017
Other deferrals	11	10
Total	**11**	**10**

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(Expressed in thousands of CHF)

5. Technical provisions

CHF 000	Technical provisions (gross) 31.12.2018	Reinsurers' share 31.12.2018	Technical provisions written (net) 31.12.2018	Technical provisions (gross) 31.12.2017	Reinsurers' share 31.12.2017	Technical provisions written (net) 31.12.2017
Unearned premium reserve	34'324	27'458	**6'865**	3'339	2'671	**668**
Outstanding loss reserves	34'748	27'374	**7'374**	9'715	7'735	**1'980**
Equalisation reserve (SER)	1'669	0	**1'669**	1'462		**1'462**
Total	**70'741**	**54'832**	**15'908**	**14'516**	**10'406**	**4'110**

Changes in technical provisions, included as part of net claims and claim expenses incurred in the income statement, for year 2017 were related to changes in outstanding losses and loss expense reserves.

6. Insurance payables

CHF 000	Third-party 31.12.2018	Intercompany Participants 31.12.2018	Total 31.12.2018	Third-party 31.12.2017	Intercompany Participants 31.12.2017	Total 31.12.2017
Liabilities to insurance companies *	6'495	48'736	**55'231**	1'038	9'388	**10'426**
Total	**6'495**	**48'736**	**55'231**	**1'038**	**9'388**	**10'426**

* in 2018 and in 2017 amounts for intercompany dues are for the Retro quota share agreement premiums with parent company

7. Other liabilities

CHF 000	Third-party 31.12.2018	Intercompany Participants 31.12.2018	Total 31.12.2018	Third-party 31.12.2017	Intercompany Participants 31.12.2017	Total 31.12.2017
Other receivables	380	-	**380**	0	1'187	**1'187**
Other liabilities	3'373	22'581	**25'954**	569	-	**569**

* in 2018 CHF 20 million are a collateral, paid in cash under the terms of the Quota share retrocession agreement; CHF 1 million for various other services outsourced to parent company

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(Expressed in thousands of CHF)

8. Statement of changes in equity

CHF 000	Share capital	Legal capital reserves	Voluntary retained earnings	Total equity
As of 26 Sept 2016 date of incorporation of company	**10'000**	**44'055**	**-**	**54'055**
Loss for the period			-7'004	-7'004
As of 31 Dec 2017	**10'000**	**44'055**	**-7'004**	**47'051**
Transfer to voluntary retained earnings				-
Additional Paid in capital		35'407		35'407
Loss for the period			-4'802	-4'802
As of 31 Dec 2018	**10'000**	**79'462**	**-11'806**	**77'656**

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Disclosures, breakdowns and explanations on income statement items

For comparatives in the income statements period are for 2018 1.1.2018 to 31.12.2018 for 2017 the extended reporting period from 26.9.2016 to 31.12.2017

9. Change in Deferred acquisition costs, Net

USD 000	2018	2017
Change in deferred acquisition costs, assumed reins.	2'619	-
Change in deferred acquisition costs, ceded reins.	-2'095	-
Total	**524**	**-**

10. Change in technical provisions (gross) and in Reinsurers' share of technical provisions

CHF 000	Technical provisions (gross)	Reinsurers' share	Technical provisions written (net)	Technical provisions (gross)	Reinsurers' share	Technical provisions written (net)
	2018	2018	2018	2017	2017	2017
Change in Unearned premium reserve	30'769	24'615	6'154	3'357	2'686	671
Change in loss reserves	24'852	19'462	5'390	11'210	7'776	3'434
Change in SER (Security Equalization Reserve)	195		195			-
Total	55'816	44'077	11'739	14'567	10'462	4'106

Change in SER (Security Equalization Reserve) of CHF 0.195m in 2018, was CHF 1.462m in 2017 and was included in Change in loss reserves (gross).
* Deferred acquisitions costs were not reported in 2017 and their effect removed by posting them in the P&L, for an amount of CHF 174K additional expenses; in 2018 we started to make use of DAC provisions.

11. Audit fees

CHF 000	2018	2017
Audit services	145	109
Other services		
Total	**145**	**109**

The audit fees include fees for engagements with a direct or indirect connection to a current or future audit engagement and fees for audit-related activities. The fees exclude outlays and include VAT.

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Notes to Financial Statements

For the Period January 1, 2018 to December 31, 2018

(Expressed in thousands of CHF)

12. Income from investments

CHF 000	Income 2018	Net unrealized gains 2018	Net realized gains 2018	Total 2018	Income 2017	Net unrealized gains 2017	Net realized gains 2017	Total 2017
Fixed-interest securities	1'447	205		**1'652**	259		7	**266**
Loans	148			**148**	19			**19**
Shares	27			**27**	20			**20**
Other investments	13			**13**	278			**278**
Total	1'635	205	-	**1'840**	**576**	**-**	**7**	**583**

13. Expenses from investments

CHF 000	Current expenses 2018	Net unrealized losses 2018	Net realized losses 2018	Total 2018	Current expenses 2017	Net unrealized losses 2017	Net realized losses 2017	Total 2017
Fixed-interest securities	86	1'742	611	**2'439**	9	-	7	**16**
Loans					-	-	-	**-**
Shares			589	**589**	-	-	-	**-**
Other investments					-	-	-	**-**
Total	86	1'742	1'200	**3'028**	**9**	**-**	**7**	**16**

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(Expressed in thousands of CHF)

14. Personnel expenses

Personnel expenses for fiscal year 2018 amounted to CHF 1'698K as compared to 2017 amount of CHF 1'484k and are included in the line i

15. Contingent Liabilities : none

16. Other Expenses

CHF 000	**2018**	**2017**
Capital Tax expenses	347	103
Total	**347**	**103**

17. Full-time equivalents

The annual average number of full-time equivalents for the reporting year was 6.

18. Restricted assets

As at December 31, 2018 no fixed interest securities were held by the Company for the purpose of funding future claim payments in relation to a loss portfolio transfer agreement, these were paid directly to the ceding company upon underwriting of the contract.

In the normal course of business, no fixed interest securities and cash and cash equivalents as at December 31, 2018, were deposited in trust for the benefit of ceding companies and credit institutions since no such deposit was required, for the purpose of doing Reinsurance business.

To secure the rental of the office premises a deposit of 47k is held with Zurich Kantonal Bank.

19. Commitments

At December 31, 2018, we had no letters of credit in favour of ceding companies or a letter of credit facility with any Bank.

20. Further points subject to mandatory disclosure

- No significant event affecting the amounts reported in the balance sheet occurred after the balance sheet date
- No bonds were issued by the company

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8. Proposed appropriation of retained earnings

CHF 000	2018
Retained losses carried forward	-7'004
Loss for the year	-4'802
Loss to be carried forward	**-11'806**

The Board of Directors proposes to appropriate the retained earnings as follows:

Distributable Earnings (deficit)	-11'806
Transfer to/from Organisation Fund	0
Amount carried forward	**-11'806**

No dividend is proposed since the year ended with a loss.

Further allocations have been waived.

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9. External auditor's report

The external auditors approved the financial statement without qualifications or reservations.

See Appendix 4

Note: This Management Report with the Financial Statement in the attachment is in compliance with the requirements of the FINMA Circular 2016-02 on Public Disclosure. As Peak Reinsurance AG does not have an internet website this Management Report is available upon request for all interested parties within 20 days after such request. Upon request the most recent Annual Report of Peak Reinsurance Company Ltd., Hong Kong is available too.

Appendix 1

Financial Condition Report: Quantitative Template
"Income Statement Peak Reinsurance AG"

Currency: CHF

		Total		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
1	Gross written premiums and policy fees	12'437'799	67'568'964	156'999	130'003			356'408	5'706'198	37'154	342'240	9'427'494	20'280'226		1'864'152	2'459'744	39'246'145
2	Premiums ceded to reinsurers	(10'087'848)	(54'424'270)	(125'599)	(104'002)			(285'127)	(4'564'958)	(29'723)	(273'792)	(7'679'604)	(16'593'280)		(1'491'321)	(1'967'795)	(31'396'916)
3	Net written premiums and policy fees (1 + 2)	2'349'951	13'144'694	31'400	26'001	-	-	71'281	1'141'240	7'431	68'448	1'747'890	3'686'946	-	372'830	491'949	7'849'229
4	Change in reserves for unearned premiums, gross	(3'357'109)	(30'768'868)		(62'938)			(13'090)	(1'833'267)		(34'695)	(2'063'186)	(3'063'723)		(510'035)	(1'280'833)	(25'264'209)
5	Change in reserves for unearned premiums, ceded	2'685'687	24'615'094		50'351			10'471	1'466'614		27'756	1'650'549	2'450'978		408'028	1'024'667	20'211'367
6	Net earned premiums and policy fees (3+4+5)	1'678'529	6'990'920	31'400	13'413	-	-	68'662	774'586	7'431	61'509	1'335'253	3'074'202	-	270'823	235'783	2'796'387
7	Other income [1]	-	-														
8	**Total techical income (6+7)**	**1'678'529**	**6'990'920**	**31'400**	**13'413**	**-**	**-**	**68'662**	**774'586**	**7'431**	**61'509**	**1'335'253**	**3'074'202**	**-**	**270'823**	**235'783**	**2'796'387**
9	Claims paid and loss adjustment expenses, gross	473'732	(2'455'272)		112				(16'887)		(1'673)	963'377	(360'066)		-	(489'645)	(2'076'757)
10	Claims paid and loss adjustment expenses, ceded	(378'985)	1'971'558		(89)				13'510		1'339	(770'702)	288'053		-	391'717	1'668'746
11	Change in reinsurance reserves, gross	(11'210'320)	(25'046'849)	(155'039)	(36'523)			(460'788)	(3'651'151)	(34'370)	(192'449)	(8'467'893)	(9'923'436)		(1'896'279)	(2'092'230)	(9'347'010)
12	Change in reinsurance reserves, ceded	7'775'897	19'461'897	108'055	29'175			321'149	2'758'669	23'955	150'496	5'864'548	7'628'628		1'454'793	1'458'190	7'440'137
13	Change in actuarial provisions for unit-linked contracts	-	-														
14	**Insurance benefit and losses, net of reinsurance (9+10+11+12+13)**	**(3'339'676)**	**(6'068'665)**	**(46'984)**	**(7'326)**	**-**	**-**	**(139'639)**	**(895'860)**	**(10'415)**	**(42'288)**	**(2'410'670)**	**(2'366'822)**	**-**	**(441'486)**	**(731'968)**	**(2'314'884)**
15	Underwriting & policy acquisition costs, gross	(2'440'801)	(5'300'776)	(10'985)	(12'306)			(35'641)	(553'226)		(15'266)	(1'980'879)	(3'548'040)		(95'545)	(413'296)	(1'076'393)
16	Underwriting & policy acquisition costs, ceded	2'200'907	5'591'834	9'945	12'445			32'268	556'705		19'057	1'784'514	3'243'870		113'719	374'180	1'646'038
17	Underwriting & policy acquisition costs, net or reinsurance (15 + 16)	(239'894)	291'058	(1'040)	139	-		(3'373)	3'479		3'792	(196'365)	(304'170)	-	18'174	(39'116)	569'644
18	Administrative and other expense [1]	(3'568'085)	(3'753'242)	(45'174)	(7'221)			(102'551)	(316'961)		(19'010)	(2'712'609)	(1'126'502)		(103'548)	(707'751)	(2'179'999)
19	**Total technical expenses (14 + 17 + 18) (non-life reinsurance only)**	**(7'147'655)**	**(9'530'850)**	**(93'198)**	**(14'408)**	**-**	**-**	**(245'563)**	**(1'209'342)**	**(10'415)**	**(57'506)**	**(5'319'644)**	**(3'797'494)**		**(526'860)**	**(1'478'835)**	**(3'925'239)**
20	Investment income	583'325	(1'101'767)														
21	Investment expenses	(16'406)	(86'336)														
22	**Net investment result (20 + 21)**	**566'919**	**(1'188'104)**														
23	Net investment result on unit-linked investments																
24	Other financial income	226'854															
25	Other financial expense		(540'286)														
26	**Operating result (8 + 14 + 17 + 18 + 22 + 23 + 24 + 25)**	**(4'675'353)**	**(4'268'319)**														
27	Interest expense on debt an other interest expense																
28	Other income																
29	Other expense	(2'328'647)	(533'849)														
30	Extraordinary income/expense																
31	**Net income before taxes (26 + 27 + 28 + 29 + 30)**	**(7'004'000)**	**(4'802'168)**														
32	Direct tax expenses																
33	**Net income after taxes (31 + 32)**	**(7'004'000)**	**(4'802'168)**														

[1] Line item 7 and 18 LoB allocated according to GWP.

Appendix 3

Financial situation report: quantitative template "SolvencySolo"

Currency: USD currency for SST reporting
Amounts stated in millions

		31.12.2017	Adjustments previous period	31.12.2018
		in USD millions	in USD millions	in USD millions
Derivation of RBC	Market-consistent value of assets minus total from best estimate liabilities plus market-consistent value of other liabilities	49.4		81.50
	Deductions	-		-
	Core capital	49.4		81.50
	Supplementary capital	-		-
	RBC	49.4		81.50

		31.12.2017	Adjustments previous period	31.12.2018
		in USD millions	in USD millions	in USD millions
Derivation of target capital	Underwriting risk	11.7		11.1
	Market risk	5.5		3.6
	Diversification effects	-2.6		-0.5
	Credit risk	5.6		14.4
	Risk margin and other effects on target capital	4.2		4.5
	Target capital	24.4		33.1

	31.12.2017	Adjustments previous period	31.12.2018
	in %	in %	in %
SST ratio	224%		269%

Appendix 2

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

Currency: USD currency for SST reporting
Amounts stated in millions

		31.12.2017	Adjustments previous period	31.12.2018
		in USD millions	in USD millions	in USD millions
Market-consistent value of investments	Real estate	-		-
	Shareholdings	-		-
	Fixed-income securities	41.387		80.667
	Loans	4.413		3.425
	Mortgages	-		-
	Equities	0.432		-
	Other investments	-		-
	Collective investment schemes	-		-
	Alternative investments	-		-
	Other investments	-		-
	Total investments	**46.232**		**84.091**
	Financial investments from unit-linked life insurance	0		0
	Receivables from derivative financial instruments	0		0
Market-consistent value of other assets	Cash and cash equivalents	11.233		26.858
	Receivables from insurance business	14.309		112.580
	Other receivables	1.686		1.393
	Other assets			
	Total other assets	**27.228**		**140.832**
Total market-consistent value of assets	Total market-consistent value of assets	**73.460**		**224.923**

Best estimate liabilities (BEL)	Best estimate of provisions for insurance liabilities			
	Direct insurance: life insurance business (excluding ALV)	0		0
	Direct insurance: non-life insurance business	0		0
	Direct insurance: health insurance business	0		0
	Direct insurance: unit-linked life insurance business	0		0
	Direct insurance: other business	0		0
	Outward reinsurance: life insurance business (excluding ALV)	0		0
	Outward reinsurance: non-life insurance business	8.869		35.401
	Outward reinsurance: health insurance business	0		0
	Outward reinsurance: unit-linked life insurance business	0		0
	Outward reinsurance: other business	0		0
	Reinsurers' share of best estimate of provisions for insurance liabilities			
	Direct insurance: life insurance business (excluding ALV)	0		0
	Direct insurance: non-life insurance business	0		0
	Direct insurance: health insurance business	0		0
	Direct insurance: unit-linked life insurance business	0		0
	Direct insurance: other business	0		0
	Outward reinsurance: life insurance business (excluding ALV)	0		0
	Outward reinsurance: non-life insurance business	13.827		81.503
	Outward reinsurance: health insurance business	0		0
	Outward reinsurance: unit-linked life insurance business	0		0
	Outward reinsurance: other business	0		0
Market-consistent value of other liabilities	Non-technical provisions	0		0
	Interest-bearing liabilities	0		0
	Liabilities from derivative financial instruments	0		0
	Deposits retained on ceded reinsurance	0		0
	Liabilities from insurance business	0		0
	Other liabilities	1.284		26.442
Total BEL plus market-consistent value of other liabilities	Total BEL plus market-consistent value of other liabilities	23.980		143.347

	Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	49.48		81.58

Report of the statutory auditor

with financial statements as of 31 December 2018 of

Peak Reinsurance AG, Zurich

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To the General Meeting of
Peak Reinsurance AG, Zurich

Zurich, 30 April 2019

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Peak Reinsurance AG, which comprise the balance sheet, income statement, cash flow 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 recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Armin Imoberdorf
(Qualified
Signature)

Licensed audit expert
(Auditor in charge)

Sergio Sardo
(Qualified
Signature)

US Certified Public Accountant

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