Swiss Re

Swiss Re ReAssure Ltd

Half-Year 2018 Report

Financial highlights

For the six months ended 30 June

USD millions, unless otherwise stated	2017	**2018**	Change in %
Net income attributable to common shareholder	145	**90**	–38
Premiums earned and fee income	248	**278**	12
Dividends on common shares	1 658	**1 077**	–35
Shareholder's equity (31.12.2017/30.06.2018)	6 198	**4 654**	–25
Return on equity in %[1]	5.0	**3.3**	
Gross cash generation[2]	528	**662**	25

[1] Return on equity is calculated by dividing annualised net income attributable to common shareholder by average common shareholder's equity.

[2] Gross cash generation is the change in excess capital available over and above the target capital position, with the target capital being the minimum statutory capital plus the additional capital required by Swiss Re ReAssure Group's capital management policy.

Content

Group financial statements **2**
Income statement 2
Statement of comprehensive income 3
Balance sheet 4
Statement of shareholder's equity 6
Statement of cash flows 7

Notes to the Group financial statements **8**
Note 1 Organisation and summary of significant accounting policies 8
Note 2 Information on business segments 11
Note 3 Insurance information 14
Note 4 Deferred acquisition costs (DAC) and acquired present value of future profits (PVFP) 15
Note 5 Investments 16
Note 6 Fair value disclosures 22
Note 7 Derivative financial instruments 31
Note 8 Debt 33
Note 9 Variable interest entities 34
Note 10 Benefit plans 36

General information **38**
Cautionary note on forward-looking statements 38
Note on risk factors 40

Income statement

For the six months ended 30 June

USD millions	Note	2017	2018
Revenues			
Gross premiums written	3	213	**252**
Net premiums written	3	76	**106**
Change in unearned premiums		–1	**–5**
Premiums earned	3	75	**101**
Fee income from policyholders		173	**177**
Net investment income – non-participating business	5	374	**412**
Net realised investment gains/losses – non-participating business[1]	5	37	**51**
Net investment result – unit-linked and with-profit business	5	1 585	**394**
Total revenues		2 244	**1 135**
Expenses			
Life and health benefits	3	–516	**–452**
Return credited to policyholders		–1 410	**–353**
Acquisition costs	3	4	**–82**
Operating expenses		–139	**–127**
Total expenses before interest expenses		–2 061	**–1 014**
Income before interest and income tax expense		183	**121**
Interest expenses		–15	**–19**
Income before income tax expense		168	**102**
Income tax expense		–23	**–12**
Net income attributable to common shareholder		145	**90**

[1] Total impairments for the six months ended 30 June of USD 8 million in 2017 and nil in 2018, respectively, were fully recognised in earnings.

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

Statement of comprehensive income

For the six months ended 30 June

USD millions	2017	**2018**
Net income attributable to common shareholder	145	**90**
Other comprehensive income, net of tax:		
Change in net unrealised investment gains/losses	–26	**–587**
Change in cash flow hedges	–5	**12**
Change in foreign currency translation	225	**–100**
Change in adjustment for pension benefits	–1	**5**
Total comprehensive income attributable to common shareholder	338	**–580**

Reclassification out of accumulated other comprehensive income

For the six months ended 30 June

2017 USD millions	Net unrealised investment gains/losses[1]	Cash flow hedges[1]	Foreign currency translation	Adjustment from pension benefits[2]	Accumulated other comprehensive income
Balance as of 1 January	1 929	–7	–713	–136	1 073
Change during the period	68	18	225	–8	303
Amounts reclassified out of accumulated other comprehensive income	–96	–23		7	–112
Tax	2				2
Balance as of period end	1 903	–12	–488	–137	1 266

2018 USD millions	Net unrealised investment gains/losses[1]	Cash flow hedges[1]	Foreign currency translation	Adjustment from pension benefits[2]	**Accumulated other comprehensive income**
Balance as of 1 January	2 171	–10	–340	–83	**1 738**
Change during the period	–609	9	–99	2	**–697**
Amounts reclassified out of accumulated other comprehensive income	–57	3		4	**–50**
Tax	79		–1	–1	**77**
Balance as of period end	**1 584**	**2**	**–440**	**–78**	**1 068**

[1] Reclassification adjustment included in net income is presented in "Net realised investment gains/losses – non-participating business".
[2] Reclassification adjustment included in net income is presented in "Operating expenses".

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

Balance sheet

Assets

USD millions	Note	31.12.2017	30.06.2018
Investments	5,6,7		
Fixed income securities available-for-sale (amortised cost: 2017: 20 633; 2018: 18 502)		23 312	**20 513**
Policy loans, mortgages and other loans		853	**870**
Investment real estate		201	**186**
Short-term investments		1 345	**900**
Other invested assets		539	**721**
Investments for unit-linked and with-profit business (including fixed income securities trading: 5 209 in 2017 and 4 973 in 2018, equity securities trading: 28 198 in 2017, equity securities at fair value through earnings: 27 005 in 2018)		34 581	**33 257**
Total investments		60 831	**56 447**
Cash and cash equivalents		2 543	**1 282**
Accrued investment income		417	**347**
Premiums and other receivables		29	**97**
Reinsurance recoverable on unpaid claims and policy benefits		2 028	**1 955**
Deferred acquisition costs	4		**803**
Acquired present value of future profits	4	557	**524**
Goodwill		142	**139**
Income taxes recoverable		48	**41**
Deferred tax assets		624	**485**
Other assets		273	**248**
Total assets		67 492	**62 368**

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

Liabilities and equity

USD millions	Note	31.12.2017	30.06.2018
Liabilities			
Unpaid claims and claim adjustment expenses		352	**378**
Liabilities for life and health policy benefits		24 545	**23 383**
Policyholder account balances		31 773	**30 141**
Unearned premiums		142	**144**
Funds held under reinsurance treaties		169	**159**
Reinsurance balances payable		41	**35**
Income taxes payable		84	**20**
Deferred and other non-current tax liabilities		1 415	**1 025**
Short-term debt	8	433	**224**
Accrued expenses and other liabilities		803	**716**
Long-term debt	8	1 537	**1 489**
Total liabilities		61 294	**57 714**
Equity			
Common shares, GBP 1 par value 2017: 2 738 045; 2018: 2 738 045 registered shares		4	**4**
Additional paid-in capital		5 061	**5 174**
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax		2 171	**1 584**
Cash flow hedges, net of tax		–10	**2**
Foreign currency translation, net of tax		–340	**–440**
Adjustment for pension and other post-retirement benefits, net of tax		–83	**–78**
Total accumulated other comprehensive income		1 738	**1 068**
Retained earnings		–605	**–1 592**
Total equity		6 198	**4 654**
Total liabilities and equity		67 492	**62 368**

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

Statement of shareholder's equity

For the twelve months ended 31 December and the six months ended 30 June

USD millions	2017	2018
Common shares		
Balance as of 1 January	4	**4**
Changes during the period		
Balance as of period end	4	**4**
Additional paid-in capital		
Balance as of 1 January	4 620	**5 061**
Capital contribution	441	**113**
Changes during the period		
Balance as of period end	5 061	**5 174**
Net unrealised investment gains/losses, net of tax		
Balance as of 1 January	1 929	**2 171**
Changes during the period	242	**–587**
Balance as of period end	2 171	**1 584**
Cash flow hedges, net of tax		
Balance as of 1 January	–7	**–10**
Changes during the period	–3	**12**
Balance as of period end	–10	**2**
Foreign currency translation, net of tax		
Balance as of 1 January	–713	**–340**
Changes during the period	373	**–100**
Balance as of period end	–340	**–440**
Adjustment for pension and other post-retirement benefits, net of tax		
Balance as of 1 January	–136	**–83**
Changes during the period	53	**5**
Balance as of period end	–83	**–78**
Retained earnings		
Balance as of 1 January	773	**–605**
Net income attributable to common shareholder	273	**90**
Dividends on common shares	–1 658	**–1 077**
Transactions under common control[1]	7	
Balance as of period end	–605	**–1 592**
Shareholder's equity	6 198	**4 654**

[1] This includes a business transfer to an entity outside of the SRRL Group.

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

Statement of cash flows

For the six months ended 30 June

USD millions	2017	2018
Cash flows from operating activities		
Net income attributable to common shareholder	145	**90**
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items	77	**84**
Net realised investment gains/losses	–1 113	**96**
Change in:		
Technical provisions and other reinsurance assets and liabilities, net	861	**–1 166**
Funds held by ceding companies and under reinsurance treaties	–16	**–6**
Reinsurance recoverable on unpaid claims and policy benefits	65	**24**
Other assets and liabilities, net	–8	**39**
Income taxes payable/recoverable	–65	**–227**
Trading positions, net	48	**3**
Net cash provided/used by operating activities	–6	**–1 063**
Cash flows from investing activities		
Fixed income securities:		
Sales	1 679	**2 451**
Maturities	292	**299**
Purchases	–827	**–1 051**
Net purchases/sales/maturities of short-term investments	–147	**215**
Net purchases/sales/maturities of other investments	385	**39**
Net purchases/sales/maturities of investments held for unit-linked and with-profit business	1 286	**259**
Net cash provided/used by investing activities	2 668	**2 212**
Cash flows from financing activities		
Policyholder account balances, unit-linked and with-profit business:		
Deposits	292	**296**
Withdrawals	–1 439	**–1 474**
Issuance/repayment of long-term debt	–94	**–9**
Issuance/repayment of short-term debt		**-207**
Capital contribution received from parent		**113**
Dividends paid to parent	–1 403	**–1 077**
Net cash provided/used by financing activities	–2 644	**–2 358**
Total net cash provided/used	18	**–1 209**
Effect of foreign currency translation	144	**–52**
Change in cash and cash equivalents	162	**–1 261**
Cash and cash equivalents as of 1 January	2 206	**2 543**
Cash and cash equivalents as of 30 June	2 368	**1 282**

Interest paid was USD 16 million and USD 20 million for the six months ended 30 June 2017 and 2018, respectively. Tax paid was USD 88 million and USD 239 million for the six months ended 30 June 2017 and 2018, respectively.

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

Notes to the Group financial statements

1 Organisation and summary of significant accounting policies

Nature of operations

The Swiss Re ReAssure Group, which is headquartered in Jersey, comprises Swiss Re ReAssure Limited (the parent company, referred to as "SRRL") and its subsidiaries (collectively, the "Group"). The Group acquires individual closed blocks of in-force long-term life, pensions and health business through reinsurance, legal transfers of books of business to the Group, the acquisition of life insurance companies or a combination thereof. The principal products administered are long-term life and pension products, permanent health insurance, critical illness products and retirement annuities.

SRRL is a wholly owned subsidiary of Swiss Re Life Capital Ltd, which is wholly owned by Swiss Re Ltd. Swiss Re Ltd is the ultimate parent company of the Swiss Re Group, which consists of four business segments: Property & Casualty Reinsurance, Life & Health Reinsurance, Corporate Solutions and Life Capital, which includes SRRL and its subsidiaries. SRRL and its subsidiaries manage the closed book business of the Life Capital segment in the United Kingdom and Republic of Ireland.

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). All significant intra-group transactions and balances have been eliminated on consolidation. The year-end balance sheet data presented was derived from audited financial statements. These interim financial statements do not include all disclosures that US GAAP requires on an annual basis and therefore they should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2017.

Use of estimates in the preparation of financial statements

The preparation of financial statements requires management to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the related disclosures, including contingent assets and liabilities. The Group's liabilities for unpaid claims and claim adjustment expenses and policy benefits for life and health include estimates for premium, claim and benefit data not received from ceding companies at the date of the financial statements. In addition, the Group uses certain financial instruments and invests in securities of certain entities for which exchange trading does not exist. The Group determines these estimates based on historical information, actuarial analysis, financial modelling and other analytical techniques. Actual results could differ significantly from the estimates described above.

Valuation of financial assets

The fair value of the majority of the Group's financial instruments is based on quoted prices in active markets or observable inputs. These instruments include government and agency securities, commercial paper, most investment-grade corporate debt, most high-yield debt securities, exchange-traded derivative instruments, most mortgage- and asset-backed securities and listed equity securities. In markets with reduced or no liquidity, spreads between bid and offer prices are normally wider compared to spreads in highly liquid markets. Such market conditions affect the valuation of certain asset classes of the Group, such as some asset-backed securities as well as certain derivative structures referencing such asset classes.

The Group considers both the credit risk of its counterparties and own risk of non-performance in the valuation of derivative instruments and other over-the-counter financial assets. In determining the fair value of these financial instruments, the assessment of the Group's exposure to the credit risk of its counterparties incorporates consideration of existing collateral and netting arrangements entered into with each counterparty. The measure of the counterparty credit risk is estimated with incorporation of the observable credit spreads, where available, or credit spread estimates derived based on the benchmarking techniques where market data is not available. The impact of the Group's own risk of non-performance is analysed in the manner consistent with the aforementioned approach, with consideration of the Group's observable credit spreads. The value representing such risk is incorporated into the fair value of the financial instruments (primarily derivatives), in a liability position as of the measurement date. The change in this adjustment from period to period is reflected in realised gains and losses in the income statement.

For assets or derivative structures at fair value, the Group uses market prices or inputs derived from market prices. A separate internal price verification process, independent of the trading function, provides an additional control over the market prices or market input used to determine the fair values of such assets. Although management considers that appropriate values have been ascribed to such assets, there is always a level of uncertainty and judgement over these valuations. Subsequent valuations could differ significantly from the results of the process described above. The Group may become aware of counterparty valuations, either directly through the exchange of information or indirectly, for example, through collateral demands. Any implied differences are considered in the independent price verification process and may result in adjustments to initially indicated

valuations. As of 30 June 2018, the Group has not provided any collateral on financial instruments in excess of its own market value estimates.

Subsequent events

Subsequent events for the current reporting period have been evaluated up to 2 August 2018. This is the date on which the financial statements are available to be issued.

Recent accounting guidance

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers", which creates topic 606, "Revenue from Contracts with Customers". ASU 2014-09 outlines the principles that an entity should follow to provide useful information about the amount, timing and uncertainty of revenue and cash flows arising from contracts with its customers. The standard requires an entity to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Insurance contracts and financial instruments are not in the scope of the new standard. The Group adopted ASU 2014-09 on 1 January 2018 together with the following ASUs related to topic 606: ASU 2016-08 "Principal versus Agent considerations (Reporting Revenue Gross versus Net)", ASU 2016-10 "Identifying Performance Obligations and Licensing", ASU 2016-12 "Narrow-Scope Improvements and Practical Expedients", and ASU 2016-20 "Technical Corrections and Improvements to Topic 606". The retrospective adoption of ASU 2014-09 and related ASUs did not have a material impact on the Group's financial statements.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities", an update to subtopic 825-10, "Financial Instruments – Overall". The ASU requires the Group to carry investments in equity securities, including partnerships, unincorporated joint ventures and limited liability companies at fair value through earnings, with the exception of equity method investments, investments that result in consolidation or investments for which the measurement alternative has been elected. The Group did not elect the measurement alternative for any of its investments. For financial liabilities to which the fair value option has been applied, the ASU requires an entity to separately present the change in fair value attributable to instrument-specific credit risk in other comprehensive income rather than in net income. In addition, the ASU requires an entity to assess whether a valuation allowance is needed on a deferred tax asset (DTA) related to fixed income securities available-for-sale in combination with the entity's other DTAs rather than separately from other DTAs. The Group adopted ASU 2016-01 on 1 January 2018 together with ASU 2018-03, "Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10)". The adoption did not have a material impact on the Group's financial statements.

In February 2016, the FASB issued ASU 2016-02 "Leases", which creates topic 842, "Leases". The core principle of topic 842 is that a lessee should recognise the assets and liabilities that arise from leases. A lessee should recognise in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing the right to use the underlying asset for the lease term. This accounting treatment applies to finance leases and operating leases. The accounting applied by a lessor is largely unchanged from that applied under the current guidance. The Group will adopt the ASU on 1 January 2019. The Group is currently assessing the impact of the new requirements.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses", an update to topic 326, "Financial Instruments – Credit Losses". ASU 2016-13 replaces the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses. For financial instruments that are measured at amortised cost and available-for-sale debt securities, the standard requires that an entity recognises its estimate of expected credit losses as an allowance. The ASU is effective for annual and interim periods beginning after 15 December 2020. Early adoption for interim and annual periods after 15 December 2018 is permitted. The Group is currently assessing the impact of the new requirements.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments", a consensus of the FASB Emerging Issues Task Force (EITF) to topic 230, "Statement of Cash Flows". ASU 2016-15 provides guidance on eight issues related to the presentation and classification of cash receipts and cash payments in the statement of cash flows with the objective of reducing existing diversity in practice. The Group adopted ASU 2016-15 retrospectively on 1 January 2018. The adoption did not have a material impact on the Group's statement of cash flows.

In October 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory", an update to topic 740, "Income Taxes". This ASU amends the former guidance which prohibited the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset had been sold to an outside party. This new standard requires that an entity recognises the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The Group

adopted ASU 2016-16 on 1 January 2018 on a modified retrospective basis. The adoption did not have a material impact on the Group's financial statements.

In November 2016, the FASB issued ASU 2016-18, "Restricted Cash", a consensus of the FASB EITF to topic 230, "Statement of Cash Flows". The update requires that the statement of cash flows explains the change during the period in the total of cash, cash equivalents, and restricted cash and restricted cash equivalents. Restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Group adopted ASU 2016-18 retrospectively on 1 January 2018. The adoption did not have a material impact on the Group's financial statements.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment", an update to topic 350, "Intangibles – Goodwill and Other". This ASU simplifies the subsequent measurement of goodwill and eliminates Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity has to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognised assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this update, an entity should perform its regular goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognise an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognised should not exceed the total amount of goodwill allocated to that reporting unit. The new requirements are effective for goodwill impairment tests in annual and interim periods beginning after 15 December 2020. Early application of the ASU is permitted. The Group is currently assessing the impact of the new requirements.

In February 2017, the FASB issued ASU 2017-05, "Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets", an update to subtopic 610-20, "Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets". This update clarifies and provides guidance on the scope of Subtopic 610-20 including financial assets meeting the definition of an in-substance nonfinancial asset. The Group adopted ASU 2017-05 retrospectively on 1 January 2018. The adoption did not have an impact on the Group's financial statements.

In March 2017, the FASB issued ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost", an update to topic 715, "Compensation – Retirement Benefits". The amendments in this update require that an employer separates other components of net benefit cost from the service cost component and presents these components outside a subtotal of income from operations, if one is presented. Further, the ASU only allows the service cost component of net benefit cost to be capitalised. The Group adopted ASU 2017-07 retrospectively on 1 January 2018. The adoption did not have a material impact on the Group's financial statements.

In May 2017, the FASB issued ASU 2017-09, "Scope of Modification Accounting", an update to topic 718, "Compensation – Stock Compensation". The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require to apply modification accounting in Topic 718. The Group adopted ASU 2017-09 on 1 January 2018. The adoption did not have an impact on the Group's financial statements.

In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income", an update to topic 220, "Income Statement – Reporting Comprehensive Income". The ASU allows a reclassification from accumulated other comprehensive income to retained earnings of stranded tax effects resulting from the Tax Cuts and Jobs Act. For unrealised gains/losses on available-for-sale securities, the Group releases the stranded tax effects to earnings on a straight-line basis over the average duration of the relevant available-for-sale portfolio as an approximation of when the individual securities within the portfolio are sold or mature. For adjustment for pension and other post-retirement benefits, stranded tax effects are released to earnings when the relevant pension plan is terminated. For foreign currency translation, stranded tax effects are released to earnings in line with the recycling of the underlying foreign currency translation amounts. The Group early adopted ASU 2018-02 on 1 January 2018. The adoption did not have a material impact on the Group's financial statements.

2 Information on business segments

The Group acquires closed blocks of in-force life and health insurance business, either through reinsurance, by the purchase of shares of a life insurance company or the transfer of its business to the Group or a combination thereof, and typically assumes responsibility for administering the underlying policies. The administration of the business may be managed directly or, where appropriate, in partnership with a third party.

The Group currently operates in the United Kingdom and the Republic of Ireland, which are also the two core operating business segments.

Accounting policies applied by the business segments are in line with those described in the summary of significant accounting policies (please refer to Note 1).

The Group's operating segments are outlined below.

United Kingdom

The United Kingdom segment is the consolidated ReAssure business operating within the United Kingdom. This segment acquires individual closed blocks of in-force long-term life, pensions and health business. The segment administers the policies until they reach maturity, are surrendered, or an insured event occurs. The main products administered are long-term life and pension products, permanent health insurance and critical illness products and retirement annuities. This segment includes unit-linked and with-profit business as well as non-participating business.

A unit-linked fund is a collection of assets that many individuals can invest in. Investing in such a fund allows for a much larger range of investments than could normally be achieved by one individual. The policyholder bears the underlying investment risk. The Group invests the assets in accordance with the stated objectives for the particular fund, which the policyholder has selected, and earns fees from the management of these assets. The investment performance, net of fees, is earned by the individual contract holder.

With-profit business is designed to provide long-term growth in the invested money of policyholders, some certainty of the amount which can be received on certain dates and some protection against stock market fluctuations. The Group invests the assets in a diverse portfolio covering a wide range of asset classes and geographical regions in order to manage market risk, and aims to distribute a part of its profit to the with-profits policyholders in the form of a bonus.

The non-participating business contains other insurance products such as term assurance or annuities. Policyholder benefits are determined by the terms of the products at inception. The investment risk is borne by the Group, not the policyholder.

Republic of Ireland

The Republic of Ireland segment reflects the operations of Ark Life Designated Activity Company (DAC), which is based in Dublin. The principal activity of this segment relates to the administration of unit-linked and non-participating blocks of closed book life assurance and pension business.

Group items and consolidation

Items not allocated to the business segments are included in the "Group items and consolidation" column, which encompasses SRRL, the holding company of the Group, and Swiss Re ReAssure Midco Limited. The purpose of these companies is to provide funding of investments and acquisitions in the Group companies and to operate as the financing entities of the Group. Additionally, the column includes consolidated items as segment information is presented net of intragroup arrangements. Such elimination of intra-group transactions includes mainly intersegmental funding.

a) Business segments – income statement

For the six months ended 30 June

2017 USD millions	United Kingdom	Republic of Ireland	Group items and consolidation	Total
Revenues				
Gross premiums written	179	34		213
Net premiums written	68	8		76
Change in unearned premiums	–1			–1
Premiums earned	67	8		75
Fee income from policyholders	161	12		173
Net investment income – non-participating business	366	–1	9	374
Net realised investment gains/losses – non-participating business	37			37
Net investment result – unit-linked and with-profit business	1 540	45		1 585
Total revenues	2 171	64	9	2 244
Expenses				
Life and health benefits	–512	–4		–516
Return credited to policyholders	–1 370	–40		–1 410
Acquisition costs	3	1		4
Operating expenses	–130	–8	–1	–139
Total expenses before interest expenses	–2 009	–51	–1	–2 061
Income before interest and income tax expense	162	13	8	183
Interest expenses			–15	–15
Income/loss before income tax expense/benefit	162	13	–7	168
Income tax expense/benefit	–23	–6	6	–23
Net income/loss attributable to common shareholder	139	7	–1	145

2018 USD millions	United Kingdom	Republic of Ireland	Group items and consolidation	Total
Revenues				
Gross premiums written	215	37		252
Net premiums written	96	10		106
Change in unearned premiums	–5			–5
Premiums earned	91	10		101
Fee income from policyholders	164	13		177
Net investment income – non-participating business	439	–1	–26	412
Net realised investment gains/losses – non-participating business	51			51
Net investment result – unit-linked and with-profit business	359	35		394
Total revenues	**1 104**	**57**	**–26**	**1 135**
Expenses				
Life and health benefits	–449	–3		–452
Return credited to policyholders	–321	–32		–353
Acquisition costs	–84	2		–82
Operating expenses	–118	–9		–127
Total expenses before interest expenses	**–972**	**–42**	**0**	**–1 014**
Income/loss before interest and income tax expense	**132**	**15**	**–26**	**121**
Interest expenses			–19	–19
Income/loss before income tax expense/benefit	**132**	**15**	**–45**	**102**
Income tax expense/benefit	–17	–1	6	–12
Net income/loss attributable to common shareholder	**115**	**14**	**–39**	**90**

Business segments – balance sheet
As of 31 December 2017 and 30 June 2018

2017 USD millions	United Kingdom	Republic of Ireland	Group items and consolidation	Total
Total assets	64 675	3 001	–184	67 492

2018 USD millions	United Kingdom	Republic of Ireland	Group items and consolidation	Total
Total assets	59 669	2 828	–129	62 368

3 Insurance information

For the six months ended 30 June

Premiums written and premiums earned

USD millions	2017	2018
Premiums written, thereof:		
Direct	213	252
Ceded	–137	–146
Net premiums written	76	**106**
Premiums earned, thereof:		
Direct	212	247
Ceded	–137	–146
Net premiums earned	75	**101**

Life and health benefits

USD millions	2017	2018
Life and health benefits paid, thereof:		
Gross	–1 012	–1 074
Ceded	198	237
Net life and health benefits paid	–814	**–837**
Change in life and health benefits, thereof:		
Gross	367	409
Ceded	–69	–24
Net change in life and health benefits	298	**385**
Life and health benefits	–516	**–452**

Acquisition costs

USD millions	2017	2018
Acquisition costs, thereof:		
Gross	3	–82
Ceded	1	
Net acquisition costs	4	**–82**

Insurance receivables

As of 31 December 2017 and 30 June 2018, the Group had receivables invoices from ceded insurance business of USD 29 million and USD 35 million, respectively, and premium receivables invoices from assumed business of nil and USD 62 million, respectively.

Policyholder dividends

Policyholder dividends are recognised as an element of policyholder benefits. In the six months ended 30 June 2017 and 2018, the relative percentage of participating insurance of the life and health policy benefits was 18% and 18%, respectively. The amount of policyholder dividend expense for the six months ended 30 June 2017 and 2018 was USD 93 million and USD 137 million, respectively.

4 Deferred acquisition costs (DAC) and acquired present value of future profits (PVFP)

As of 30 June 2018, the DAC were as follows:

USD millions	2018
Opening balance as of 1 January	0
Deferred	897
Amortisation	–58
Effect of foreign currency translation	–36
Closing balance	**803**

Retroceded DAC may arise on retrocession of reinsurance portfolios, including reinsurance undertaken as part of a securitisation. The associated potential retrocession recoveries are determined by the nature of the retrocession agreements and by the terms of the securitisation.

As of 31 December 2017 and 30 June 2018, the PVFP was as follows:

2017 USD millions	Positive PVFP	Negative PVFP	Total
Opening balance as of 1 January	1 037	–521	516
Amortisation	–100	45	–55
Interest accrued on unamortised PVFP	68	–17	51
Effect of foreign currency translation	96	–51	45
Closing balance	1 101	–544	557

2018 USD millions	Positive PVFP	Negative PVFP	Total
Opening balance as of 1 January	1 101	–544	557
Amortisation	–75	27	–48
Interest accrued on unamortised PVFP	35	–8	27
Effect of foreign currency translation	–25	13	–12
Closing balance	**1 036**	**–512**	**524**

Retroceded PVFP may arise on retrocession of reinsurance portfolios, including reinsurance undertaken as part of a securitisation. The associated potential retrocession recoveries are determined by the nature of the retrocession agreements and by the terms of the securitisation.

5 Investments

Investment income

Net investment income by source (excluding unit-linked and with-profit business) for the six months ended 30 June was as follows:

USD millions	2017	2018
Fixed income securities	364	362
Policy loans, mortgages and other loans	22	14
Other current investments		2
Net result from deposit-accounted contracts		64
Gross investment income	386	**442**
Investment expenses	–10	–26
Interest charged for funds held	–2	–4
Net investment income – non-participating business	374	**412**

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Realised gains and losses

Realised gains and losses for fixed income and other investments (excluding unit-linked and with-profit business) for the six months ended 30 June were as follows:

USD millions	2017	2018
Fixed income securities available-for-sale:		
Gross realised gains	102	68
Gross realised losses	–7	–11
Other-than-temporary impairments	–8	
Net realised/unrealised gains/losses on other investments	–57	3
Net realised/unrealised gains/losses on insurance-related activities	6	1
Foreign exchange gains/losses	1	–10
Net realised investment gains/losses – non-participating business	37	**51**

Investment result – unit-linked and with-profit business

For unit-linked contracts, the investment risk is borne by the policyholder. For with-profit contracts, the majority of the investment risk is also borne by the policyholder, although there are certain guarantees that limit the downside risk for the policyholder, and a certain proportion of the returns may be retained by the Group (typically 10%).

Net investment result on unit-linked and with-profit business credited to policyholders for the six months ended 30 June was as follows:

USD millions	Unit-linked	2017 With-profit	Unit-linked	2018 With-profit
Investment income – fixed income securities	36	59	34	63
Investment income – equity securities	371	31	400	32
Investment income – other	8	4	6	6
Total investment income – unit-linked and with-profit business	415	94	**440**	**101**
Realised gains/losses – fixed income securities	–14	4	–31	–83
Realised gains/losses – equity securities	990	103	–58	16
Realised gains/losses – other	–8	1	4	5
Total realised gains/losses – unit-linked and with-profit business	968	108	**–85**	**–62**
Total net investment result – unit-linked and with-profit business	1 383	202	**355**	**39**

Impairment on fixed income securities related to credit losses

Other-than-temporary impairments for debt securities are bifurcated between credit and non-credit components, with the credit component recognised through earnings and the non-credit component recognised in other comprehensive income. The credit component of other-than-temporary impairments is defined as the difference between a security's amortised cost basis and the present value of expected cash flows. Methodologies for measuring the credit component of impairment are aligned to market observer forecasts of credit performance drivers. Management believes that these forecasts are representative of median market expectations.

For securitised products, cash flow projection analysis is conducted by integrating forward-looking evaluation of collateral performance drivers, including default rates, prepayment rates and loss severities, and deal-level features, such as credit enhancement and prioritisation among tranches for payments of principal and interest. Analytics are differentiated by asset class, product type and security-level differences in historical and expected performance. For corporate bonds and hybrid debt instruments, an expected loss approach based on default probabilities and loss severities expected in the current and forecasted economic environment is used for securities identified as credit-impaired to project probability-weighted cash flows. Expected cash flows resulting from these analyses are discounted, and the present value is compared to the amortised cost basis to determine the credit component of other-than-temporary impairments.

Investments available-for-sale

Amortised cost or cost and estimated fair values of fixed income securities classified as available-for-sale as of 31 December 2017 and 30 June 2018 were as follows:

2017 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Estimated fair value
Debt securities issued by governments and government agencies:				
US Treasury and other US government corporations and agencies	98	25		123
United Kingdom	4 665	620	–13	5 272
France	128	44		172
Netherlands	109	21		130
Other	425	46		471
Total	5 425	756	–13	6 168
Corporate debt securities	14 684	1 873	–24	16 533
Mortgage- and asset-backed securities	524	87	0	611
Fixed income securities available-for-sale	20 633	2 716	–37	23 312

2018 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Estimated fair value
Debt securities issued by governments and government agencies:				
US Treasury and other US government corporations and agencies	96	22		118
United Kingdom	3 943	576	–9	4 510
France	125	41		166
Netherlands	87	19		106
Other	344	35		379
Total	4 595	693	–9	5 279
Corporate debt securities	13 424	1 302	–49	14 677
Mortgage- and asset-backed securities	483	74		557
Fixed income securities available-for-sale	**18 502**	**2 069**	**–58**	**20 513**

Investments held for unit-linked and with-profit business

The carrying amounts of investments held for unit-linked and with-profit business as of 31 December 2017 and 30 June 2018 were as follows:

USD millions	2017 Unit-linked	2017 With-profit	2018 Unit-linked	2018 With-profit
Fixed income securities trading	2 105	3 104	2 031	2 942
Equity securities trading[1]	25 997	2 201		
Equity securities at fair value through earnings[1]			24 871	2 134
Investment real estate	543	281	525	274
Other	286	64	458	22
Total investments for unit-linked and with-profit business	28 931	5 650	**27 885**	**5 372**

[1] Change due to ASU 2016-01. Please refer to Note 1 for more details.

Maturity of fixed income securities available-for-sale

The amortised cost or cost and estimated fair values of investments in fixed income securities available-for-sale by remaining maturity are shown below. Fixed maturity investments are assumed not to be called for redemption prior to the stated maturity date. As of 31 December 2017 and 30 June 2018, USD 1 055 million and USD 852 million, respectively, of fixed income securities available-for-sale were callable.

USD millions	2017 Amortised cost or cost	2017 Estimated fair value	2018 Amortised cost or cost	2018 Estimated fair value
Due in one year or less	639	648	527	533
Due after one year through five years	3 359	3 515	2 681	2 796
Due after five years through ten years	3 523	3 897	3 041	3 285
Due after ten years	12 588	14 641	11 770	13 342
Mortgage- and asset-backed securities with no fixed maturity	524	611	483	557
Total fixed income securities available-for-sale	20 633	23 312	**18 502**	**20 513**

Assets pledged

As of 30 June 2018, investments with a carrying value of USD 60 million were placed on deposit or pledged to secure certain reinsurance liabilities.

Unrealised losses on securities available-for-sale

The following table shows the fair value and unrealised losses of the Group's fixed income securities, aggregated by investment category and length of time that individual securities were in a continuous unrealised loss position as of 31 December 2017 and 30 June 2018.

2017 USD millions	Less than 12 months Fair value	 Unrealised losses	12 months or more Fair value	 Unrealised losses	Total Fair value	 Unrealised losses
Debt securities issued by governments and government agencies:						
United Kingdom	626	9	43	4	669	13
Netherlands	20	0			20	0
Other	43	0			43	0
Total	689	9	43	4	732	13
Corporate debt securities	453	17	172	7	625	24
Mortgage- and asset-backed securities	20	0	4	0	24	0
Total	1 162	26	219	11	1 381	37

2018 USD millions	Less than 12 months Fair value	 Unrealised losses	12 months or more Fair value	 Unrealised losses	Total Fair value	 Unrealised losses
Debt securities issued by governments and government agencies:						
United Kingdom	205	1	191	8	396	9
Other	14	0			14	0
Total	219	1	191	8	410	9
Corporate debt securities	949	32	241	17	1 190	49
Mortgage- and asset-backed securities	6	0	8	0	14	0
Total	**1 174**	**33**	**440**	**25**	**1 614**	**58**

Mortgage, policy and other loans, and investment real estate

As of 31 December 2017 and 30 June 2018 the carrying and respective fair values of investments in mortgage, policy and other loans and investment real estate (excluding unit-linked and with-profit business) were as follows:

USD millions	Carrying value	2017 Fair value	Carrying value	**2018** Fair value
Policy loans	8	8	6	6
Mortgage loans	603	610	609	612
Other loans	242	247	255	260
Investment real estate	201	201	186	186

Substantially all mortgage, policy and other loan receivables are secured by buildings, land or the underlying policies.

Other financial assets and liabilities by measurement category

As of 31 December 2017 and 30 June 2018

2017 USD millions	Fair Value	Amortised Cost or cost	Not in scope[1]	Total
Other invested assets				
Derivative financial instruments	115			115
Other		424		424
Other invested assets	115	424	0	539
Accrued expenses and other liabilities				
Derivative financial instruments	171			171
Other		247	385	632
Accrued expenses and other liabilities	171	247	385	803

2018 USD millions	Fair Value	Amortised Cost or cost	Not in scope[1]	Total
Other invested assets				
Derivative financial instruments	125			125
Other		596		596
Other invested assets	**125**	**596**	**0**	**721**
Accrued expenses and other liabilities				
Derivative financial instruments	156			156
Other		269	291	560
Accrued expenses and other liabilities	**156**	**269**	**291**	**716**

[1] Amounts do not relate to financial assets or liabilities.

6 Fair value disclosures

Fair value, as defined by the Fair Value Measurements and Disclosures Topic, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Fair Value Measurements and Disclosures Topic requires all assets and liabilities that are measured at fair value to be categorised within the fair value hierarchy. This three-level hierarchy is based on the observability of the inputs used in the fair value measurement. The levels of the fair value hierarchy are defined as follows:

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Group has the ability to access. Level 1 inputs are the most persuasive evidence of fair value and are to be used whenever possible.

Level 2 inputs are market-based inputs that are directly or indirectly observable, but not considered level 1 quoted prices. Level 2 inputs consist of (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical assets or liabilities in non-active markets (eg markets which have few transactions and where prices are not current or price quotations vary substantially); (iii) inputs other than quoted prices that are observable (eg interest rates, yield curves, volatilities, prepayment speeds, credit risks and default rates); and (iv) inputs derived from, or corroborated by, observable market data.

Level 3 inputs are unobservable inputs. These inputs reflect the Group's own assumptions about market pricing using the best internal and external information available.

The types of instruments valued, based on unadjusted quoted market prices in active markets, include most US government and sovereign obligations, active listed equities and most money market securities. Such instruments are generally classified within level 1 of the fair value hierarchy.

The types of instruments that trade in markets that are not considered to be active, but are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency, include most government agency securities, investment-grade corporate bonds, certain mortgage- and asset-backed products, less liquid listed equities, and state, municipal and provincial obligations. Such instruments are generally classified within level 2 of the fair value hierarchy.

Exchange-traded derivative instruments typically fall within level 1 or level 2 of the fair value hierarchy, depending on whether they are considered to be actively traded or not.

Certain financial instruments are classified within level 3 of the fair value hierarchy because they trade infrequently and therefore have little or no price transparency. Such instruments include less liquid corporate debt securities. Certain over-the-counter (OTC) derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. Such instruments are classified within level 3 of the fair value hierarchy. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

The fair values of assets are adjusted to incorporate the counterparty risk of non-performance. Similarly, the fair values of liabilities reflect the risk of non-performance of the Group, captured by the Group's credit spread. These valuation adjustments from assets and liabilities measured at fair value using significant unobservable inputs are recognised in net realised gains and losses. For the six months ended 30 June 2018, these adjustments were not material.

In certain situations, the Group uses inputs to measure the fair value of asset or liability positions that fall into different levels of the fair value hierarchy. In these situations, the Group will determine the appropriate level based on the lowest level input that is significant to the determination of the fair value.

Valuation techniques

US government securities typically have quoted market prices in active markets and are categorised as level 1 instruments in the fair value hierarchy. Non-US government holdings are generally classified as level 2 instruments and are valued on the basis of the quotes provided by pricing services, which are subject to the Group's pricing validation reviews and pricing vendor challenge process. Valuations provided by pricing vendors are generally based on the actual trade information as substantially all of the Group's non-US government holdings are traded in a transparent and liquid market.

Corporate debt securities mainly include US and European investment-grade positions, which are priced on the basis of quotes provided by third-party pricing vendors and first utilise valuation inputs from actively traded securities, such as bid prices, bid spreads to Treasury securities, Treasury curves, and same or comparable issuer curves and spreads. Issuer spreads are determined from actual quotes and traded prices and incorporate considerations of credit/default, sector composition, and liquidity and call features. Where market data is not available, valuations are developed based on the modelling techniques that utilise observable inputs and option-adjusted spreads and incorporate considerations of the security's seniority, maturity and the issuer's corporate structure.

Values of mortgage- and asset-backed securities are obtained both from third-party pricing vendors and through quoted prices, some of which may be based on the prices of comparable securities with similar structural and collateral features. Values of certain asset-backed securities (ABS) for which there are no significant observable inputs are developed using benchmarks to similar transactions or indices. For commercial mortgage-backed securities (CMBS), cash flows are derived based on the transaction-specific information, which incorporates priority in the capital structure, and are generally adjusted to reflect benchmark yields, market prepayment data, collateral performance (default rates and loss severity) for specific vintage and geography, credit enhancements, and ratings. For certain CMBS with low levels of market liquidity, judgements may be required to determine comparable securities based on the loan type and deal-specific performance. CMBS terms may also incorporate lock-out periods that restrict borrowers from prepaying the loans or provide disincentives to prepay and therefore reduce prepayment risk of these securities. The factors specifically considered in valuation of CMBS include borrower-specific statistics in a specific region, such as debt service coverage and loan-to-value ratios, as well as the type of commercial property.

The Group uses third-party pricing vendor data to value agency securitised products, which mainly include collateralised mortgage obligations (CMO) and mortgage-backed government agency securities. The valuations generally utilise observable inputs consistent with those noted above for CMBS.

The Group holds both exchange-traded and OTC interest rate, foreign exchange and equity derivative contracts for hedging and trading purposes. The fair values of exchange-traded derivatives measured using observable exchange prices are classified in level 1. Long-dated contracts may require adjustments to the exchange-traded prices which would trigger reclassification to level 2 in the fair value hierarchy. OTC derivatives are generally valued by the Group based on the internal models, which are consistent with industry standards and practices, and use both observable (dealer, broker or market consensus prices, spot and forward rates, interest rate and credit curves and volatility indices) and unobservable inputs (adjustments for liquidity, inputs derived from the observable data based on the Group's judgements and assumptions).

The Group's OTC interest rate derivatives primarily include interest rate swaps, futures, options, caps and floors, and are valued based on the cash flow discounting models which generally utilise as inputs observable market yield curves and volatility assumptions.

The Group's OTC foreign exchange derivatives primarily include forward, spot and option contracts and are generally valued based on the cash flow discounting models, utilising as main inputs observable foreign exchange forward curves.

Governance around level 3 fair valuation

The Asset Valuation Committee, endorsed by the Swiss Re Group Executive Committee, has a primary responsibility for governing and overseeing all of Group's asset and derivative valuation policies and operating parameters (including level 3 measurements). The Asset Valuation Committee delegates the responsibility for implementation and oversight of consistent application of the Group's pricing and valuation policies to the Pricing and Valuation Committee.

The Pricing and Valuation Committee, which is a joint Risk Management & Finance management control committee, is responsible for the implementation and consistent application of the pricing and valuation policies. Key functions of the Pricing and Valuation Committee include: oversight over the entire valuation process, approval of internal valuation methodologies, approval of external pricing vendors, monitoring of the independent price verification (IPV) process and resolution of significant or complex valuation issues.

A formal IPV process is undertaken monthly by members of the Valuation Risk Management team within a Financial Risk Management function. The process includes monitoring and in-depth analyses of approved pricing methodologies and valuations of the Group's financial instruments aimed at identifying and resolving pricing discrepancies.

The Risk Management function is responsible for independent validation and ongoing review of the Group's valuation models. The Product Control group within Finance is tasked with reporting of fair values through the vendor- and model-based valuations, the results of which are also subject to the IPV process.

Assets and liabilities measured at fair value on a recurring basis

As of 31 December 2017 and 30 June 2018, the fair values of assets and liabilities measured on a recurring basis by level of input were as follows:

2017 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Fixed income securities held for proprietary investment purposes		22 343	969	23 312
Debt securities issued by US government and government agencies		123		123
Debt securities issued by non-US governments and government agencies		6 042	3	6 045
Corporate debt securities		15 567	966	16 533
Mortgage- and asset-backed securities		611		611
Fixed income securities backing unit-linked and with-profit business		5 209		5 209
Equity securities backing unit-linked and with-profit business	28 185	13		28 198
Short-term investments held for proprietary investment purposes	1	1 344		1 345
Short-term investments backing unit-linked and with-profit business		59		59
Derivative financial instruments	4	118		122
Interest rate contracts		13		13
Foreign exchange contracts		101		101
Equity contracts	1			1
Contracts backing unit-linked and with-profit business	3	4		7
Investment real estate			198	198
Total assets at fair value	28 190	29 086	1 167	58 443
Liabilities				
Derivative financial instruments	–1	–20	–150	–171
Interest rate contracts		–13		–13
Foreign exchange contracts		–1		–1
Other contracts			–150	–150
Contracts backing unit-linked and with-profit business	–1	–6		–7
Total liabilities at fair value	–1	–20	–150	–171

2018 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Fixed income securities held for proprietary investment purposes		19 559	954	20 513
Debt securities issued by US government and government agencies		117		117
Debt securities issued by non-US governments and government agencies		5 159	3	5 162
Corporate debt securities		13 726	951	14 677
Mortgage- and asset-backed securities		557		557
Fixed income securities backing unit-linked and with-profit business		4 973		4 973
Equity securities backing unit-linked and with-profit business	26 992	13		27 005
Short-term investments held for proprietary investment purposes	3	897		900
Short-term investments backing unit-linked and with-profit business		16		16
Derivative financial instruments	2	129		131
Interest rate contracts		11		11
Foreign exchange contracts		111		111
Equity contracts	1	2		3
Contracts backing unit-linked and with-profit business	1	5		6
Investment real estate			182	182
Total assets at fair value	**26 997**	**25 587**	**1 136**	**53 720**
Liabilities				
Derivative financial instruments	–2	–16	–138	–156
Interest rate contracts		–13		–13
Foreign exchange contracts		–3		–3
Other contracts			–138	–138
Contracts backing unit-linked and with-profit business	–2			–2
Total liabilities at fair value	**–2**	**–16**	**–138**	**–156**

Assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (level 3)

As of 31 December 2017 and 30 June 2018, the reconciliation of the fair values of assets and liabilities measured on a recurring basis using significant unobservable inputs was as follows:

2017 USD millions	Fixed income securities	Investment real estate	Total assets	Derivative liabilities	Total liabilities
Assets and liabilities					
Balance as of 1 January	834	209	1 043	–161	–161
Realised/unrealised gains/losses:					
Included in net income	–9	19	10	20	20
Included in other comprehensive income	15		15		0
Purchases	150		150		0
Issuances			0		0
Sales	–52	–49	–101	6	6
Settlements	–3		–3		0
Transfers into level 3[1]	45		45		0
Transfers out of level 3[1]	–89		–89		0
Impact of foreign exchange movements	78	19	97	–15	–15
Closing balance as of 31 December	969	198	1 167	–150	–150

[1] Transfers are recognised at the date of the event or change in circumstances that caused the transfer.

2018 USD millions	Fixed income securities	Investment real estate	**Total assets**	Derivative liabilities	**Total liabilities**
Assets and liabilities					
Balance as of 1 January	969	198	**1 167**	–150	**–150**
Realised/unrealised gains/losses:					
Included in net income		6	**6**	–5	**–5**
Included in other comprehensive income	–15		**–15**		**0**
Purchases	23		**23**		**0**
Issuances			**0**		**0**
Sales		–17	**–17**	1	**1**
Settlements			**0**	12	**12**
Transfers into level 3[1]			**0**		**0**
Transfers out of level 3[1]			**0**		**0**
Impact of foreign exchange movements	–23	–5	**–28**	4	**4**
Closing balance as of 30 June	**954**	**182**	**1 136**	**–138**	**–138**

[1] Transfers are recognised at the date of the event or change in circumstances that caused the transfer.

Gains and losses on assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (level 3)

The gains and losses relating to the assets and liabilities measured at fair value using significant unobservable inputs (level 3) for the six months ended 30 June were as follows:

USD millions	2017	2018
Gains/losses included in net income for the period	19	1
Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date	2	-3

Quantitative information about level 3 fair value measurements

Unobservable inputs for major level 3 assets and liabilities as of 31 December 2017 and 30 June 2018 were as follows:

USD millions	2017 Fair value	2018 Fair value	Valuation technique	Unobservable input	Range (weighted average)
Assets					
Corporate debt securities	966	**951**			
Infrastructure loans	563	568	Discounted Cash Flow Model	Valuation spread	129 bps–204 bps (178 bps)
Private placement corporate debt	337	320	Corporate Spread Matrix	Credit spread	74 bps–251 bps (184 bps)
Investment real estate	198	**182**	Discounted Cash Flow Model	Discount rate	5% per annum
Liabilities					
Other derivative contracts	–150	**–138**			
Swap liability referencing real estate investments	–150	–138	Discounted Cash Flow Model	Discount rate	5% per annum

Sensitivity of recurring level 3 measurements to changes in unobservable inputs

The significant unobservable input used in the fair value measurement of the Group's infrastructure loans is valuation spread. A significant increase (decrease) in this input in isolation would result in a significantly lower (higher) fair value measurement. The significant unobservable input used in the fair value measurement of the Group's private placement corporate debt securities is credit spread. A significant increase (decrease) in this input in isolation would result in a significantly lower (higher) fair value measurement.

The significant unobservable input used in the fair value measurement of the Group's investment real estate and swap liability referencing real estate investment is the rate used to discount future cash flows from property sales. A significant increase (decrease) in this input in isolation would result in a significantly lower (higher) fair value measurement.

Fair value option

The fair value option under the Financial Instruments Topic permits the choice to measure specified financial assets and liabilities at fair value on an instrument-by-instrument basis. The Group elected the fair value option for a position in the following line item:

Other derivative liabilities

For operational efficiencies, the Group elected the fair value option on a hybrid financial instrument, where the host contract is a debt instrument and the embedded derivative is pegged to the performance of the fund's real estate portfolio. The liability is carried at fair value and changes in fair value are reported as a component of earnings. In the balance sheet and the following fair value disclosures, this item is included under "Accrued expenses and other liabilities".

Liabilities measured at fair value pursuant to election of the fair value option

Pursuant to the election of the fair value option for the item described, the balances as of 31 December 2017 and 30 June 2018 were as follows:

USD millions	2017	**2018**
Liabilities		
Accrued expenses and other liabilities	–803	–716
of which at fair value pursuant to the fair value option	–150	–138

Changes in fair values for items measured at fair value pursuant to election of the fair value option

Gains/losses included in earnings for items measured at fair value pursuant to election of the fair value option including foreign exchange impact for the six months ended 30 June were as follows:

USD millions	2017	**2018**
Accrued expenses and other liabilities	17	–5
Total	17	**–5**

Fair value changes from accrued expenses and other liabilities are reported in "Net realised investment gains/ losses – non-participating business".

Assets and liabilities not measured at fair value but for which the fair value is disclosed

Assets and liabilities not measured at fair value but for which the fair value is disclosed as of 31 December 2017 and 30 June 2018 were as follows:

2017 USD millions	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets			
Policy loans		8	8
Mortgage loans		610	610
Other loans		247	247
Investment real estate		3	3
Total assets	0	868	868
Liabilities			
Debt	–940	–1 075	–2 015
Total liabilities	–940	–1 075	–2 015

2018 USD millions	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets			
Policy loans		6	6
Mortgage loans		612	612
Other loans		260	260
Investment real estate		4	4
Total assets	**0**	**882**	**882**
Liabilities			
Debt	–904	–843	–1 747
Total liabilities	**–904**	**–843**	**–1 747**

Policy loans, other loans and certain mortgage loans are classified as level 3 measurements, as they do not have an active exit market. The fair value of some positions do not differ materially from the carrying amount. Considering these circumstances for these positions, the Group presents the carrying amount as an approximation for the fair value. For certain commercial mortgage loans and infrastructure loans, which are included in mortgage loans and other loans respectively, the fair value can be estimated using discounted cash flow models which are based on discount curves and spread inputs that require management's judgement.

Investments in real estate are fair valued primarily by external appraisers based on proprietary discounted cash flow models that incorporate applicable risk premium adjustments to discount yields and projected market rental income streams based on market-specific data. These fair value measurements are classified in level 3 in the fair value hierarchy.

Debt positions, which are fair valued based on executable broker quotes, are classified as level 2 measurements. Fair value of the Group's level 3 debt positions is judged to approximate carrying value due to the highly tailored nature of the obligation and short-notice termination provisions.

7 Derivative financial instruments

The Group uses a variety of derivative financial instruments including swaps, options, forwards and exchange-traded financial futures in its trading and hedging strategies, in line with the Group's overall risk management strategy. The objectives include managing exposure to price, foreign currency and/or interest rate risk on planned or anticipated investment purchases, existing assets or liabilities, as well as locking in attractive investment conditions for future available funds.

The fair values represent the gross carrying value amounts at the reporting date for each class of derivative contract held or issued by the Group. The gross fair values are not an indication of credit risk, as many OTC transactions are contracted and documented under ISDA master agreements or their equivalent. Management believes that such agreements provide for legally enforceable set-off in the event of default, which substantially reduces credit exposure.

Fair values and notional amounts of derivative financial instruments

As of 31 December 2017 and 30 June 2018, the fair values and notional amounts of the derivatives outstanding were as follows:

2017 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivatives not designated as hedging instruments				
Interest rate contracts	2 257	17	–19	–2
Foreign exchange contracts	261	1	–1	0
Equity contracts	511	4	–1	3
Other contracts	1		–150	–150
Total	3 030	22	–171	–149
Derivatives designated as hedging instruments				
Foreign exchange contracts	914	100		100
Total	914	100	0	100
Total derivative financial instruments	3 944	122	–171	–49

2018 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivatives not designated as hedging instruments				
Interest rate contracts	2 360	17	–13	4
Foreign exchange contracts	260		–3	–3
Equity contracts	412	3	–2	1
Other contracts	1		–138	–138
Total	**3 033**	**20**	**–156**	**–136**
Derivatives designated as hedging instruments				
Foreign exchange contracts	889	111		111
Total	**889**	**111**	**0**	**111**
Total derivative financial instruments	**3 922**	**131**	**–156**	**–25**

The notional amounts of derivative financial instruments give an indication of the Group's volume of derivative activity and are presented without set-off. The fair value assets are included in "Other invested assets" and "Investments for unit-linked and with-profit business", and the fair value liabilities are included in "Accrued expenses and other liabilities".

Non-hedging activities

The Group primarily uses derivative financial instruments for risk management and trading strategies. Gains and losses of derivative financial instruments not designated as hedging instruments are recorded in "Net realised investment gains/losses — non-participating business" and "Net investment result — unit-linked and with-profit business" in the income statement.
For the six months ended 30 June, the gains and losses of derivative financial instruments not designated as hedging instruments were as follows:

USD millions	2017	2018
Derivatives not designated as hedging instruments		
Interest rate contracts	–32	12
Foreign exchange contracts	2	–5
Equity contracts	–34	
Other contracts	15	–5
Total gains/losses recognised in income	–49	**2**

Hedging activities

The Group designates certain derivative financial instruments as hedging instruments. The designation of derivative financial instruments is primarily used for overall portfolio and risk management strategies. As of 30 June 2018, the following hedging relationships were outstanding:

Cash flow hedges

The Group entered into cross-currency swaps to reduce the exposure to foreign exchange volatility for a long-term debt instrument issued in the second quarter of 2016 and a portfolio of foreign currency denominated corporate bonds. These derivative instruments are designated as cash flow hedging instruments.

For the six months ended 30 June 2018, the Group recorded a gain of USD 9 million on derivatives in accumulated other comprehensive income. For the six months ended 30 June 2018, the Group reclassified a loss of USD 3 million from accumulated other comprehensive income into income.

As of 30 June 2018, the maximum length of time over which the Group hedged its exposure to the variability in future cash flows for forecasted transactions, excluding those forecasted transactions related to the payment of variable interest on existing financial instruments, was eight years.

The Group believes that the net gains and losses associated with cash flow hedges expected to be reclassified from accumulated other comprehensive income within the next twelve months cannot be reasonably estimated as they relate to foreign exchange volatility.

Hedges of the net investment in foreign operations

The Group designates derivative and non-derivative monetary financial instruments as hedging the foreign currency exposure of its net investment in certain foreign operations.

For the year ended 31 December 2017 and the six months ended 30 June 2018, the Group recorded accumulated net unrealised foreign currency remeasurement losses of USD 24 million and USD 22 million, respectively, in shareholder's equity. These offset translation gains and losses on the hedged net investment.

Maximum potential loss

The maximum potential loss as of 31 December 2017 and 30 June 2018 was approximately USD 122 million and USD 131 million, respectively. The maximum potential loss is based on the positive market replacement cost assuming non-performance of all counterparties.

8 Debt

The Group's debt as of 31 December 2017 and 30 June 2018 was as follow:

USD millions	2017	2018
Senior financial debt	433	224
Short-term debt	433	**224**
Senior financial debt	1 537	1 489
Long-term debt	1 537	**1 489**
Total carrying value	1 970	**1 713**
Total fair value	2 015	**1 747**

Interest expense on long-term debt

Interest expense on long-term senior financial debt was USD 10 million and USD 11 million for the six months ended 30 June 2017 and 2018, respectively.

Long-term debt issued in 2018

In June 2018, Swiss Re ReAssure Limited entered into a GBP 550 million revolving credit facility with a syndicate of banks. The facility has an expiry date of 26 June 2021. At 29 June 2018, the amount drawn under the facility was GBP 468 235 294. This revolving credit facility replaces the previous GBP 550 million revolving credit facility that Swiss Re ReAssure Limited (formerly known as Swiss Re Admin Re Limited) had entered into in April 2016.

9 Variable interest entities

The Group enters into arrangements with variable interest entities (VIEs) in the normal course of business. The involvement ranges from being a passive investor to designing, structuring and managing the VIEs. The variable interests held by the Group arise primarily as a result of the Group's involvement in certain investment vehicles as well as senior commercial mortgage and infrastructure loans, which meet the definition of a VIE.

When analysing whether the entity is a VIE, the Group mainly assesses if (1) the equity is sufficient to finance the entity's activities without additional subordinated financial support, (2) the equity holders have the right to make significant decisions affecting the entity's operations and (3) the holders of the voting rights substantively participate in the gains and losses of the entity.

When one of these criteria is not met, the entity is considered a VIE and is assessed for consolidation under the VIE section of the Consolidation Topic.

The party that has a controlling financial interest is called a primary beneficiary and consolidates the VIE. The party is deemed to have a controlling financial interest if it has both:

- the power to direct the activities of the VIE that most significantly impact the entity's economic performance; and
- the obligation to absorb the entity's losses that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

For all its variable interests in VIEs, the Group assesses whether it has a controlling financial interest in these entities and, thus, is the primary beneficiary. The Group identifies the activities that most significantly impact the entity's performance and determines whether the Group has the power to direct those activities. In conducting the analysis, the Group considers the purpose, the design and the risks that the entity was designed to create and pass through to its variable interest holders. Additionally, the Group assesses if it has the obligation to absorb losses or if it has the right to receive benefits of the VIE that could potentially be significant to the entity. If both criteria are met, the Group has a controlling financial interest in the VIE and consolidates the entity.

The Group monitors changes to the facts and circumstances of the existing involvement with legal entities to determine whether they require reconsideration of the entity's designation as a VIE or voting interest entity. For VIEs, the Group regularly reassesses the primary beneficiary determination.

Investment vehicles

The Group consolidates a real estate investment entity, which holds real estate backing annuities business. The Group is its primary beneficiary, because it has both power over the entity's investment decisions, as well as a significant variable interest in the entity.

The Group is a passive investor in structured securitisation vehicles issuing commercial mortgage-backed securities (CMBS) and other asset-backed securities (ABS). The Group's investments in CMBS and other ABS are passive in nature and do not obligate the Group to provide any financial or other support to the issuer entities. By design, CMBS and ABS securitisation entities are not adequately capitalised and therefore considered VIEs. The Group is not the primary beneficiary, because it does not have power to direct most significant activities. These investments are accounted for as available-for-sale as described in the investment note and not included in the tables below.

Investment vehicles for unit-linked business

The Group invests on behalf of the policyholders as a passive investor in a variety of investment funds across various jurisdictions. By design, many of these funds meet a VIE definition. While the Group may have a potentially significant variable interest in some of these entities due to its share of the fund's total net assets, it never has power over the fund's investment decisions, or unilateral kick-out rights relative to the decision maker.

The Group is not exposed to losses in the aforementioned investment vehicles, as the investment risk is borne by the policyholder.

Senior commercial mortgage and infrastructure loans

The Group also invests in structured commercial mortgage and infrastructure loans, which are held for investment.

The commercial mortgage loans are made to non-recourse special purpose entities collateralised with commercial real estate. The entities are adequately capitalised and generally structured as voting interest entities. Occasionally, the borrower entities can be structured as limited partnerships where the limited partners do not have kick-out or participating rights, which results in the VIE designation.

The infrastructure loans are made to non-recourse special purpose entities collateralised with infrastructure project assets. Some borrower entities may have insufficient equity investment at risk, which results in the VIE designation.

The Group does not have power over the activities most significant to the aforementioned borrower entities designated as VIEs and therefore does not consolidate them.

The Group's maximum exposure to loss from its investments equals the loan outstanding amount.

The Group did not provide financial or other support to any VIEs during 2018 that it was not previously contractually required to provide.

Consolidated VIEs

The following table shows the total assets and liabilities in the Group's balance sheet related to VIEs of which the Group is the primary beneficiary as of 31 December 2017 and 30 June 2018:

USD millions	2017	**2018**
Investment real estate	198	182
Cash and cash equivalents	1	15
Total assets	199	**197**
Accrued expenses and other liabilities	154	141
Total liabilities	154	**141**

The assets of the consolidated VIEs may only be used to settle obligations of these VIEs and to settle any investors' ownership liquidation requests. There is no recourse to the Group for the consolidated VIEs' liabilities. The assets of the consolidated VIEs are not available to the Group's creditors.

Non-consolidated VIEs

The following table shows the Group's assets related to VIEs in which the Group held a variable interest but was not the primary beneficiary as of 31 December 2017 and 30 June 2018:

USD millions	2017	**2018**
Fixed income securities available-for-sale	175	174
Policy loans, mortgages and other loans	173	208
Investments for unit-linked and with-profit business	9 043	8 630
Total assets	9 391	**9 012**

The following table shows the Group's assets and maximum exposure to loss related to the VIEs in which the Group held a variable interest but was not the primary beneficiary as of 31 December 2017 and 30 June 2018:

	2017		**2018**	
USD millions	Total assets	Maximum exposure to loss[1]	Total assets	Maximum exposure to loss[1]
Investment vehicles for unit-linked business	9 043		8 630	
Senior commercial mortgage and infrastructure loans	348	348	382	382
Total	9 391	348	**9 012**	**382**

[1] Maximum exposure to loss is the loss the Group would absorb from a variable interest in a VIE in the event that all of the assets of the VIE are deemed worthless.

10 Benefit plans

Employer's contribution for 2018
For the six months ended 30 June 2018, the Group contributed USD 2 million to its defined benefit pension plan, compared to USD 2 million in the same period of 2017.

The expected 2018 contributions to the defined benefit pension plan, revised as of 30 June 2018 for the latest information, amount to USD 3 million.

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Cautionary note on forward-looking statements

Certain statements contained herein are forward-looking. These statements (including as to plans, objectives, targets and trends) provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to a historical fact or current fact.

Forward-looking statements typically are identified by words or phrases such as "anticipate", "assume", "believe", "continue", "estimate", "expect", "foresee", "intend", "may increase" and "may fluctuate" and similar expressions or by future or conditional verbs such as "will", "should", "would" and "could". These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results of operations, financial condition, liquidity position or prospects to be materially different from any future results of operations, financial condition, liquidity position or prospects expressed or implied by such statements. Among the key factors that have a direct bearing on our results of operations, financial condition, liquidity position or prospects are:

- the frequency, severity and development of insured claim events, particularly natural catastrophes, man-made disasters, pandemics, acts of terrorism and acts of war;
- mortality, morbidity and longevity experience;
- the cyclicality of the insurance sector;
- instability affecting the global financial system;
- deterioration in global economic conditions;
- the effect of market conditions, including the global equity and credit markets, and the level and volatility of equity prices, interest rates, credit spreads, currency values and other market indices, on the Group's investment assets;
- changes in the Group's investment result as a result of changes in the Group's investment policy or the changed composition of the Group's investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
- the Group's ability to maintain sufficient liquidity and access to capital;
- any inability to realize amounts on sales of securities on the Group's balance sheet equivalent to their values recorded for accounting purposes;
- changes in legislation and regulation, and the interpretations thereof by regulators and courts, affecting us;
- the outcome of tax audits, the ability to realize tax loss carryforwards, the ability to realize deferred tax assets (including by reason of the mix of earnings in a jurisdiction or deemed change of control), which could negatively impact future earnings, and the overall impact of changes in tax regimes on business models;
- failure of the Group's hedging arrangements to be effective;
- the lowering or loss of one of the financial strength or other ratings of one or more Swiss Re companies, and developments adversely affecting the Group's ability to achieve improved ratings;
- uncertainties in estimating reserves;
- uncertainties in estimating future claims for purposes of financial reporting, particularly with respect to large natural catastrophes and certain large man-made losses, as significant uncertainties may be involved in estimating losses from such events and preliminary estimates may be subject to change as new information becomes available;
- extraordinary events affecting the Group's counterparties;
- legal actions or regulatory investigations or actions, including those in respect of industry requirements or business conduct rules of general applicability;

- changes in accounting standards;
- significant investments, acquisitions or dispositions, and any delays, unexpected costs, lower-than expected benefits, or other issues experienced in connection with any such transactions;
- changing levels of competition, including from new entrants into the market; and
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks and the ability to manage cybersecurity risks.

These factors are not exhaustive. We operate in a continually changing environment and new risks emerge continually. Readers are cautioned not to place undue reliance on forward-looking statements. We undertake no obligation to publicly revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.

This communication is not intended to be a recommendation to buy, sell or hold securities and does not constitute an offer for the sale of, or the solicitation of an offer to buy, securities in any jurisdiction, including the United States. Any such offer will only be made by means of a prospectus or offering memorandum, and in compliance with applicable securities laws.

Note on risk factors

Risks relating to adverse economic and market conditions in the UK

The operations of Swiss Re ReAssure Limited ("Swiss Re") and its consolidated subsidiaries (collectively, the "Group") as well as its investment returns are subject to general macroeconomic conditions, particularly in the United Kingdom, as well as volatility in the global economic and financial markets. These, in turn, could be influenced, for example, by concerns about policy positions of the US administration on a range of issues, including global trade and efforts to combat climate change, and the potential impact of regulatory and tax reform in the United States. Uncertainties relating to the withdrawal of the United Kingdom from the European Union, including the nature of the future trading relationship between the United Kingdom and the European Union following withdrawal, the practical aspects of unwinding the myriad of relationships between the two and the potential consequences of a failure to reach agreement by the March 29, 2019 deadline (unless extended); and more broadly by uncertainties arising from geopolitical tensions. The increased political and economic uncertainty is expected to continue to impact the UK economy, namely as a result of the deterrence of foreign investment in the United Kingdom, the uncertainty regarding the future of EU nationals residing in the United Kingdom (and those considering moving to the United Kingdom) and the decline in consumer confidence.

ReAssure Limited ("ReAssure") has assets and liabilities that are principally denominated in pounds sterling. Ark Life Assurance Company dac ("Ark Life), which is based in Dublin, Ireland, has assets and liabilities that are principally denominated in euros, which foreign exchange exposure has been hedged. While the sterling and euro have recovered after significant depreciation against the US dollar (the current currency used by the Group to prepare its US GAAP financial statements) following the referendum on the withdrawal of the United Kingdom from the European Union, a significant portion of the Group's revenues are derived from its operations and investments in the United Kingdom and, to a lesser extent, Ireland, and any further exchange rate fluctuations could adversely affect its business, results of operations and financial condition.

Any of the foregoing factors, developments and trends could have an adverse effect on the Group's investment results (resulting in reduced fee income on policyholder assets and a reduction in the value of shareholder assets), which in the current low interest rate environment and soft (albeit hardening) insurance cycle could have a material adverse effect on its overall results, which make it difficult to determine the value of certain assets in its portfolio, making it more difficult to acquire suitable investments to meet its risk and return criteria and otherwise have a material adverse effect on its business, operations and capital position.

Market risk

Deterioration in the performance of investment markets in which the Group holds its investments could significantly affect the Group's financial position, gross cash generation and profitability.

The Group's life and pension unit-linked funds hold investments in a variety of capital markets instruments (such as equity and debt securities) and also invest in other asset classes, such as real estate. The Group's equity investments are primarily in the with-profit and unit-linked funds. As such, the Group could be negatively affected by any substantial declines in the values of any such investments, particularly in respect of future margins, although the major immediate impact of fluctuations in the value of equity and real estate assets would be to reduce policyholder benefits. In addition, any reductions in the value of equity and real estate assets would have an impact on the shareholder's share of the surplus from the Group's with-profit funds.

Any notable decreases in the market prices of the Group's investments (in particular fixed interest credit related assets) could negatively impact its ability to fund long-term policyholder obligations, which could increase liquidity risks. Moreover, persistent fluctuations in investment markets could, directly or indirectly, affect levels of regulatory capital required to be held by the Group, which could in the longer term lead to potential intervention from the regulators, requiring the Group to safeguard the interests of its policyholders. The types of investments the Group holds may change in the future, and the risks associated with such holdings may increase as a result.

The Group's exposure to interest rate risk relates to fluctuations in the fair value of financial assets or liabilities and cash flows associated with these because of movements in market interest rates (which movements impact, among other things, the Group's risk margin and capital requirements). The Group's interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent that claims costs are related to interest rates, liabilities to policyholders are exposed to interest rate risk. Non-profit insurance and investment contracts have benefit payments that are fixed at the inception of the contract. The Group's primary financial risk on these contracts is that the interest income and capital redemption from the financial assets backing the liabilities are insufficient to fund the policy benefits payable. Therefore, changes in interest rates will impact the cash flows available to meet liabilities as they fall due. Movements in market interest rates affect the Group's liabilities as well as its assets. The Group's investment policy is designed to limit the amount of any mismatch between the two when interest rates fluctuate. Under the Solvency II regime, this is achieved through the use of a matching adjustment ("Matching Adjustment"). ReAssure currently has approval to use the Matching Adjustment for defined blocks of business. Without the Matching Adjustment, it is still possible, in principle, to match the liabilities against movements in interest rates, but spread movements only impact the assets and not the liabilities. ReAssure uses financial instruments to hedge interest rate risk. Hedging transactions do not eliminate the interest rate risk entirely, and may not be fully effective. To the extent that such asset-liability matching is not practicable or fully achieved, there may be differences in the impact of changes in interest rates on assets and liabilities. ReAssure is exposed to interest rate sensitivity in respect of its capital requirements.

The Group's exposure to interest rate risk is primarily related to the market price and cash flow variability associated with changes in interest rates. Economic weakness, fiscal tightening and monetary policies are keeping government bond yields low, which impacts investment yields and affects the profitability of life and pension savings products. The UK investment markets have experienced significant volatility in the period leading up to, and following, the referendum on the withdrawal of the United Kingdom from the European Union, with an impact for the Group, particularly on its fee income. Interest rate movements have affected gross cash generation, due to the corresponding impact on regulatory capital requirements, and all balance sheet items have been affected by the significant fall in sterling relative to the US dollar. Regulators in Europe are aware of this tension and have noted the critical importance of long-term interest rates to life insurers, especially where guaranteed rates have been offered to policyholders. Given current low levels of interest rates, the Group is likely to be subject to the potential effects of rising rates. Generally, an increase in interest rates would increase the net unrealised loss position of the Group's fixed income portfolio, offset by the ability to earn higher rates of return on funds invested. Conversely, a decline in interest rates would decrease the net unrealised loss position, offset by lower rates of return on funds invested. From an accounting perspective, a sharp increase in interest rates would lead to a decrease in the Group's shareholders' equity, through the increase in unrealised losses in fixed income securities, which is not offset by changes in its liabilities under US GAAP.

ReAssure's with-profit funds are exposed to additional interest rate risk as the funds' guaranteed liabilities (in particular, guaranteed annuity options ("GAOs")) are valued based on market interest rates, with the funds' investments including equities, real estate and fixed interest investments. As a result, declines in interest rates could materially decrease the amount of distributions available to policyholders. ReAssure's with-profit deferred annuities offer a guaranteed cash option, which is currently 'out of the money' and hedged by option on interest rate swaps.

Due to the long-term nature of the liabilities of the Group's life companies, sustained declines in long-term interest rates may also subject it to reinvestment risks. Movements in credit spreads may also result in lower spread income.

The Group prepares its US GAAP financial statements in US dollars, and its financial results will therefore be affected by fluctuations among the relative value of the US dollar and the pound sterling, being ReAssure's functional currency, and the relative value of the US dollar and the euro, being Ark Life's functional currency. The Group has entered into cross-currency swaps to reduce its exposure to foreign exchange volatility for a long-term debt instrument issued in the second quarter of 2016 and a portfolio of foreign currency denominated corporate bonds. Hedging transactions do not eliminate the foreign exchange risk entirely, and may not be fully effective.

The contributions required to fund the deficit under the Group's defined benefit pension scheme may also increase in the event of adverse investment performance of the equity and fixed interest assets held.

Risks relating to growth strategy

The Group aims to enhance business profitability by leveraging its core competencies of selective growth, value extraction and operational excellence. Selective growth means pursuing opportunities to build and enhance the Group's franchise and product line through transactions that meet Swiss Re Group's (as defined below) investment criteria and hurdle rates. There may be a number of factors impacting the Group's ability to expand, such as the availability of acceptable opportunities, the ability to negotiate favourable acquisition terms, the ability to obtain required regulatory consents and the ability to integrate the acquired assets successfully.

Operational risk

The potential for operational risk exposure exists throughout the Group's business. Integral to the Group's performance is the continued efficacy of its technical systems, operational infrastructure, relationships with third parties and employees and key executives in the Group's day-to-day and ongoing operations. Failure by any or all of these resources subjects the Group to risks that may vary in size, scale and scope. These risks include, but are not limited to, operational or technical failures, unlawful tampering with the Group's technical systems, terrorist activities, and ineffectiveness or exposure due to interruption in third party support, as well as the loss of key individuals or failure on the part of the key individuals to perform properly.

IT resilience is also a key focus area for the FCA and the PRA. They are increasingly viewing cyber risk as a primary threat to solvency because of the significant, rapid and unexpected impact of security incidents affecting healthcare insurers in the United Kingdom and the inability of such insurers to effectively respond to the events in question. The FCA conducted an industry-wide survey in 2017 on the topic and the Group currently awaits the results of such survey. The Group's operations rely on the secure processing, storage and transmission of confidential and other information in its computer systems and networks. The Group's systems, software and networks (or those of third parties with whom the Group interacts or outsources to) may be vulnerable to unauthorised access (from within the Group or by third parties), computer viruses or other malicious code, cyber threats and other events that could have a security impact and result in the loss, theft or disclosure of confidential information relating to customers or employees, which could result in significant losses or reputational harm, third party liability, business interruption and sometimes physical damage. Cyber-attacks, in particular, have become far more prevalent in the past few years, leading potentially to the theft or manipulation of confidential and proprietary information or loss of access to, or destruction of, data on the Group's systems. In addition, the Group updates its systems and infrastructure to support its operations and growth and to respond to changes in regulations and markets. This updating can create risks associated with implementing new systems and integrating them with existing ones.

The Group may be required to expend significant additional resources to modify its protective measures or to investigate and remediate vulnerabilities or other exposures, and it may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by the Group. Regulators are increasingly focused on promoting the protection of customer/client information and the integrity of information technology systems of regulated firms, recent examples of which are the EU General Data Protection Regulation (Regulation (EU) 2016/679) (the "EU GDPR") that enters into force on May 25, 2018. These initiatives increase the risk of potential liability and could lead potentially to more conservative approaches to sharing data, which in turn could impact assessments of risks. Increased regulatory activity may also include greater scrutiny of personal data processing within the Group's sector, which may give rise to regulatory intervention and reputational harm. Failure to comply with applicable regulations would expose the Group to significant regulatory fines (for example, the maximum fine for non-compliance with certain EU GDPR requirements would be up to EUR 20 million or 4% of the Group's global turnover (whichever is greater)).

Any failure, termination or constraint in respect of its systems could adversely affect the Group's ability to manage its exposure to risk or expand its businesses, or result in financial loss or liability, impairment of its liquidity, disruption of its businesses, regulatory intervention or reputational damage. Despite the resiliency plans and facilities the Group has in place, the Group's ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports its businesses. This may include a disruption involving electrical, communications, internet, transportation or other services used by the Group or third parties with which the Group conducts business. If third parties to which the Group outsources certain IT activities suffer disruptions to, or failures in, their operational systems and infrastructure, it may be unable to find and retain alternative service providers, in a timely manner and/or at commercially acceptable rates.

Credit risk

If the credit markets were again to deteriorate and further asset classes were to be impacted, the Group could experience further losses relative to the allowance for defaults currently made in the projection of asset returns (which are used to discount the value of the liabilities). Changes in the market value of the underlying securities and other factors impacting their price could give rise to market value losses.

The narrowing of credit spreads on corporate bonds may also result in lower spread income for the Group. This could, in the absence of other countervailing changes, cause a material increase in the net loss position of the Group's investment portfolio, which could have a material adverse effect on the Group's business, results, financial condition and prospects.

The Group is exposed to a small number of reinsurance counterparties, especially in relation to reinsured pension annuity liabilities. Such counterparty risk may be caused by deterioration in the actual or perceived creditworthiness or default of such counterparties. Therefore, counterparty defaults could have a material adverse effect on the Group's business, results, financial condition and prospects.

Insurance risk and risks relating to the derivation of actuarial assumptions

The Group has liabilities under pension annuities and other policies (such as term life insurance) that are sensitive to future mortality and longevity rates. Annuities are subject to the risk that annuitants live longer than was projected at the time the policies were issued (or at the time of valuation if the valuation mortality assumption has been updated), with the potential result that the issuing life company may have to continue paying out to annuitants for longer than anticipated and, therefore, longer than was reflected in the pricing and latest valuation of the annuity. There may also be increases in the cost of meeting guarantees on policies with a right to convert their policy value into an annuity at a fixed rate (although these GAO policies largely reside in ReAssure's with-profits funds) and future costs relating to deferred annuities (the with-profit deferred annuities in ReAssure offer a guaranteed cash option, which is currently 'out of the money' and hedged by an option on interest rate swaps within the ReAssure With-Profit Fund). The Group's exposure to credit risk on the assets backing annuity liabilities and mortality, longevity and morbidity risk in respect of the underlying annuity payments has increased as a result of the acquisition of Guardian Holdings Europe Limited and its subsidiaries ("Guardian") in 2016, through the addition of a large block of annuities.

The Group monitors actual liability experience against actuarial assumptions and applies the outcome of such monitoring to refine long-term assumptions. However, because of the underlying risks, it is not possible to determine precisely the amounts that will ultimately be paid to meet policyholder liabilities. Actual liabilities may vary from estimates, particularly when those liabilities do not occur until well into the future. Changes in assumptions may lead to changes in the level of capital that is required to be maintained. In the event that the Group's capital requirements are significantly increased, the amount of capital available for other business purposes, for distribution to its shareholder or to meet its financing commitments will decline.

To the extent that actual mortality, longevity and morbidity rates or other insurance risk experience is less favourable than the underlying assumptions about such rates or experience and it is necessary to increase reserves for policyholder liabilities as a consequence, the amount of additional capital required and the Group's ability to manage its business in an efficient manner may all be materially adversely affected. In recent decades, mortality, longevity and morbidity rates have improved significantly and there is considerable uncertainty over the rate at which such rates will continue to improve in the future. The Group could incur significant losses if mortality, longevity or morbidity rates improve faster than has been assumed.

In addition, for some lines of business (especially unit-linked business and non-linked protection business), the Group makes assumptions about the rates at which policyholders will surrender or otherwise terminate their policies prior to their maturity date. For these products with guarantees at maturity, the Group is exposed to the risk that fewer policyholders will terminate their policies prior to their maturity date than assumed, since this will increase the volume of guarantees that are required to be met at maturity. For policies with positive projected future cash flows, the anticipated future profits obtained from these policies may be curtailed if more policyholders terminate their policies earlier than assumed.

If the assumptions underlying the calculations of the Group's reserves differ from experience (for example, if policyholders do not die at the rate assumed in actuarial calculations or if the volume of

guarantees that are required to be met at maturity is greater than assumed), the Group may have to increase the amount of its reserves, which could have a material adverse impact on its business, results, financial condition and prospects.

Liquidity risks

The Group's business requires, and its policyholders expect, that it has sufficient capital and sufficient liquidity to meet its insurance obligations, and that this would continue to be the case following the occurrence of any foreseeable event or series of events. The Group has potential (relatively immaterial) collateral requirements in connection with a number of longevity swap arrangements.

Generally, the ability to meet liquidity needs could be adversely impacted by factors that the Group cannot control, such as market dislocations or interruptions, adverse economic conditions, severe disruption in the financial and worldwide credit markets and the related increased constraints on the availability of credit; changes in interest rates, foreign exchange rates and credit spreads; or by perceptions among market participants of the extent of the Group's liquidity needs.

Unexpected liquidity needs could require the Group to incur indebtedness or liquidate investments or other assets. The Group may not be able to secure new sources of liquidity or funding, should projected or actual liquidity fall below levels it requires. The ability to meet liquidity needs through asset sales is viewed as reasonable throughout the Group. Unit-linked and with-profits assets (other than real estate assets) are generally liquid in nature. Fixed interest assets backing non-linked liabilities generally include a reasonable proportion of government bonds to ensure a reasonable level of liquidity. The Group expects that going forward there will be an increasing focus on investments in illiquid assets, although its risk appetite for investments in illiquid assets is relatively low (compared to the Group's investments in liquid assets) and is subject to a stress liquidity ratio limit as well as a defined limit on the proportion of illiquid assets compared to the total fixed income portfolio. The Group intends to increase the size and scope of the illiquid asset portfolio, subject to market developments, regulatory non-objection and changes to the Swiss Re Group's strategic asset allocation. Any increases in the amounts the Group invests in illiquid assets may have an adverse effect on its ability to meet its liquidity needs through asset sales and may subject the Group to increasing capital requirements.

Legal risks

In the ordinary course of business, the Group is involved in lawsuits, arbitrations and other formal and informal dispute resolution procedures, the outcomes of which determine rights and obligations under contractual agreements and/or the Group's non-contractual rights and obligations arising at law. From time to time, the Group may institute, or be named as a defendant in, legal proceedings, and the Group may be a claimant or respondent in arbitration proceedings. These proceedings could involve coverage or other disputes with policyholders, disputes with parties to which the Group transfers risk under reinsurance arrangements, disputes with other counterparties or other matters. The Group cannot predict the outcome of any of the foregoing, which could be material for the Group.

The Group is also involved, from time to time, in investigations and regulatory proceedings, which could result in adverse judgements, settlements, fines and other outcomes. The number of these investigations and proceedings involving the financial services industry has increased in recent years, and the potential scope of these investigations and proceedings has also increased, not only in respect of matters covered by the Group's direct regulators, but also in respect of compliance with broader business conduct rules, including those in respect of market abuse, bribery, money laundering, trade sanctions and data protection and privacy. Aggressive tax enforcement is becoming a higher priority for many tax authorities, and the Group is subject to audits and challenges from time to time by tax authorities, which could result in increases in tax costs, changes to internal structures and interest and penalties. Tax authorities may also actively pursue additional taxes based on retroactive changes to tax laws. The Group could be subject to risks arising from alleged, or actual, violations of any of the foregoing, and could also be subject to risks arising from potential employee misconduct, including non-compliance with internal policies and procedures and malfeasance, such as undertaking or facilitating cyber attacks on internal systems. Substantial legal liability could materially adversely affect the Group's business, financial condition or results of operations or could cause significant reputational harm, which could seriously affect its business.

Regulatory risks

The Group is subject to Solvency II requirements. The Group's UK business, through ReAssure Group Limited ("RGL") reports to the PRA under Solvency II and all of RGL's subsidiaries are required to

maintain capital resources consistent with regulatory requirements and adopted risk appetites. ReAssure is authorized by the PRA and regulated by the PRA and FCA as a life assurer. ReAssure UK Services Limited ("RUKSL"), which provides policy administration internally and to third parties, is regulated by the FCA. In addition, ReAssure operates long-term insurance business that is subdivided for purposes of Solvency II reporting into ring-fenced funds, which are subject to restrictions on transfers of assets in and out of the funds (and include with-profit funds and matching adjustment funds), and residual funds, which are not ring-fenced. Each of these funds is required under PRA regulations to maintain sufficient capital and has defined investment criteria for financial assets and valuation methodologies for insurance liabilities. The Group's Irish business, through Ark Life, is subject to regulation by the Central Bank of Ireland ("CBI"). Ark Life operates a non-ring-fenced fund, which consists of non-linked life and disability business and unit-linked business. This fund is required under CBI regulations to maintain sufficient capital and has defined investment criteria for financial assets and valuation methodologies for insurance liabilities.

The Group is required to maintain a minimum level of assets (referred to as regulatory capital) in excess of its liabilities. Under Solvency II, ReAssure's target level of capital buffer is 20% of the Solvency Capital Requirement (SCR), a risk-sensitive capital requirement introduced under Solvency II, excluding that which is related to the with-profits business. The capital buffer is set with a reference to a one-in-ten year stress and remains subject to discretion of the board of ReAssure. The PRA has indicated that it would expect to see a reassessment of the capital buffer at the time that the Group's partial internal model is approved.

Actions of the Group's regulators could have the effect of increasing capital requirements to which the Group is subject. RGL is in contact with the PRA in terms of the ultimate aim of approval of a partial internal model for Solvency II purposes for RGL, ReAssure's residual fund (including Guardian's non-profit business that was transferred via a Part VII Transfer), RUKSL and the Admin Re® Staff Pension Scheme, with a standard formula approach used for with-profit funds. Preparation of an application for such approval remains a key priority for the Group in 2018. Until the partial internal model is approved, RGL uses the standard formula approach for Solvency II reporting. It is anticipated that the 1.1 million life insurance policies acquired from UK financial services provider Legal & General Group plc in 2017 will be transferred to ReAssure via a Part VII Transfer in 2019. The acquired business includes a with-profit fund that is much larger than the existing with-profit funds in ReAssure. Consequently, an assessment will be made as to whether it is necessary to extend the scope of the partial internal model following the initial approval process, so as to cater for the additional with-profits business. In addition, the PRA has approved, in respect of ReAssure, matching adjustments to the risk-free interest rate term structure, volatility adjustments to the relevant risk-free interest rate term structure and use of transitional deductions to Solvency II technical provisions. While the PRA can require add-ons to the standard formula, the PRA has communicated that zero capital add-on is suitable for ReAssure, which may be subject to change.

Continued fluctuations in investment markets could, directly or indirectly, affect levels of regulatory capital required to be held by the Group. In addition, regulators may impose stricter regulatory capital requirements on the Group or regulations may be amended in the future to increase regulatory capital requirements. The general composition of the Group's investment portfolio, including for example the level of illiquid assets (such as its investments in real estate and infrastructure debt), is subject to regulatory oversight, and investment risk in turn has Solvency II implications. Any inability to meet regulatory capital requirements in the longer term could lead to intervention by the PRA, the FCA and/or the CBI, which could be expected to require the Group to take steps to safeguard the interests of policyholders and other customers with a view to restoring regulatory capital to acceptable levels.

The Group can also be impacted by legal or regulatory changes of broader application., such as the changes to the legislative framework surrounding pension and annuity products in the U.K. life insurance sector, some of which are yet to be implemented, and the outcome of thematic reviews. The changes that came into effect in April 2015 introduced pension flexibility for individuals with a defined contribution scheme. As pensioners are allowed access to their pension assets and are in position to freely withdraw funds from their pension either in a single sum or over several years, this could reduce the Group's assets under management and, as a result, reduce its revenues from an asset management perspective. In addition, the FCA determined that exit charges will be capped at 1% and 0% of the value of a member's policy value for existing personal pension contracts and new personal pension contracts (for customers aged 55 and over), respectively, as of 1 April 2017. There continues to be downward pressure on policy charges in the United Kingdom.

In recent years, the FCA has performed and published the findings of various thematic reviews (including on retirement income, sales practices for annuities and the fair treatment of long-standing customers in life insurance). The FCA published its finalized guidance on the fair-treatment of closed-book customers in December 2016, as a result of which the Group had to carry out an extensive fairness review of its closed-book products, particularly around the exit and paid-up charges and communications with customers, which gave rise to additional costs that will most likely not have been included in the product pricing. The FCA's guidance also resulted in the Group having to make changes to a diverse range of activities including clearer communication of charges to customers, tracing of "gone away" customers (i.e., those customers who firms have lost contact with or are unable to contact, including customers acquired as part of Part VII Transfers), unit-linked investment management activities, timely customer remediation, where necessary, and wider governance matters.

In addition, the FCA's increased scrutiny of conduct risk management and accountability continues to affect the U.K. life insurance industry and will impact future persistency and strategic risk. During 2017 the FCA also commenced thematic reviews of sales of non-advised drawdown products following an increase in non-advised sales of these products since the implementation of the U.K. pensions reform in 2015. The FCA is reviewing customer journeys and the clarity of risk warnings provided to customers. ReAssure is involved in this review and awaits the FCA's final comments on its findings. Changes may be required to sales practices for these products across the industry and it is possible that firms may be required to undertake some remediation work following the outcome of the FCA's findings. Increased costs could be incurred as a result of complying with the outcome of this review.

IT resilience is also a key focus area for the FCA and PRA (see "Operational Risks")

A withdrawal of the United Kingdom from the European Union is expected to have a limited impact on the Group's UK business due to its focus on the domestic UK market. The Group may, however, be required to alter the way in which its Ark Life business operates in the United Kingdom if the withdrawal results in a loss of access by the United Kingdom to the single market. The Group's contingency plans continue to evolve as it assesses the likely outcomes of the withdrawal process.

Any of the foregoing could have a material adverse effect on the Group's business, results, financial condition and prospects.

Use of models; accounting matters

The Group is subject to risks relating to the preparation of estimates and assumptions that management uses, including as part of its risk models as well as those that affect the reported amounts of assets, liabilities, revenues and expenses in the Group's financial statements.

Deterioration in market conditions could have an adverse impact on assumptions used for financial reporting purposes, which could affect possible impairment of present value of future profits, fair value of assets and liabilities, deferred acquisition costs or goodwill. Moreover, regulators could require the use of the standard formula instead of permitting the use of the internal model. To the extent that management's estimates or assumptions prove to be incorrect, it could have a material impact on underwriting results (in the case of risk models) or on reported financial condition or results of operations, and such impact could be material.

The Group's results may be impacted by changes in accounting standards or changes in the interpretation of accounting standards. Changes in accounting standards could impact future reported results or require restatement of past reported results. The Group's results may also be impacted if regulatory authorities take issue with any conclusions the Group may reach in respect of accounting matters.

The Group uses non-GAAP financial measures in its external reporting. These measures are not prepared in accordance with US GAAP or any other comprehensive set of accounting rules or principles, and should not be viewed as substitutes for measures prepared in accordance with US GAAP. Moreover, these may be different from, or otherwise inconsistent with, non-GAAP financial measures used by other companies. These measures have inherent limitations, are not required to be uniformly applied and are not audited.

Risks related to the Swiss Re corporate structure

Following the realignment of the corporate structure of SRL and the creation of separate business units in 2012, the asset base, liquidity position, capital profile and other characteristics of the Group

of relevance to its counterparties changed. Swiss Re is a wholly owned subsidiary of SRL, and the Group represents only one of the four principal operating segments of the Swiss Re Group.

The Group does not currently operate on a standalone basis. It is dependent on other members of the Swiss Re Group for a range of asset management services, corporate services (including general management services, human resources, logistics, IT support, finance, treasury and accounting services, auditing services, risk management oversight and legal and compliance) and technical services (including actuarial services support and underwriting services support). In addition, the Group derives a range of significant operational and other benefits from its status as a part of the Swiss Re Group. As a result, factors affecting the Swiss Re Group, whether involving developments or events unique to Swiss Re or events or developments applicable more broadly, could have a material adverse effect on the Group's ability to conduct its business, even if such factors do not directly impact the Group's business operations.

Capital, funding, reserve and cost allocations are made at the Swiss Re Group level across the four operating segments based principally on business plans as measured against US GAAP and economic value management metrics. Decisions at the Swiss Re Group level in respect of the broader Swiss Re Group could have an adverse impact on the Group's financial condition, including its capital and liquidity levels, as well as on its SST ratio. As part of the Swiss Re Group's focus on efficient capital allocation, the Group expects to be paying dividends to SRL. Decisions on dividends payable by each of the operating segments, including the Group, are made at the Swiss Re Group level based on legal entity, regulatory, capital and liquidity considerations. The Swiss Re Group's structure provides flexibility in the way in which it finances operations and the Swiss Re Group expects that its structure will continue to evolve over time. In 2017, the Swiss Re Group entered into a transaction with MS&AD Insurance Group Holdings Inc. ("MS&AD") pursuant to which MS&AD agreed to invest in the Swiss Re Group's Life Capital business; MS&AD as of early 2018 holds a 15% interest in our sole shareholder. In the future, the Swiss Re Group may partner (for purposes of acquisitions or otherwise) with other investors in, or within, one or more of its business units or sub-groups within its business units (including within the Group or at the Group level), which, subject to applicable regulatory requirements, have the potential to alter its historical approaches taken in respect of capital, liquidity, funding and/or dividends, as well as other governance matters, including strategy for such business unit or sub-group and board composition at the relevant corporate level. The Group's structure could also change in connection with acquisitions.

While further changes to the overall Swiss Re Group structure may not have a financial statement impact on a Swiss Re Group consolidated basis, they would impact the Group to the extent that operations are transferred into or from the Group, or as a result of intra-group transactions (from the perspective of the Swiss Re Group) to the extent the Group is a counterparty to any such transactions.

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08/18