Swiss Re

Swiss Re ReAssure Ltd

2017 Annual Report

Key Information

FINANCIAL HIGHLIGHTS

For the years ended 31 December

USD millions, unless otherwise stated	2016	**2017**	Change in %
Swiss Re ReAssure Group			
Net income attributable to common shareholder	741	**273**	–63
Premiums earned and fee income	603	**551**	–9
Dividends on common shares	425	**1 658**	–
Shareholder's equity	6 470	**6 198**	–4
Return on equity in %[1]	12.2	**4.3**	
Gross cash generation[2]	660	**1 071**	62

[1] Return on equity is calculated by dividing 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.

Contents

Income statement

For the years ended 31 December

USD millions	Note	2016	2017
Revenues			
Gross premiums written	3	491	**456**
Net premiums written	3	191	**189**
Change in unearned premiums		2	**1**
Premiums earned	3	193	**190**
Fee income from policyholders		410	**361**
Net investment income – non-participating business	5	782	**725**
Net realised investment gains/losses – non-participating business[1]	5	526	**102**
Net investment result – unit-linked and with-profit business	5	5 367	**3 234**
Other revenues		3	
Total revenues		7 281	**4 612**
Expenses			
Life and health benefits	3	–1 297	**–1 039**
Return credited to policyholders		–4 741	**–2 855**
Acquisition costs	3	–32	**–9**
Operating expenses		–315	**–292**
Total expenses before interest expenses		–6 385	**–4 195**
Income before interest and income tax expense		896	**417**
Interest expenses		–20	**–32**
Income before income tax expense		876	**385**
Income tax expense	10	–135	**–112**
Net income attributable to common shareholder		741	**273**

[1] Total impairments for the years ended 31 December of USD 7 million in 2016 and USD 11 million in 2017, respectively, were fully recognised in earnings.

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

Statement of comprehensive income

For the years ended 31 December

USD millions	2016	2017
Net income attributable to common shareholder	741	**273**
Other comprehensive income, net of tax:		
Change in unrealised investment gains/losses	1 214	**242**
Change in cash flow hedges	–7	**–3**
Change in foreign currency translation	–699	**373**
Change in adjustment for pension benefits	–72	**53**
Total comprehensive income attributable to common shareholder	1 177	**938**

Reclassification out of accumulated other comprehensive income

For the years ended 31 December

2016 USD millions	Unrealised investment gains/losses[1]	Cash flow hedges[1]	Foreign currency translation[1,2]	Adjustment from pension benefits[3]	Accumulated other comprehensive income
Balance as of 1 January	715	0	–191	–64	460
Change during the period	1 568	32	–526	–89	985
Amounts reclassified out of accumulated other comprehensive income	–139	–39		2	–176
Tax	–215		4	15	–196
Balance as of period end	1 929	–7	–713	–136	1 073

2017 USD millions	Unrealised investment gains/losses[1]	Cash flow hedges[1]	Foreign currency translation[1,2]	Adjustment from pension benefits[3]	**Accumulated other comprehensive income**
Balance as of 1 January	1 929	–7	–713	–136	**1 073**
Change during the period	462	30	373	49	**914**
Amounts reclassified out of accumulated other comprehensive income	–165	–33	–1	15	**–184**
Tax	–55		1	–11	**–65**
Balance as of period end	**2 171**	**–10**	**–340**	**–83**	**1 738**

[1] Reclassification adjustment included in net income is presented in "Net realised investment gains/losses – non-participating business".
[2] Reclassification adjustment is limited to translation gains and losses realised upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity.
[3] 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

As of 31 December

USD millions	Note	2016	2017
Investments	5, 6, 7		
Fixed income securities available-for-sale (amortised cost: 2016: 20 015; 2017: 20 633)		22 394	**23 312**
Policy loans, mortgages and other loans		1 112	**853**
Investment real estate		212	**201**
Short-term investments		954	**1 345**
Other invested assets		398	**539**
Investments for unit-linked and with-profit business (including fixed income securities trading: 5 153 in 2016 and 5 209 in 2017, equity securities trading: 25 258 in 2016 and 28 198 in 2017)		31 630	**34 581**
Total investments		56 700	**60 831**
Cash and cash equivalents		2 206	**2 543**
Accrued investment income		418	**417**
Premiums and other receivables		28	**29**
Reinsurance recoverable on unpaid claims and policy benefits		1 947	**2 028**
Acquired present value of future profits	4	516	**557**
Goodwill		130	**142**
Income taxes recoverable		30	**48**
Deferred tax assets		581	**624**
Other assets		125	**273**
Total assets		62 681	**67 492**

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

LIABILITIES AND EQUITY

USD millions	Note	2016	2017
Liabilities			
Unpaid claims and claim adjustment expenses		257	**352**
Liabilities for life and health policy benefits		23 305	**24 545**
Policyholder account balances		28 702	**31 773**
Unearned premiums		131	**142**
Funds held under reinsurance treaties		184	**169**
Reinsurance balances payable		29	**41**
Income taxes payable		33	**84**
Deferred and other non-current tax liabilities		1 349	**1 415**
Short-term debt	9		**433**
Accrued expenses and other liabilities		756	**803**
Long-term debt	9	1 465	**1 537**
Total liabilities		56 211	**61 294**
Equity			
Common shares, GBP 1 par value 2016: 2 738 045; 2017: 2 738 045 registered shares		4	**4**
Additional paid-in capital		4 620	**5 061**
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax		1 929	**2 171**
Cash flow hedges, net of tax		–7	**–10**
Foreign currency translation, net of tax		–713	**–340**
Adjustment for pension and other post-retirement benefits, net of tax		–136	**–83**
Total accumulated other comprehensive income		1 073	**1 738**
Retained earnings		773	**–605**
Total equity		6 470	**6 198**
Total liabilities and equity		62 681	**67 492**

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

Statement of shareholder's equity

For the years ended 31 December

USD millions	2016	2017
Common shares		
Balance as of 1 January	114	4
Change in group structure[1]	–110	
Balance as of period end	4	4
Additional paid-in capital		
Balance as of 1 January	4 703	4 620
Capital contribution		441
Change in group structure[1]	–150	
Changes during the period	67	
Balance as of period end	4 620	5 061
Net unrealised investment gains/losses, net of tax		
Balance as of 1 January	715	1 929
Changes during the period	1 214	242
Balance as of period end	1 929	2 171
Cash flow hedges, net of tax		
Balance as of 1 January	0	–7
Changes during the period	–7	–3
Balance as of period end	–7	–10
Foreign currency translation, net of tax		
Balance as of 1 January	–191	–713
Change in group structure[1]	177	
Changes during the period	–699	373
Balance as of period end	–713	–340
Adjustment for pension and other post-retirement benefits, net of tax		
Balance as of 1 January	–64	–136
Changes during the period	–72	53
Balance as of period end	–136	–83
Retained earnings		
Balance as of 1 January	–709	773
Change in group structure[1]	1 166	
Net income attributable to common shareholder	741	273
Dividends on common shares	–425	–1 658
Transactions under common control[2]		7
Balance as of period end	773	–605
Shareholder's equity	6 470	6 198

[1] Please refer to Note 1 of the 2016 Annual Report.
[2] Includes business transfers to and from entities outside of the SRRL Group.

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

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Statement of cash flows

For the years ended 31 December

USD millions	2016	2017
Cash flows from operating activities		
Net income attributable to common shareholder	741	**273**
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items	187	**152**
Net realised investment gains/losses	–4 847	**–2 371**
Change in:		
Technical provisions and other reinsurance assets and liabilities, net	3 544	**1 598**
Funds held by ceding companies and under reinsurance treaties	–1	**–31**
Reinsurance recoverable on unpaid claims and policy benefits	158	**106**
Other assets and liabilities, net	10	**9**
Income taxes payable/recoverable	43	**–39**
Trading positions, net	708	**–6**
Net cash provided/used by operating activities	543	**–309**
Cash flows from investing activities		
Fixed income securities:		
Sales	4 033	**2 450**
Maturities	498	**634**
Purchases	–5 262	**–2 123**
Net purchases/sales/maturities of short-term investments	–679	**–282**
Cash paid/received for acquisitions/disposals and reinsurance transactions, net	1 657	
Net purchases/sales/maturities of other investments	205	**283**
Net purchases/sales/maturities of investments held for unit-linked and with-profit business	2 627	**2 289**
Net cash provided/used by investing activities	3 079	**3 251**
Cash flows from financing activities		
Policyholder account balances, unit-linked and with-profit business:		
Deposits	645	**559**
Withdrawals	–3 585	**–2 724**
Issuance/repayment of long-term debt	824	**–97**
Issuance/repayment of short-term debt	292	**412**
Capital contribution received from parent		**441**
Dividends paid to parent	–425	**–1 403**
Net cash provided/used by financing activities	–2 249	**–2 812**

USD millions	2016	2017
Total net cash provided/used	1 373	**130**
Effect of foreign currency translation	–397	**207**
Change in cash and cash equivalents	976	**337**
Cash and cash equivalents as of 1 January	1 230	**2 206**
Cash and cash equivalents as of 31 December	2 206	**2 543**

Interest paid was USD 10 million and USD 20 million for 2016 and 2017, respectively. Tax paid was USD 92 million and USD 151 million for 2016 and 2017, 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. The Group manages 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.

Swiss Re ReAssure Limited as the parent company of the Group, was previously called Swiss Re Admin Re Limited and was renamed on 13 March 2017. At the same time, the name of the Swiss Re Admin Re Group was also changed to Swiss Re ReAssure Group.

Principles of consolidation
The Group's financial statements include the consolidated financial statements of SRRL and its subsidiaries. Voting entities which SRRL directly or indirectly controls through holding a majority of the voting rights are consolidated in the Group's financial statements.
Variable interest entities (VIEs) are consolidated when the Group is the primary beneficiary. The Group is the primary beneficiary when it has power over the activities that impact the VIE's economic performance and at the same time has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Companies which the Group does not control, but over which it directly or indirectly exercises significant influence, are accounted for using the equity method or the fair value option and are included in other invested assets. The Group's share of net profit or loss in investments accounted for under the equity method is included in net investment income. Equity and net income of these companies are adjusted as necessary to be in line with the Group's accounting policies. The results of consolidated subsidiaries and investments accounted for using the equity method are included in the financial statements for the period commencing from the date of acquisition.

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 disclosure, 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. 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 analyses, financial modelling and other analytical techniques. Actual results could differ significantly from the estimates described above.

Foreign currency remeasurement and translation
Transactions denominated in foreign currencies are remeasured to the respective subsidiary's functional currency at average exchange rates. Monetary assets and liabilities are remeasured to the functional currency at closing exchange rates, whereas non-monetary assets and liabilities are remeasured to the functional currency at historical rates. Remeasurement gains and losses on monetary assets and liabilities and trading securities are reported in earnings. Remeasurement gains and losses on available-for-sale securities, investments in consolidated subsidiaries and investments accounted for using the equity method are reported in shareholder's equity.

For consolidation purposes, assets and liabilities of subsidiaries with functional currencies other than US dollars are translated from the functional currency to US dollars at closing rates. Revenues and expenses are translated at average exchange rates. Translation adjustments are reported in shareholder's equity.

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 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 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 31 December 2017, the Group has not provided any collateral on financial instruments in excess of its own market value estimates.

Investments
The Group's investments in fixed income and equity securities are classified as available-for-sale (AFS) or trading. Fixed income securities AFS are carried at fair value, based on quoted market prices, with the difference between amortised cost and fair value recognised in shareholder's equity. Trading fixed income and equity securities are carried at fair value with unrealised gains and losses recognised in earnings. A trading classification is used for securities that are bought and held principally for the purpose of selling them in the near term.

For fixed income securities AFS that are other-than-temporary impaired and for which there is not an intention to sell, the impairment is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. The estimated credit loss amount is recognised in earnings, with the remainder of the loss amount recognised in other comprehensive income. In cases where there is an intention or requirement to sell, the full other-than-temporary impairment is recognised in realised investment losses. Subsequent recoveries of previously recognised impairments are not recognised in earnings.

Interest on fixed income securities is recorded in net investment income when earned and is adjusted for the amortisation of any purchase premium or discount. Dividends on equity securities are recognised as investment income on the ex-dividend date. Realised gains and losses on sales are included in earnings and are calculated using the specific identification method.

Policy loans, mortgages and other loans are carried at amortised cost. Interest income is recognised in accordance with the effective yield method.

Investment in real estate that the Group intends to hold for the production of income is carried at depreciated cost, net of any write-downs for impairment in value. Depreciation on buildings is recognised on a straight-line basis over the estimated useful life of the asset. Land is recognised at cost and not depreciated. Impairment in value is recognised if the sum of the estimated future undiscounted cash flows from the use of the real estate is lower than its carrying value. The impairment loss is measured as the amount by which the asset's carrying amount exceeds its fair value and is recognised in realised investment losses. Depreciation and other related charges or credits are included in net investment income. Investment in real estate held for sale is carried at the lower of cost or fair value, less estimated selling costs, and is not depreciated. Reductions in the carrying value of real estate held for sale are included in realised investment losses.

Short-term investments are measured at fair value with changes in fair value recognised in net income. The Group considers highly liquid investments with a remaining maturity at the date of acquisition of one year or less, but greater than three months, to be short-term investments.

Other invested assets include investments in equity accounted companies, deposits and time deposits, collateral receivables, derivative financial instruments and investment real estate. Investments in limited partnerships where the Group's interest equals or exceeds 3% are accounted for using the equity method. Investments in limited partnerships where the Group's interest is below 3% and equity investments in corporate entities which are not publicly traded are accounted for at estimated fair value with changes in fair value recognised as unrealised gains/losses in shareholder's equity.

Derivative financial instruments and hedge accounting

The Group uses a variety of derivative financial instruments including swaps, options, forwards and exchange-traded financial futures for the Group's trading and hedging strategy in line with the overall risk management strategy. Derivative financial instruments are primarily used as a means of managing exposure to price, foreign currency and/or interest rate risk on planned or anticipated investment purchases, existing assets or existing liabilities and also to lock in attractive investment conditions for funds which become available in the future. The Group recognises all of its derivative instruments on the balance sheet at fair value. Changes in fair value on derivatives that are not designated as hedging instruments are recorded in income.

If the derivative is designated as a hedge of the fair value of assets or liabilities, changes in the fair value of the derivative are recognised in earnings, together with changes in the fair value of the related hedged item. If the derivative is designated as a hedge of the variability in expected future cash flows related to a particular risk, changes in the fair value of the derivative are reported in other comprehensive income until the hedged item is recognised in earnings. The ineffective portion of the hedge is recognised in earnings. When hedge accounting is discontinued on a cash flow hedge, the net gain or loss remains in accumulated other comprehensive income and is reclassified to earnings in the period in which the formerly hedged transaction is reported in earnings. When the Group discontinues hedge accounting because it is no longer probable that a forecasted transaction will occur within the required time period, the derivative continues to be carried on the balance sheet at fair value, and gains and losses that were previously recorded in accumulated other comprehensive income are recognised in earnings.

The Group recognises separately derivatives that are embedded within other host instruments if the economic characteristics and risks are not clearly and closely related to the economic characteristics and risks of the host contract and if it meets the definition of a derivative if it were a free-standing contract.

Derivative financial instrument assets are generally included in other invested assets and derivative financial instrument liabilities are generally included in accrued expenses and other liabilities.

The Group also designates non-derivative and derivative monetary financial instruments as hedges of the foreign currency exposure of its net investment in certain foreign operations. From the inception of the hedging relationship, remeasurement gains and losses on the designated non-derivative and derivative monetary financial instruments and translation gains and losses on the hedged net investment are reported as translation gains and losses in shareholder's equity.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, short-term deposits, certain short-term investments in money market funds and highly liquid debt instruments with a remaining maturity at the date of acquisition of three months or less.

Modifications of insurance and reinsurance contracts

The Group accounts for modifications of insurance and reinsurance contracts that result in a substantially unchanged contract as a continuation of the replaced contract. The associated deferred acquisition costs and present value of future profits (PVFP) will continue to be amortised. The Group accounts for modifications of insurance and reinsurance contracts that result in a substantially changed contract as an extinguishment of the replaced contract. The associated deferred acquisition costs or PVFP are written off immediately through income and any new deferrable costs associated with the replacement contract are deferred.

Business combinations

The Group applies the acquisition method of accounting for business combinations. This method allocates the cost of the acquired entity to the assets and liabilities assumed based on their estimated fair values at the date of acquisition.

Life Capital closed blocks of business can be acquired in different legal forms, either through an acquisition of an entity's share capital or through a reinsurance transaction. The Group's policy is to treat these transactions consistently regardless of the legal form of the acquisition. Accordingly, the Group records the acquired assets and liabilities directly to the balance sheet. Premiums, life and health benefits and other income statement items are not recorded in the income statement on the date of the acquisition.

The underlying assets and liabilities acquired are subsequently accounted for according to the relevant GAAP guidance. This includes specific requirements applicable to subsequent accounting for assets and liabilities recognised as part of the acquisition method of accounting, including present value of future profits, goodwill and other intangible assets.

Acquired present value of future profits

The acquired present value of future profits (PVFP) of business in force is recorded in connection with the acquisition of life and/or health business. The initial value is calculated as the difference between established reserves, which are set up in line with US GAAP accounting policies and assumptions of the Group, and their fair value at the acquisition date. The resulting PVFP, which could be positive or negative, is amortised on a constant yield basis over the expected revenue recognition period of the business acquired, generally over periods ranging up to 30 years, with the accrual of interest added to the unamortised balance at the earned rate. Amortisation and accrual of interest are recognised in acquisition costs. The earned rate corresponds to either the current earned rate or the original earned rate depending on the business written. The rate is consistently applied for the entire life of the applicable business. For universal-life and similar products, PVFP is amortised in line with estimated gross profits, which are updated quarterly. The carrying value of PVFP is reviewed periodically for indicators of impairment in value. Adjustments to PVFP reflecting impairment in value are recognised in acquisition costs during the period in which the determination of impairment is made, or in other comprehensive income for shadow loss recognition.

Goodwill

The excess of the purchase price of acquired businesses over the estimated fair value of net assets acquired is recorded as goodwill, which is reviewed periodically for indicators of impairment in value. Adjustments to reflect impairment in value are recognised in earnings in the period in which the determination of impairment is made.

Other assets

Other assets include receivables related to investing activities and securities in transit, post-employment benefit plans in a net asset position, real estate for own use and other classes of property, plant and equipment.

Real estate for own use as well as other classes of property, plant and equipment are carried at depreciated cost. Depreciation on buildings is recognised on a straight-line basis over the estimated useful life. Land is recognised at cost and not depreciated.

Income taxes

Deferred income tax assets and liabilities are recognised based on the difference between financial statement carrying amounts and the corresponding income tax bases of assets and liabilities using enacted income tax rates and laws. A valuation allowance is recorded against deferred tax assets when it is deemed more likely than not that some or all of the deferred tax asset may not be realised.

The Group recognises the effect of income tax positions only if sustaining those positions is more likely than not. Changes in recognition or measurement are reflected in the period in which a change in judgement occurs.

Contract classification

A contract that provides indemnification against loss or liability from specified events and circumstances that may occur or be discovered during a specified period is classified as an insurance or reinsurance contract. Insurance or reinsurance contracts are classified and measured either as short duration insurance, long duration insurance or limited pay contracts, depending on contractual terms and conditions. Universal-life-type contracts are long-duration insurance contracts, providing either death or annuity benefits, with terms that are not fixed and not guaranteed. Investment contracts are long-duration contracts that do not incorporate significant insurance risk, i.e. there is no mortality and morbidity risk, or the mortality and morbidity risk associated with the insurance benefit features offered in the contract is of insignificant amount or remote probability.

Unit-linked contracts where the liability under the contract is dependent on the value of the underlying financial assets are classified as investment contracts, unless the contracts also contain features that transfer significant insurance risk.

Unpaid claims and claim adjustment expenses

Liabilities for unpaid claims and claim adjustment expenses for life and health insurance contracts are accrued when insured events occur and are based on the estimated ultimate cost of settling the claims once the Group has been notified of the occurrence of a claim. A provision is also included for claims incurred but not reported, which is developed on the basis of past experience adjusted for current trends and other factors that modify past experience. The establishment of the appropriate level of reserves is an inherently uncertain process involving estimates and judgements made by management, and therefore there can be no assurance that ultimate claims and claim adjustment expenses will not exceed the loss reserves currently established.

These estimates are regularly reviewed, and adjustments for differences between estimates and actual payments for claims and for changes in estimates are reflected in income in the period in which the estimates are changed or payments are made. The Group does not discount life and health claim reserves except for disability income claims in payment which are recognised at the estimated present value of the remaining ultimate net costs of the incurred claims.

Experience features which are directly linked to a reinsurance asset or liability are classified in a manner that is consistent with the presentation of that asset or liability.

Liabilities for life and health policy benefits
Liabilities for life and health policy benefits from reinsurance business are generally calculated using the net level premium method, based on assumptions as to investment yields, mortality, withdrawals, lapses and policyholder dividends. Assumptions are set at the time the contract is issued or, in the case of contracts acquired by purchase, at the purchase date. The assumptions are based on projections from past experience, making allowance for possible adverse deviation. Interest rate assumptions for life and health (re)insurance benefit liabilities are based on estimates of expected investment yields. Assumed mortality rates are generally based on experience multiples applied to the actuarial select and ultimate tables based on industry experience.

Liabilities for life and health policy benefits are increased with a charge to earnings if it is determined that future cash flows, including investment income, are insufficient to cover future benefits and expenses. Where assets backing liabilities for policy benefits are held as AFS these liabilities for policyholder benefits are increased by a shadow adjustment, with a charge to other comprehensive income, where future cash flows at market rates are insufficient to cover future benefits and expenses.

Policyholder account balances
Policyholder account balances relate to universal-life-type contracts and investment contracts.

Universal-life-type contracts are long-duration insurance contracts, providing either death or annuity benefits, with terms that are not fixed and guaranteed.

Investment contracts are long-duration contracts that do not incorporate significant insurance risk, ie there is no mortality and morbidity risk, or the mortality and morbidity risk associated with the insurance benefit features offered in the contract is of insignificant amount or remote probability. Amounts received as payment for investment contracts are reported as policyholder account balances. Related assets are included in general account assets except for investments for unit-linked and with-profit business, which are presented in a separate line item on the face of the balance sheet. Amounts assessed against policyholders for mortality, administration and surrender are shown as fee income. Amounts credited to policyholders are shown as interest credited to policyholders. Investment income and realised investment gains and losses allocable to policyholders are presented in a separate line item for unit-linked and with-profit business on the face of the income statement.

Unit-linked and with-profit business are presented together as they are similar in nature. 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 down-side risk for the policyholder, and a certain proportion of the returns may be retained by Swiss Re Group (typically 10%). Additional disclosures are provided in Note 5.

Funds held assets and liabilities
Funds held under reinsurance treaties are liabilities that would normally be paid by the Group related to ceded business but are withheld by the Group to reduce credit risk or retain control over the investments.

Shadow loss recognition
Shadow loss recognition testing becomes relevant in low interest rate environments. The test considers whether the hypothetical sale of AFS securities and the reinvestment of proceeds at lower yields would lead to negative operational earnings in future periods, thereby causing a loss recognition event.

For shadow loss recognition testing, the Group uses current market yields to determine best estimate GAAP reserves rather than using locked in or current book yields. If the unlocked best estimate GAAP reserves based on current market rates are in excess of reserves based on locked in or current book yields, a shadow loss recognition reserve is set up. These reserves are recognised in other comprehensive income and do not impact net income. In addition, shadow loss recognition reserves can reverse up to the amount of losses recognised due to past loss events.

Premiums
Premiums, consideration for annuities and reinsurance premiums are recorded when due for payment.

Insurance ceded
The Group uses retrocession arrangements to increase its aggregate underwriting capacity, to diversify its risk and to reduce the risk of catastrophic loss on insurance assumed. The ceding of risks to retrocessionaires does not relieve the Group of its obligations

to its policyholders and cedents. The Group regularly evaluates the financial condition of its retrocessionaires and monitors the concentration of credit risk to minimise its exposure to financial loss from retrocessionaires' insolvency. Premiums and losses ceded under retrocession contracts are reported as reductions of premiums earned and claims and claim adjustment expenses. Amounts recoverable for ceded short- and long-duration contracts, including universal-life-type and investment contracts, are reported as assets in the accompanying consolidated balance sheet.

The Group provides reserves for uncollectible amounts on reinsurance balances ceded, based on management's assessment of the collectability of the outstanding balances.

Receivables
Premium and claims receivables which have been invoiced are accounted for at face value. Together with assets arising from the application of the deposit method of accounting that meet the definition of financing receivables they are regularly assessed for impairment. Evidence of impairment is the age of the receivable and/or any financial difficulties of the counterparty. Allowances are set up on the net balance, meaning all balances related to the same counterparty are considered. The amount of the allowance is set up in relation to the time a receivable has been due and financial difficulties of the debtor, and can be as high as the outstanding net balance.

Pensions and other post-retirement benefits
The Group accounts for its pension and other post-retirement benefit costs using the accrual method of accounting. Amounts charged to expense are based on periodic actuarial determinations.

Subsequent events
Subsequent events for the current reporting period have been evaluated up to 14 March 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 will adopt ASU 2014-09 on 1 January 2018. It is expected that the adoption will 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 an entity to carry investments in equity securities, including partnerships, unincorporated joint ventures and limited liability companies at fair value through net income, with the exception of equity method investments, investments that result in consolidation or investments for which the entity has elected the measurement alternative. For financial liabilities to which the fair value option has been applied, the ASU also 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 will adopt ASU 2016-01 on 1 January 2018. It is expected that the adoption will 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 new requirements are effective for annual and interim periods beginning after 15 December 2018. Early application of the ASU is permitted. The Group is currently assessing the impact of the new requirements.

In March 2016, the FASB issued ASU 2016-05, "Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships", an update to topic 815, "Derivatives and Hedging". The amendments in this ASU clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under topic 815 does not require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The Group adopted ASU 2016-05 on 1 January 2017. The adoption did not have an impact on the Group's financial statements.

In March 2016, the FASB issued ASU 2016-06, "Contingent Put and Call Options in Debt Instruments", an update to topic 815, "Derivatives and Hedging". This ASU clarifies the requirements for assessing whether contingent call or put options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments in this update is required to assess the embedded call or put options solely in accordance with the four-step decision sequence as defined in the implementation guidance issued by the Derivatives Implementation Group (DIG). The Group adopted ASU 2016-06 on 1 January 2017. The adoption did not have an impact on the Group's financial statements.

In March 2016, the FASB issued ASU 2016-07, "Simplifying the Transition to the Equity Method of Accounting", an update to topic 323, "Investments – Equity Method and Joint Ventures". The amendments in this update eliminate the requirement to retroactively adopt the equity method of accounting when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence. Instead, the amendments require that the equity method investor adds the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopts the equity method of accounting as of the date the investment qualifies for equity method accounting. The Group adopted ASU 2016-07 on 1 January 2017. The adoption did not have an impact on the Group's financial statements.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting", an update to topic 718, "Compensation – Stock Compensation". This ASU is part of the Board's Simplification Initiative and the areas for simplification in this update involve several aspects of accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The Group adopted ASU 2016-09 on 1 January 2017. The adoption did not have a material effect on the Group's financial statements.

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 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 current guidance which prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has 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 will adopt ASU 2016-16 on 1 January 2018. It is expected that the adoption will not have a material impact on the Group's equity.

In October 2016, the FASB issued ASU 2016-17, "Interests Held through Related Parties That Are under Common Control", an update to topic 810, "Consolidation". This ASU amends the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. Under the amendments, a single decision maker is not required to consider indirect interests held through related parties that are under common control with the single decision maker to be the equivalent of direct interests in their entirety. Instead, a single decision maker is required to include those interests on a proportionate basis consistent with indirect interests held through other related parties. The Group adopted ASU 2016-17 on 1 January 2017. The adoption did not have an impact on the Group's financial statements.

In January 2017, the FASB issued ASU 2017-01, "Clarifying the Definition of a Business", an update to topic 805, "Business Combinations". The amendments in this update clarify the definition of a business in order to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments stipulate that when substantially all of the fair value of an integrated set of assets and activities ("set") acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. The Group early adopted ASU 2017-01 on 1 July 2017. The adoption did not have an 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.

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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 (previously Admin Re® UK) 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 Assurance 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 (previously Swiss Re Admin Re 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.

Business segments – income statement

For the years ended 31 December

2016 USD millions	United Kingdom	Republic of Ireland	Group items and consolidation	Total
Revenues				
Gross premiums written	417	74		491
Net premiums written	172	19		191
Change in unearned premiums	2			2
Premiums earned	174	19		193
Fee income from policyholders	384	26		410
Net investment income – non-participating business	852	–1	–69	782
Net realised investment gains/losses – non-participating business	527	–1		526
Net investment result – unit-linked and with-profit business	5 138	229		5 367
Other revenues	3			3
Total revenues	7 078	272	–69	7 281
Expenses				
Life and health benefits	–1 293	–4		–1 297
Return credited to policyholders	–4 519	–222		–4 741
Acquisition costs	–39	7		–32
Operating expenses	–298	–17		–315
Total expenses before interest expenses	–6 149	–236	0	–6 385
Income/loss before interest and income tax expense	929	36	–69	896
Interest expenses			–20	–20
Income/loss before income tax expense/benefit	929	36	–89	876
Income tax expense/benefit	–134	–3	2	–135
Net income/loss attributable to common shareholder	795	33	–87	741

2017 USD millions	United Kingdom	Republic of Ireland	Group items and consolidation	Total
Revenues				
Gross premiums written	385	71		456
Net premiums written	171	18		189
Change in unearned premiums	1			1
Premiums earned	172	18		190
Fee income from policyholders	336	25		361
Net investment income – non-participating business	796	–2	–69	725
Net realised investment gains/losses – non-participating business	102			102
Net investment result – unit-linked and with-profit business	3 106	128		3 234
Total revenues	**4 512**	**169**	**–69**	**4 612**
Expenses				
Life and health benefits	–1 033	–6		–1 039
Return credited to policyholders	–2 734	–121		–2 855
Acquisition costs	–13	4		–9
Operating expenses	–273	–18	–1	–292
Total expenses before interest expenses	**–4 053**	**–141**	**–1**	**–4 195**
Income/loss before interest and income tax expense	**459**	**28**	**–70**	**417**
Interest expenses			–32	–32
Income/loss before income tax expense/benefit	**459**	**28**	**–102**	**385**
Income tax expense/benefit	–106	–11	5	–112
Net income/loss attributable to common shareholder	**353**	**17**	**–97**	**273**

Business segments – balance sheet
As of 31 December

2016 USD millions	United Kingdom	Republic of Ireland	Group items and consolidation	Total
Total assets	59 467	2 884	330	62 681

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

Net premiums earned and fee income by type of business
For the years ended 31 December

USD millions	2016	**2017**
Unit-linked business	407	358
Non-participating business	200	178
With-profit business[1]	–4	15
Total	603	**551**

[1] In 2016, additional tranches of reinsurance were ceded from the with-profits fund into the non-profit fund, increasing the retro premiums reported within the with-profits business in the year and resulting in a negative net premium for the with-profits fund overall.

3 Insurance information

Premiums earned and fees assessed against policyholders

For the years ended 31 December

USD millions	2016	2017
Premiums written, thereof:		
Direct	491	456
Ceded	–300	–267
Net premiums written	191	**189**
Premiums earned, thereof:		
Direct	493	457
Ceded	–300	–267
Net premiums earned	193	**190**

Life and health benefits

USD millions	2016	2017
Life and health benefits paid, thereof:		
Gross	–2 367	–2 079
Ceded	376	361
Net life and health benefits paid	–1 991	**–1 718**
Change in life and health benefits, thereof:		
Gross	827	794
Ceded	–133	–115
Net change in life and health benefits	694	**679**
Life and health benefits	–1 297	**–1 039**

Acquisition costs

USD millions	2016	2017
Acquisition costs, thereof:		
Gross	–33	–10
Ceded	1	1
Net acquisition costs	–32	**–9**

Insurance receivables
As of 31 December 2016 and 2017, the Group had receivables invoices from ceded insurance business of USD 30 million and USD 29 million, respectively.

Reinsurance recoverable on unpaid claims and policy benefits
As of 31 December 2016 and 2017, the Group had a reinsurance recoverable of USD 1 947 million and USD 2 028 million, respectively. The concentration of credit risk is regularly monitored and evaluated. The reinsurance programme with Scottish Equitable accounted for 66% and 53% of the Group's reinsurance recoverable as of year-end 2016 and 2017, respectively.

The Group cedes certain re/insurance contracts to affiliated companies within the Swiss Re Group, but outside of the Group (please refer to Note 12).

Policyholder dividends
Policyholder dividends are recognised as an element of policyholder benefits. In the years ended 31 December 2016 and 2017, the relative percentage of participating insurance of the life and health policy benefits was 17% and 18%, respectively. The amount of policyholder dividend expense for the years ended 31 December 2016 and 2017 was USD 279 million and USD 146 million, respectively.

4 Acquired present value of future profits (PVFP)

As of 31 December, the PVFP was as follows:

2016 USD millions	Positive PVFP	Negative PVFP	Total
Opening balance as of 1 January	1 259	0	1 259
Effect of change in group structure		–603	–603
Amortisation	–151	51	–100
Interest accrued on unamortised PVFP	96	–19	77
Effect of change in unrealised gains/losses	35		35
Effect of foreign currency translation	–202	50	–152
Closing balance	1 037	–521	516

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**

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.

Based on the results of shadow loss recognition testing, the shadow loss reserve was reduced by USD 38 million and nil as of 31 December 2016 and 2017, respectively, impacting PVFP and other comprehensive income. The adjustment is reflected in the "Effect of change in unrealised gains/losses" line in the table above. Shadow loss recognition testing considers the adequacy of contractual liabilities, net of PVFP, using current best estimates of all future cash flows discounted at current market yields. The purpose is to reflect the fact that certain amounts recorded as unrealised investment gains and losses within shareholder's equity will ultimately accrue to policyholders and not the shareholder. Shadow losses recognised can reverse up to the amount of losses recognised previously in subsequent periods.

Upon the acquisition of Guardian in 2016, the Group recognised negative PVFP. Upon acquisition, PVFP is calculated as the difference between the estimated fair value and established reserves, which are in line with US GAAP accounting policies and assumptions of the Group. The product mix of Guardian is weighted towards annuity business, for which the fair value of insurance and investment contract liabilities significantly exceeds the established US GAAP reserves. This excess is mainly due to differences in discount rates and risk weightings between fair value and US GAAP estimates. Overall, the excess on the annuity business outweighs the estimated future gross profits of other business and synergy expectations included in the fair value of insurance and investment contract liabilities for the business as a whole, resulting in a negative PVFP.

The subsequent measurement of negative PVFP is in alignment with the existing measurement of positive PVFP assets (please refer to Note 1).

The percentage of PVFP which is expected to be amortised in each of the next five years is 10%, 10%, 9%, 9% and 9%.

5 Investments

Investment income

Net investment income by source (excluding unit-linked and with-profit business) was as follows:

USD millions	2016	2017
Fixed income securities	771	726
Policy loans, mortgages and other loans	53	37
Other investment income	20	3
Gross investment income	844	**766**
Investment expenses	–52	–34
Interest charged for funds held	–10	–7
Net investment income – non-participating business	782	**725**

Realised gains and losses

Realised gains and losses for fixed income securities and other investments (excluding unit-linked and with-profit business) were as follows:

USD millions	2016	2017
Fixed income securities available-for-sale:		
Gross realised gains	168	173
Gross realised losses	–29	–9
Other-than-temporary impairments	–7	–11
Net realised investment gains/losses on trading securities	–12	–1
Net realised/unrealised gains/losses on other investments	95	–66
Net realised/unrealised gains/losses on insurance-related activities	340	9
Foreign exchange gains/losses	–29	7
Net realised investment gains/losses – non-participating business	526	**102**

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 was as follows:

		2016		2017
USD millions	Unit-linked	With-profit	Unit-linked	With-profit
Investment income – fixed income securities	100	134	68	120
Investment income – equity securities	702	69	677	69
Investment income – other	28	13	20	11
Total investment income – unit-linked and with-profit business	830	216	**765**	**200**
Realised gains/losses – fixed income securities	135	174	–12	12
Realised gains/losses – equity securities	3 649	321	2 040	191
Realised gains/losses – other	53	–11	30	8
Total realised gains/losses – unit-linked and with-profit business	3 837	484	**2 058**	**211**
Total net investment result – unit-linked and with-profit business	4 667	700	**2 823**	**411**

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, a 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 were as follows:

2016 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	90	23		113
United Kingdom	4 190	632	–20	4 802
France	127	36		163
Netherlands	141	21		162
Other	386	42	0	428
Total	4 934	754	–20	5 668
Corporate debt securities	14 459	1 627	–37	16 049
Mortgage- and asset-backed securities	622	57	–2	677
Fixed income securities available-for-sale	20 015	2 438	–59	22 394

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	0	130
Other	425	46	0	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**

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 were as follows:

USD millions	Unit-linked	2016 With-profit	Unit-linked	2017 With-profit
Fixed income securities trading	2 379	2 774	2 105	3 104
Equity securities trading	23 310	1 948	25 997	2 201
Investment real estate	580	298	543	281
Other	266	75	286	64
Total investments for unit-linked and with-profit business	26 535	5 095	**28 931**	**5 650**

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 2016 and 2017, USD 1 232 million and USD 1 055 million, respectively, of fixed income securities available-for-sale were callable.

USD millions	Amortised cost or cost	2016 Estimated fair value	Amortised cost or cost	2017 Estimated fair value
Due in one year or less	719	728	639	648
Due after one year through five years	2 451	2 595	3 359	3 515
Due after five years through ten years	3 992	4 345	3 523	3 897
Due after ten years	12 231	14 049	12 588	14 641
Mortgage- and asset-backed securities with no fixed maturity	622	677	524	611
Total fixed income securities available-for-sale	20 015	22 394	**20 633**	**23 312**

Assets pledged

As of 31 December 2017 investments with a carrying value of USD 61 million were placed on deposit or pledged to secure certain reinsurance liabilities, including pledged investments in subsidiaries.

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 2016 and 2017.

2016 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	431	20			431	20
Other	5	0			5	0
Total	436	20	0	0	436	20
Corporate debt securities	760	37	2	0	762	37
Mortgage- and asset-backed securities	48	2			48	2
Total	1 244	59	2	0	1 246	59

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**

Mortgages, loans and real estate

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

USD millions	2016 Carrying value	 Fair value	**2017** Carrying value	 Fair value
Policy loans	9	9	8	8
Mortgage loans	454	461	603	610
Other loans	649	654	242	247
Investment real estate	212	212	201	201

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

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 2017, 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, the fair values of assets and liabilities measured on a recurring basis by level of input were as follows:

2016 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		21 560	834	22 394
Debt securities issued by US government and government agencies		113		113
Debt securities issued by non-US governments and government agencies		5 555		5 555
Corporate debt securities		15 215	834	16 049
Mortgage- and asset-backed securities		677		677
Fixed income securities backing unit-linked and with-profit business		5 153		5 153
Equity securities backing unit-linked and with-profit business	25 258			25 258
Short-term investments held for proprietary investment purposes		954		954
Short-term investments backing unit-linked and with-profit business		6		6
Derivative financial instruments	12	216		228
Interest rate contracts		91		91
Foreign exchange contracts		62		62
Contracts backing unit-linked and with-profit business	12	63		75
Investment real estate			209	209
Other investments backing unit-linked and with-profit business		42		42
Total assets at fair value	25 270	27 931	1 043	54 244
Liabilities				
Derivative financial instruments	–1	–109	–161	–271
Interest rate contracts		–36		–36
Foreign exchange contracts		–6		–6
Other contracts			–161	–161
Contracts backing unit-linked and with-profit business	–1	–67		–68
Total liabilities at fair value	–1	–109	–161	–271

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**

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

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

2016 USD millions	Fixed income securities	Derivative assets	Investment real estate	Total assets	Derivative liabilities	Total liabilities
Assets and liabilities						
Balance as of 1 January	54			54		0
Impact of Accounting Standards Updates[1]			274	274	–207	–207
Realised/unrealised gains/losses:						
Included in net income		4	32	36	6	6
Included in other comprehensive income	29			29		0
Purchases	461	–2		459	4	4
Issuances				0	3	3
Sales		–2	–59	–61	4	4
Settlements	–3			–3		0
Transfers into level 3[2]	301			301		0
Transfers out of level 3[2]				0		0
Impact of foreign exchange movements	–8		–38	–46	29	29
Closing balance as of 31 December	834	0	209	1 043	–161	–161

[1] Impact of ASU 2015-02. Please refer to Note 1 of the 2016 Annual Report.
[2] Transfers are recognised at the date of the event or change in circumstances that caused the transfer.

2017 USD millions	Fixed income securities	Derivative assets	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**	**0**	**198**	**1 167**	**–150**	**–150**

[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 years ended 31 December were as follows:

USD millions	2016	2017
Gains/losses included in net income for the period	42	30
Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date	32	10

Quantitative information about level 3 fair value measurements

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

USD millions	2016 Fair value	2017 Fair value	Valuation technique	Unobservable input	Range (weighted average)
Assets					
Corporate debt securities	834	**966**			
Infrastructure loans	369	563	Discounted Cash Flow Model	Valuation spread	131 bps–197 bps (171 bps)
Private placement corporate debt	330	337	Corporate Spread Matrix	Credit spread	77 bps–238 bps (172 bps)
Investment real estate	209	**198**	Discounted Cash Flow Model	Discount rate	5% per annum
Liabilities					
Other derivative contracts	–161	**–150**			
Swap liability referencing real estate investments	–161	–150	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 positions in the following line items:

Other investments backing unit-linked and with-profit business

For operational efficiencies, the Group elected the fair value option for equity-linked deposits from one of its unit-linked businesses. The assets are 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 "Investments for unit-linked and with-profit business".

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".

Assets and liabilities measured at fair value pursuant to election of the fair value option

Pursuant to the election of the fair value option for the items described, the balances as of 31 December were as follows:

USD millions	2016	**2017**
Assets		
Investments for unit-linked and with-profit business	31 630	34 581
of which at fair value pursuant to the fair value option	42	
Liabilities		
Accrued expenses and other liabilities	–756	–803
of which at fair value pursuant to the fair value option	–161	–150

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 years ended 31 December were as follows:

USD millions	2016	**2017**
Investments for unit-linked and with-profit business	9	
Accrued expenses and other liabilities	17	20
Total	26	**20**

Fair value changes from investments for unit-linked and with-profit business are reported in "Net investment result – unit-linked and with-profit". 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 were as follows:

2016 USD millions	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets			
Policy loans		9	9
Mortgage loans		461	461
Other loans		654	654
Investment real estate		3	3
Total assets	0	1 127	1 127
Liabilities			
Debt	–810	–680	–1 490
Total liabilities	–810	–680	–1 490

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**

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 does 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 over-the-counter 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, the fair values and notional amounts of the derivatives outstanding were as follows:

2016 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	4 581	153	–103	50
Foreign exchange contracts	516	3	–6	–3
Equity contracts	179	10	–1	9
Other contracts	–32		–161	–161
Total	5 244	166	–271	–105
Derivatives designated as hedging instruments				
Foreign exchange contracts	791	62		62
Total	791	62	0	62
Total derivative financial instruments	6 035	228	–271	–43

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**

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 years ended 31 December, the gains and losses of derivative financial instruments not designated as hedging instruments were as follows:

USD millions	2016	2017
Derivatives not designated as hedging instruments		
Interest rate contracts	465	–20
Foreign exchange contracts	–3	9
Equity contracts	–53	–45
Credit contracts	–9	
Other contracts	16	26
Total gains/losses recognised in income	416	**–30**

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 31 December 2017, 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 year ended 31 December 2017, the Group recorded a gain of USD 30 million on derivatives in accumulated other comprehensive income. For the year ended 31 December 2017, the Group reclassified a gain of USD 33 million from accumulated other comprehensive income into income.

As of 31 December 2017, 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 nine 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 years ended 31 December 2016 and 2017, the Group recorded an accumulated net unrealised foreign currency remeasurement loss of USD 19 million and USD 24 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 2016 and 2017 was approximately USD 228 million and USD 122 million, respectively. The maximum potential loss is based on the positive market replacement cost assuming non-performance of all counterparties.

8 Acquisitions

Guardian Holdings Europe Limited
On 6 January 2016, the Group acquired 100% of the shares of Guardian Holdings Europe Limited, the holding company for operations trading under the name Guardian Financial Services ("Guardian") from private equity company Cinven. Guardian provided insurance solutions to financial institutions and insurance companies, either through the acquisition of closed books of business or through entering reinsurance agreements with its customers. The total cost of acquisition as of 6 January 2016 was USD 2.3 billion in cash.

Please refer to Note 5 of the 2016 Annual Report for further details on the Guardian Holdings Europe Limited's acquisition.

9 Debt

The Group's debt as of 31 December was as follows:

USD millions	2016	2017
Senior financial debt[1]		433
Short-term debt	0	**433**
Senior financial debt	1 465	1 537
Long-term debt	1 465	**1 537**
Total carrying value	1 465	**1 970**
Total fair value	1 490	**2 015**

[1] Issuance of short-term senior financial debt on 21 December 2017 to partially fund the payment of the Advance Claim Amount referred to in the agreement with Legal and General Assurance Society Limited (please refer to Note 14).

Interest expense on long-term debt

Interest expense on long-term debt for the years ended 31 December was as follows:

USD millions	2016	2017
Senior financial debt	15	21
Total	15	**21**

Long-term debt

In May 2016, Swiss Re ReAssure Limited issued senior notes due 2023. The notes have a face value of EUR 750 million (carrying value as of 31 December 2017 of USD 895 million), with a fixed coupon of 1.38% per annum.

Swiss Re ReAssure Limited has a GBP 550 million revolving credit facility with a syndicate of banks. The rate of interest on loans made under this facility is the base rate of the interest period of each draw-down plus a margin of 100 basis points. The facility has an expiry date of 8 April 2019. As of 31 December 2017, the facility was partially drawn and the carrying value of the loans was USD 642 million.

10 Income taxes

The Group is generally subject to corporate income taxes based on the taxable net income in various jurisdictions in which it operates. The components of the income tax expense were:

USD millions	2016	2017
Current taxes	68	184
Deferred taxes	67	–72
Income tax expense	135	**112**

Tax rate reconciliation

The following table reconciles the expected tax expense at the United Kingdom statutory tax rate to the actual tax expense in the accompanying income statement:

USD millions	2016	2017
Income tax at the UK statutory tax rate of 19.25% (2016: 20%)	175	74
Increase (decrease) in the income tax charge resulting from:		
Foreign income taxed at different rates	–4	–2
Change in valuation allowance	–61	–4
Change in statutory rate	–37	9
Unrecognised tax benefits		–4
Life tax adjustment	25	
Policyholder Tax	21	9
Disallowed expenses	12	3
Other, net[1]	4	27
Total	135	**112**

[1] Other, net includes tax return to tax provision adjustments.

For the year ended 31 December 2017, the Group reported a tax charge of USD 112 million on a pre-tax income of USD 385 million compared to a charge of USD 135 million on a pre-tax income of USD 876 million for 2016. This translates into an effective tax rate in the current and prior-year reporting periods of 29.1% and 15.4%, respectively.

The higher rate in the current year is mainly driven by change in statutory tax rate and policyholder tax.

Deferred and other non-current taxes

The components of deferred and other non-current taxes were as follows:

USD millions	2016	2017
Deferred tax assets		
Benefit on loss carryforwards	165	158
Tax on unrealised gains in income	414	466
Other	60	59
Gross deferred tax asset	639	683
Valuation allowance	–58	–59
Total deferred tax assets	581	**624**
Deferred tax liabilities		
Present value of future profits	–75	–82
Technical provisions	–734	–740
Unrealised gains going through equity	–405	–456
Untaxed realised gains	–84	–88
Other	–26	–27
Total deferred tax liabilities	–1 324	**–1 393**
Liability for unrecognised tax benefits including interest and penalties	–25	–22
Total deferred and other non-current tax liabilities	–1 349	**–1 415**

As of 31 December 2017, the Group has no temporary differences associated with investment in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised.

As of 31 December 2017, the Group had USD 401 million net operating tax loss carryforwards that never expire. The Group also had USD 549 million net capital loss carryforwards that never expire

For the year ended 31 December 2017, net operating tax losses of USD 96 million and net capital tax losses of nil were utilised.

For the years ended 31 December 2016 and 2017, income taxes paid were USD 92 million and USD 151 million, respectively.

Unrecognised tax benefits

A reconciliation of the opening and closing amount of gross unrecognised tax benefits (excluding interest and penalties) is as follows:

USD millions	2016	2017
Balance as of 1 January	3	22
Reductions for tax positions of prior years	–3	–5
Current year acquisitions	24	
Other (including foreign currency translation)	–2	2
Balance as of 31 December	22	**19**

As of 31 December 2016 and 2017, the amount of gross unrecognised tax benefits within the tabular reconciliation that, if recognised, would affect the effective tax rate were approximately USD 22 million and USD 19 million, respectively.

Interest and penalties related to unrecognized tax benefits are recorded in income tax expense. For the years ended 2016 and 2017, such expenses were USD 3 million and USD 1 million. As of 31 December 2016 and 2017 USD 2 million and USD 3 million respectively were accrued for the payment of interest and penalties. The accrued interest balance is included within the deferred and other non-current taxes section reflected above and in the balance sheet.

The Group continually evaluates proposed adjustments by taxing authorities. The Group believes that it is reasonably possible (more than remote and less than likely) that the balance of unrecognised tax benefits could increase or decrease over the next 12 months due to settlements or expiration of statutes. However, quantification of an estimated range cannot be made at this time.

The following table summarises jurisdictions and tax years that remain subjects to examination:

Ireland	2012–2017
United Kingdom	2008–2009, 2013–2014, 2016–2017

11 Benefit plans

Defined benefit pension plans and post-retirement benefits

The Group sponsors the ReAssure Staff Pension Scheme (formerly Admin Re Staff Pension Scheme), a funded defined benefit pension plan. The Group also sponsors the ReAssure Private Retirement Trust (formerly Admin Re Private Retirement Trust), an executive retirement plan with a single member. Employer contributions to the plans are charged to income on a basis which recognises the costs of pensions over the expected service lives of employees covered by the plans. A full valuation is prepared at least every three years.

The measurement date of these plans is 31 December for each year presented.

USD millions	2016	2017
Benefit obligation as of 1 January	470	540
Service cost	1	1
Interest cost	16	14
Actuarial gains/losses	157	–46
Benefits paid	–14	–18
Effect of foreign currency translation	–90	49
Benefit obligation as of 31 December	540	**540**
Fair value of plan assets as of 1 January	512	486
Actual return on plan assets	67	35
Company contribution	9	3
Benefits paid	–14	–18
Effect of foreign currency translation	–88	47
Fair value of plan assets as of 31 December	486	**553**
Funded status	–54	**13**

Amounts recognised in "Other assets" and "Accrued expenses and other liabilities" in the Group's balance sheet as of 31 December were as follows:

USD millions	2016	2017
Non-current assets		15
Non-current liabilities	–54	–2
Net amount recognised	–54	**13**

As of 31 December 2016 and 2017, a net loss recognised in accumulated other comprehensive income, gross of tax, was USD 168 million and USD 104 million, respectively.

Components of net periodic benefit cost
The components of pension and post-retirement cost for the years ended 31 December were as follows:

USD millions	2016	2017
Service cost (net of participant contributions)	1	1
Interest cost	16	14
Expected return on assets	–22	–19
Amortisation of:		
Net gain/loss	2	14
Net periodic benefit cost	–3	**10**

Other changes in plan assets and benefit obligations recognised in other comprehensive income for the years ended 31 December were as follows:

USD millions	2016	2017
Net gain/loss	112	–62
Amortisation of:		
Net gain/loss	–2	–14
Exchange rate gain/loss recognised during the year	–23	12
Total recognised in other comprehensive income, gross of tax	87	**–64**
Total recognised in net periodic benefit cost and other comprehensive income, gross of tax	84	**–54**

The estimated net loss and prior service cost/credit for the defined benefit pension plans that will be amortised from accumulated other comprehensive income into net periodic benefit cost in 2018 are USD 8 million and nil, respectively.

The accumulated benefit obligation (the current value of accrued benefits excluding future salary increases) for pension benefits was USD 540 million and USD 540 million as of 31 December 2016 and 2017, respectively.

Pension plans with an accumulated benefit obligation in excess of plan assets as of 31 December were as follows:

USD millions	2016	2017
Projected benefit obligation	540	3
Accumulated benefit obligation	540	3
Fair value of plan assets	486	1

Principal actuarial assumptions

	Weighted average	
	2016	**2017**
Assumptions used to determine obligations at the end of the year		
Discount rate	2.6%	2.8%
Rate of compensation increase	3.5%	3.4%
Assumptions used to determine net periodic pension costs for the year ended		
Discount rate	3.8%	2.6%
Expected long-term return on plan assets	4.7%	3.9%
Rate of compensation increase	3.3%	3.5%

The expected long-term rates of return on plan assets are based on long-term expected inflation, interest rates, risk premiums and targeted asset category allocations. The estimates take into consideration historical asset category returns.

Plan asset allocation by asset category

The actual asset allocation by major asset category for defined benefit pension plans as of the respective measurement dates in 2016 and 2017 was as follows:

	2016	**2017**	**Target allocation**
Asset category			
Equity securities	35%	37%	36%
Debt securities	64%	50%	54%
Other	1%	13%	10%
Total	100%	**100%**	**100%**

Actual asset allocation is determined by consideration of the nature of plan liabilities and current economic and market conditions, giving specific consideration to the risks inherent in various asset classes.

The Group's pension plan investment strategy is to match the maturity profiles of the assets and liabilities in order to reduce the future volatility of pension expense and funding status of the plans. This involves balancing investment portfolios between equity and fixed income securities.

Assets measured at fair value

For a description of the different fair value levels and valuation techniques see Note 6 "Fair value disclosures".

As of 31 December, the fair values of pension plan assets classified as level 2 were as follows:

USD millions	2016	2017
Assets		
Fixed-income securities:		
Debt securities issued by non-US governments and government agencies	34	111
Corporate debt securities	277	176
Equity securities:		
Equity securities held for proprietary investment purposes	113	67
Derivative financial instruments		25
Short-term investments		38
Other assets		13
Total assets at fair value	424	430

As of 31 December 2016 and 2017, pension plan assets classified as level 1 included cash of USD 3 million and USD 10 million, respectively. There are no pension plan assets classified as level 3. As of 31 December 2016 and 2017, pension plan assets classified as investments measured at net asset value as practical expedient of USD 59 million and USD 113 million, respectively, were included in other assets.

Expected contributions and estimated future benefit payments

The employer contributions expected to be made in 2018 to the defined benefit pension plans are USD 3 million.

As of 31 December 2017, the projected benefit payments, which reflect expected future service, not adjusted for transfers in and for employees' voluntary contributions, are as follows:

USD millions	ReAssure
2018	17
2019	18
2020	18
2021	18
2022	19
Years 2023-2027	99

Defined contribution pension plans

The Group sponsors a defined contribution plan to which employees and the Group make contributions.
All costs for the scheme are charged in full to the income statement as they arise. The amount expensed in 2016 and in 2017 was USD 4 million and USD 7 million, respectively.

12 Related parties

The Group assumes and cedes certain re/insurance contracts from/to affiliated companies within the Swiss Re Group, but outside the Group. The Group also conducts various investing activities, including derivatives, with affiliated companies in the Swiss Re Group. In addition, the Group enters into various arrangements with affiliated companies in the Swiss Re Group for the provision of services. These activities result in the following related party transactions on the income statement and balance sheet:

USD millions	2016	2017
Revenues		
Net premiums written	–242	–222
Premiums earned	–242	–222
Net investment income/loss – non-participating business	–13	–7
Net realised investment gains/losses – non-participating business		–41
Total revenues	–255	**–270**
Expenses		
Life and health benefits	208	200
Return credited to policyholders	–18	
Acquisition costs	1	1
Operating expenses	–9	–24
Interest expenses	–3	–10
Total expenses	179	**167**

USD millions	2016	2017
Assets		
Other invested assets	123	194
Premiums and other receivables	1	2
Reinsurance recoverable on unpaid claims and policy benefits	29	24
Other assets	21	29
Total assets	174	**249**
Liabilities		
Liabilities for life and health policy benefits	15	10
Reinsurance balances payable	18	20
Accrued expenses and other liabilities	62	144
Total liabilities	95	**174**

None of the members of BoD and the Group EC has any significant business connection with the Group or any of its Group companies.

13 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 of the following:

- 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 reassesses regularly 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 2017 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:

USD millions	2016	**2017**
Investment real estate	209	198
Cash and cash equivalents	18	1
Other assets	5	
Total assets	232	**199**
Accrued expenses and other liabilities	164	154
Total liabilities	164	**154**

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 total assets on the Group's balance sheet related to VIEs in which the Group held a variable interest but was not the primary beneficiary as of 31 December:

USD millions	2016	**2017**
Fixed income securities available-for-sale	110	175
Policy loans, mortgages and other loans	110	173
Investments for unit-linked and with-profit business	8 608	9 043
Total assets	8 828	**9 391**

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

USD millions	2016 Total assets	2016 Maximum exposure to loss[1]	2017 Total assets	2017 Maximum exposure to loss[1]
Investment vehicles for unit-linked business	8 608		9 043	
Senior commercial mortgage and infrastructure loans	220	220	348	348
Total	8 828	220	**9 391**	**348**

[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.

14 Subsequent events

Legal and General life policies

Effective 1 January 2018, ReAssure entered into an agreement with Legal and General Assurance Society Limited to reinsure 1.1 million policies for GBP 650 million. It is intended that the reinsured polices will be transferred to ReAssure at a future date by way of a Part VII transfer under the Financial Services and Markets Act 2000, subject to regulatory approval.

Directors' report

The Board of Directors present their report and the audited consolidated financial statements of the Swiss Re ReAssure Group (referred to as "the Group") for the year ended 31 December 2017.

Basis of presentation
The accompanying consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and in accordance with the Companies (Jersey) Law 1991.

Principal activity
Swiss Re Reassure Limited (referred to as "SRRL"), the parent company of the Group, is domiciled and incorporated in Jersey.

As of 31 December 2017, SRRL was an intermediate holding company and a financing vehicle for the activities of 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.

Performance and dividends
The results for the year ended 31 December 2017 are set out on page 2.

During the years ended 31 December 2017 and 2016, dividends of USD 1 658 million and USD 425 million have been paid, respectively.

Directors and their interests
During the year ended 31 December 2017, the following members served as Board of Directors of Swiss Re ReAssure Limited:

Name	Date of appointment	Date of resignation
Neil Allerton		13 March 2017
David Gott		13 March 2017
Ian Patrick		
Neil Rolfe		26 January 2018
Matthew Cuhls	13 March 2017	
Michael Woodcock	13 March 2017	
Rejean Besner	26 January 2018	

The members of the Group's Board of Directors are covered by the Swiss Re Limited Group indemnity provision policy. This indemnifies directors in respect of payments, as well as any costs associated with legal proceedings claimed by third parties. Any member of the Board of Directors who serves or served for the Group is covered to the fullest extent permitted by law and stated in the certificate of incorporation, articles of association, by-laws and other similar constituent documents of the Group. Swiss Re Limited unconditionally guarantees payment of such sums by the Group.

Statement of Board of Directors' responsibilities in respect of the financial statements
The Board of Directors is responsible for preparing the Annual Report and the consolidated financial statements in accordance with applicable law and regulation.

Company law requires the Board of Directors to prepare and approve financial statements for each financial year.

Under that law the members of the Board of Directors have prepared the Group financial statements in accordance with accounting principles generally accepted in the United States of America. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- state whether applicable US GAAP have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Board of Directors is responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The members of the Board of Directors are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors of the ultimate parent company are responsible for the maintenance and integrity of the of the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case of each director in office at the date the Board of Directors Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Report of the independent auditor

To the Board of Directors
Swiss Re ReAssure Limited
22 Grenville Street
St Helier
Jersey
JE4 8PX

Report on the audit of the group financial statements

Opinion

In our opinion, Swiss Re ReAssure Limited group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with accounting principles generally accepted in the United States of America; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

We have audited the financial statements, included within the *Annual Report*, which comprise: *the balance sheet as at 31 December 2017; the income statement, the statement of comprehensive income, the statement of cash flow, and the statement of shareholder's equity for the year then ended*; the accounting policies; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Overview of our audit approach

Materiality

- USD 337 million (2016: USD 157 million) based on 0.5 % of total assets.

Key Audit Scope Highlights

- We performed an audit of the complete financial information of the key components ReAssure Limited and Ark Life Assurance Company Limited, taking into account all material financial statement line items. These components represents 98.7% of the group's total assets.
- We have also performed audit procedures on material balances within all the other components.

Key Audit Matters

Actuarial reserving

The valuation of life insurance liabilities under US GAAP requires the use of actuarial models and assumptions about economic conditions and demographics (e.g. mortality rates). As a result, an element of subjectivity is inherent in the US GAAP balance sheet, although there are mitigating factors under US GAAP that reduce the impact of any subjectivity.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Actuarial reserving The valuation of life insurance liabilities under US GAAP requires the use of actuarial models and assumptions about economic conditions and demographics (e.g. mortality rates). As a result, an element of subjectivity is inherent in the US GAAP balance sheet, although there are mitigating factors under US GAAP that reduce the impact of any subjectivity, particularly; a) Management's methodology and models for US GAAP reporting have remained unchanged over the year. b) US GAAP regulations require that assumptions are locked-in when business is acquired, meaning that changes in assumptions each year have an immaterial impact on the balance sheet, impacting only incremental new business over the year.	■ We have confirmed that there have been no changes in ReAssure's business or US GAAP regulations which would necessitate a change in management's methodology or models. ■ We have confirmed that all locked-in assumptions have remained unchanged since prior year, as we would expect. ■ For incremental new business in the year, we have confirmed that the assumptions applied are equal to the best estimate assumptions we have audited for EVM reporting plus the required prudent margins, in line with agreed methodology. ■ We have performed an analysis of the change in reserves over the year. As a result of the above audit procedures, we are satisfied that the valuation of the life insurance liabilities on the US GAAP balance sheet is appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which it operates.

The accounting and financial reporting function of the Group is based in two location, United Kingdom and Ireland. In UK, however due to the continued migration of the Guardian Assurance business certain accounting records were maintained at other locations for part of the year. In establishing the overall approach for individual line items in the financial statements we have considered the location of the source data including those that have been accounted for at material outsourced providers and performed testing at those locations.

Components that required an audit of complete financial information included ReAssure Limited and Ark Life Assurance Company limited based in United Kingdom and Ireland.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	USD 337 million (2016: USD 157 million).
How we determined it	0.5% of total assets.
Rationale for benchmark applied	We have considered a range of benchmarks including total assets, net assets and profit over time. We believe that total assets in the primary measure used by both shareholders and lenders in assessing the performance of the entity, and is a generally accepted auditing benchmarking

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was [materiality allocated to components].

We agreed with the Audit Committee and Management that we would report to them misstatements identified during our audit above USD 16.8 million (2016: USD 8 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 53, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies (Jersey) Law 1991 exception reporting

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Philip Watson

Philip Watson
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Recognized Auditor
7 More London Riverside, London
12 March 2018

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:

- further instability affecting the global financial system and developments related thereto;
- further deterioration in economic conditions in the United Kingdom or, more broadly, in global economic conditions;
- the Group's ability to maintain sufficient liquidity and access to capital and funding;
- the effect of market conditions, including the global equity and credit markets, and the level and volatility of interest rates, credit spreads, equity prices, 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 its investment policy or the changed composition of its investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
- possible inability to realise amounts on sales of securities on the Group's balance sheet equivalent to their market-to-market values recorded for accounting purposes;
- mortality, morbidity, longevity and persistency rates;
- policy renewal and lapse rates;
- uncertainties in estimating reserves;
- extraordinary events affecting the Group's counterparties;
- current, pending and future legislation and regulation affecting the Group and the interpretation of legislation or regulations by regulators, particularly in respect of minimum capital requirements;
- 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 or other issues experienced in connection with any such transactions and, in particular, the Group's ability to integrate Guardian successfully and obtain the expected operational, capital and asset management synergies, benefits of scale and other expected benefits of the Guardian acquisition;
- 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.

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 within the ReAssure With-Profit Fund.

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 closed books segment of the Swiss Re Group's Life Capital business unit. While to date the Group (at the business unit level) remains wholly owned by SRL, 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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