Swiss Re

Swiss Re ReAssure Ltd

Half-Year 2017 Report

Key Information

Financial highlights

For the six months ended 30 June

USD millions, unless otherwise stated	2016	2017	Change in %
Swiss Re ReAssure Group			
Net income attributable to common shareholder	653	**145**	–78
Premiums earned and fee income	298	**248**	–17
Dividends on common shares	359	**1 658**	–
Shareholder's equity (31.12.2016/30.06.2017)	6 470	**5 202**	–20
Return on equity in %[1]	21.1	**5.0**	
Gross cash generation	94	**528**	–

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

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Income statement

For the six months ended 30 June

USD millions	Note	2016	2017
Revenues			
Gross premiums written	3	253	**213**
Net premiums written	3	95	**76**
Change in unearned premiums		2	**–1**
Premiums earned	3	97	**75**
Fee income from policyholders		201	**173**
Net investment income – non-participating business	5	401	**374**
Net realised investment gains/losses – non-participating business[1]	5	516	**37**
Net investment result – unit-linked and with-profit business	5	2 261	**1 585**
Total revenues		3 476	**2 244**
Expenses			
Life and health benefits	3	–697	**–516**
Return credited to policyholders		–1 891	**–1 410**
Acquisition costs	3	29	**4**
Operating expenses		–145	**–139**
Total expenses before interest expenses		–2 704	**–2 061**
Income before interest and income tax expense		772	**183**
Interest expenses		–6	**–15**
Income before income tax expense		766	**168**
Income tax expense		–113	**–23**
Net income attributable to common shareholder		653	**145**

[1] Total impairments for the six months ended 30 June of USD 7 million in 2016 and USD 8 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 six months ended 30 June

USD millions	2016	**2017**
Net income attributable to common shareholder	653	**145**
Other comprehensive income, net of tax:		
Change in unrealised investment gains/losses	1 003	**–26**
Change in cash flow hedges	–12	**–5**
Change in foreign currency translation	–291	**225**
Change in adjustment for pension benefits	7	**–1**
Total comprehensive income attributable to common shareholder	1 360	**338**

Reclassification out of accumulated other comprehensive income

For the six months ended 30 June

2016 USD millions	Unrealised investment gains/losses[1]	Cash flow hedges[1]	Foreign currency translation	Adjustment from pension benefits[2]	Accumulated other comprehensive income
Balance as of 1 January	715	0	–191	–64	460
Change during the period	1 260	43	–117	7	1 193
Amounts reclassified out of accumulated other comprehensive income	–46	–55		1	–100
Tax	–211		3	–1	–209
Balance as of period end	1 718	–12	–305	–57	1 344

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

[1] Reclassification adjustment included in net income is presented in "Net realised investment gains/losses – non-participating business". "Unrealised investment gains/losses" also includes a shadow adjustment, please refer to Note 4 "Acquired present value of future profits (PVFP)".
[2] Reclassification adjustment included in net income is presented in "Operating expenses".

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

Balance sheet

Assets

USD millions	Note	31.12.2016	30.06.2017
Investments	5,6,7		
Fixed income securities available-for-sale (amortised cost: 2016: 20 015; 2017: 19 648)		22 394	**22 096**
Policy loans, mortgages and other loans		1 112	**803**
Investment real estate		212	**206**
Short-term investments		954	**1 181**
Other invested assets		398	**366**
Investments for unit-linked and with-profit business (including fixed income securities trading: 5 153 in 2016 and 5 077 in 2017, equity securities trading: 25 258 in 2016 and 26 736 in 2017)		31 630	**33 021**
Total investments		56 700	**57 673**
Cash and cash equivalents		2 206	**2 368**
Accrued investment income		418	**371**
Premiums and other receivables		28	**29**
Reinsurance recoverable on unpaid claims and policy benefits		1 947	**1 989**
Acquired present value of future profits	4	516	**450**
Goodwill		130	**136**
Income taxes recoverable		30	**42**
Deferred tax assets		581	**630**
Other assets		125	**262**
Total assets		62 681	**63 950**

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

Liabilities and equity

USD millions	Note	31.12.2016	30.06.2017
Liabilities			
Unpaid claims and claim adjustment expenses		257	**332**
Liabilities for life and health policy benefits		23 305	**24 030**
Policyholder account balances		28 702	**30 320**
Unearned premiums		131	**138**
Funds held under reinsurance treaties		184	**177**
Reinsurance balances payable		29	**20**
Income taxes payable		33	**5**
Deferred and other non-current tax liabilities		1 349	**1 383**
Accrued expenses and other liabilities		756	**877**
Long-term debt	9	1 465	**1 466**
Total liabilities		56 211	**58 748**
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	**4 620**
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax		1 929	**1 903**
Cash flow hedges, net of tax		–7	**–12**
Foreign currency translation, net of tax		–713	**–488**
Adjustment for pension and other post-retirement benefits, net of tax		–136	**–137**
Total accumulated other comprehensive income		1 073	**1 266**
Retained earnings		773	**–688**
Total equity		6 470	**5 202**
Total liabilities and equity		62 681	**63 950**

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

Statement of shareholder's equity

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

USD millions	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**
Change in group structure[1]	–150	
Changes during the period	67	
Balance as of period end	4 620	**4 620**
Net unrealised investment gains/losses, net of tax		
Balance as of 1 January	715	**1 929**
Changes during the period	1 214	**–26**
Balance as of period end	1 929	**1 903**
Cash flow hedges, net of tax		
Balance as of 1 January	0	**–7**
Changes during the period	–7	**–5**
Balance as of period end	–7	**–12**
Foreign currency translation, net of tax		
Balance as of 1 January	–191	**–713**
Change in group structure[1]	177	
Changes during the period	–699	**225**
Balance as of period end	–713	**–488**
Adjustment for pension and other post-retirement benefits, net of tax		
Balance as of 1 January	–64	**–136**
Changes during the period	–72	**–1**
Balance as of period end	–136	**–137**
Retained earnings		
Balance as of 1 January	–709	**773**
Change in group structure[1]	1 166	
Net income attributable to common shareholder	741	**145**
Dividends on common shares	–425	**–1 658**
Other[2]		**52**
Balance as of period end	773	**–688**
Shareholder's equity	6 470	**5 202**

[1] Please refer to Note 1 of the 2016 Annual Report.
[2] This includes a business transfer to an entity outside of the SRRL Group.

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

Statement of cash flows

For the six months ended 30 June

USD millions	2016	2017
Cash flows from operating activities		
Net income attributable to common shareholder	653	**145**
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items	103	**77**
Net realised investment gains/losses	–2 200	**–1 113**
Change in:		
Technical provisions and other reinsurance assets and liabilities, net	1 214	**861**
Funds held by ceding companies and under reinsurance treaties	–10	**–16**
Reinsurance recoverable on unpaid claims and policy benefits	83	**65**
Other assets and liabilities, net	70	**–8**
Income taxes payable/recoverable	36	**–65**
Trading positions, net	780	**48**
Net cash provided/used by operating activities	729	**–6**
Cash flows from investing activities		
Fixed income securities:		
Sales	2 684	**1 679**
Maturities	159	**292**
Purchases	–3 694	**–827**
Net purchases/sales/maturities of short-term investments	–707	**–147**
Cash paid/received for acquisitions/disposals and reinsurance transactions, net	1 657	**0**
Net purchases/sales/maturities of other investments	216	**385**
Net purchases/sales/maturities of investments held for unit-linked and with-profit business	1 160	**1 286**
Net cash provided/used by investing activities	1 475	**2 668**
Cash flows from financing activities		
Policyholder account balances, unit-linked and with-profit business:		
Deposits	344	**292**
Withdrawals	–1 805	**–1 439**
Issuance/repayment of long-term debt	826	**–94**
Issuance/repayment of short-term debt	307	**0**
Dividends paid to parent	–359	**–1 403**
Net cash provided/used by financing activities	–687	**–2 644**
Total net cash provided/used	1 517	**18**
Effect of foreign currency translation	–160	**144**
Change in cash and cash equivalents	1 357	**162**
Cash and cash equivalents as of 1 January	1 230	**2 206**
Cash and cash equivalents as of 30 June	2 587	**2 368**

Interest paid was USD 5 million and USD 16 million for the six months ended 30 June 2016 and 2017, respectively.
Tax paid was USD 77 million and USD 88 million for the six months ended 30 June 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. SRRL and its subsidiaries manage the closed book business of the Life Capital segment in the United Kingdom and Republic of Ireland.

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). All significant intra-group transactions and balances have been eliminated on consolidation. The year-end balance sheet data presented was derived from audited financial statements. These interim financial statements do not include all disclosures that US GAAP requires on an annual basis and therefore they should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2016.

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.

Use of estimates in the preparation of financial statements

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

Valuation of financial assets

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

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

For assets or derivative structures at fair value, the Group uses market prices or inputs derived from market prices. A separate internal price verification process, independent of the trading function, provides an additional control over the market prices or market input used to determine the fair values of such assets. Although management considers that appropriate values have

been ascribed to such assets, there is always a level of uncertainty and judgement over these valuations. Subsequent valuations could differ significantly from the results of the process described above. The Group may become aware of counterparty valuations, either directly through the exchange of information or indirectly, for example, through collateral demands. Any implied differences are considered in the independent price verification process and may result in adjustments to initially indicated valuations. As of 30 June 2017, the Group has not provided any collateral on financial instruments in excess of its own market value estimates.

Subsequent events

Subsequent events for the current reporting period have been evaluated up to 3 August 2017. 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 new requirements are effective for annual and interim periods beginning after 15 December 2017, and may be applied retrospectively to each prior period presented or with a cumulative effect adjustment to retained earnings as of the date of initial application. The Group is currently assessing the impact of the new requirements.

In May 2015, the FASB issued ASU 2015-09, "Disclosures about Short-Duration Contracts", an update to topic 944, "Financial Services — Insurance". ASU 2015-09 requires an insurance entity to provide additional information about insurance liabilities, including information on the nature, amount, timing, and uncertainty of future cash flows related to insurance liabilities and the effect of those cash flows on the statement of comprehensive income. Requirements include disaggregated incurred and paid claims development information by accident year, on a net basis after risk mitigation, for at least the most recent 10 years with the periods preceding the current period considered required supplementary information. In addition, for each accident year presented in the claims development tables, an insurer has to provide disaggregated information about claim frequency (unless impracticable) and the amounts of incurred but not reported (IBNR) liabilities plus the expected development on reported claims. Required disclosures also include a description of the methods for determining both IBNR and expected development on reported claims as well as information about any significant changes in methods and assumptions used in the computation of the liability for unpaid claims and claim adjustment expenses, including reasons for the changes and the impact of the changes on the most recent reporting period in the financial statements. All aforementioned disclosures have to be provided on an annual basis. In addition, insurance entities must disclose the roll-forward of the liability for unpaid claims and claims adjustment expenses in both interim and annual periods. The Group adopted the annual disclosure requirements as of 31 December 2016. The Group adopted the interim disclosure requirements for the half-year ending on 30 June 2017. The adoption did not have an 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 other ownership interests 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 practicability exception to fair value measurement. The practicability exception can only be applied by certain entities and only to equity investments without a readily determinable fair value. Investments under the practicability exception will be subject to an indicator-based impairment test. 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. Specific exceptions apply to this requirement. 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 AFS in combination with the entity's other DTAs rather than separately from other DTAs. The ASU also introduces changes to disclosure requirements for financial instruments not measured at fair value and introduces new requirements for equity instruments where the practicability exception to fair value measurement is applied. The new requirements are effective for annual and interim periods beginning after 15 December 2017 with early adoption permitted for requirements relating to the presentation of the impact of instrument-specific credit risk on qualifying financial liabilities in other comprehensive income. The Group is currently assessing the impact of the new requirements.

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 should recognise the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The new requirements are effective for annual and interim periods beginning after 15 December 2017. The Group is currently assessing the impact of the new requirements.

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 2017-04, "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 unrecognized 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 recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized 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.

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 Designated Activity Company ("Ark Life 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.

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a) Business segments – income statement

For the six months ended 30 June

2016 USD millions	United Kingdom	Republic of Ireland	Group items and consolidation	Total
Revenues				
Gross premiums written	215	38		253
Net premiums written	85	10		95
Change in unearned premiums	2			2
Premiums earned	87	10		97
Fee income from policyholders	188	13		201
Net investment income – non-participating business	477	–1	–75	401
Net realised investment gains/losses – non-participating business	516			516
Net investment result – unit-linked and with-profit business	2 192	69		2 261
Total revenues	3 460	91	–75	3 476
Expenses				
Life and health benefits	–694	–3		–697
Return credited to policyholders	–1 819	–72		–1 891
Acquisition costs	25	4		29
Operating expenses	–136	–9		–145
Total expenses before interest expenses	–2 624	–80	0	–2 704
Income/loss before interest and income tax expense	836	11	–75	772
Interest expenses			–6	–6
Income/loss before income tax expense/benefit	836	11	–81	766
Income tax expense/benefit	–118	1	4	–113
Net income/loss attributable to common shareholder	718	12	–77	653

Business segments – income statement
For the six months ended 30 June

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

Business segments – balance sheet

As of 31 December 2016 and 30 June 2017

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	61 177	2 950	–177	63 950

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3 Insurance information

For the six months ended 30 June

Premiums written and premiums earned

USD millions	2016	2017
Premiums written, thereof:		
Direct	253	213
Ceded	–158	–137
Net premiums written	95	**76**
Premiums earned, thereof:		
Direct	255	212
Ceded	–158	–137
Net premiums earned	97	**75**

Life and health benefits

USD millions	2016	2017
Life and health benefits paid, thereof:		
Gross	–1 252	–1 012
Ceded	203	198
Net life and health benefits paid	–1 049	**–814**
Change in life and health benefits, thereof:		
Gross	416	367
Ceded	–64	–69
Net change in life and health benefits	352	**298**
Life and health benefits	–697	**–516**

Acquisition costs

USD millions	2016	2017
Acquisition costs, thereof:		
Gross	28	3
Ceded	1	1
Net acquisition costs	29	**4**

Insurance receivables

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

Policyholder dividends

Policyholder dividends are recognised as an element of policyholder benefits. In the six months ended 30 June 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 six months ended 30 June 2016 and 2017 was USD 136 million and USD 93 million, respectively.

4 Acquired present value of future profits (PVFP)

As of 31 December 2016 and 30 June 2017, 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	–41	22	–19
Interest accrued on unamortised PVFP	33	–9	24
Effect of change in unrealised gains/losses	–93		–93
Effect of foreign currency translation	50	–28	22
Closing balance	**986**	**–536**	**450**

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 increased by USD 93 million as of 31 December 2016 and 30 June 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 of the 2016 Annual Report).

5 Investments

Investment income

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

USD millions	2016	2017
Fixed income securities	395	364
Policy loans, mortgages and other loans	31	22
Other investment income	8	
Net result from deposit-accounted contracts	1	
Gross investment income	435	**386**
Investment expenses	–29	–10
Interest charged for funds held	–5	–2
Net investment income – non-participating business	401	**374**

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Realised gains and losses

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

USD millions	2016	2017
Fixed income securities available-for-sale:		
Gross realised gains	69	102
Gross realised losses	–23	–7
Other-than-temporary impairments	–7	–8
Net realised investment gains/losses on trading securities	–13	
Net realised/unrealised gains/losses on other investments	111	–57
Net realised/unrealised gains/losses on insurance-related activities	421	6
Foreign exchange gains/losses	–42	1
Net realised investment gains/losses – non-participating business	516	**37**

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 down-side risk for the policyholder, and a certain proportion of the returns may be retained by the Group (typically 10%).

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

	2016		2017	
USD millions	Unit-linked	With-profit	Unit-linked	With-profit
Investment income – fixed income securities	53	71	36	59
Investment income – equity securities	402	34	371	31
Investment income – other	11	6	8	4
Total investment income – unit-linked and with-profit business	466	111	**415**	**94**
Realised gains/losses – fixed income securities	174	178	–14	4
Realised gains/losses – equity securities	1 195	108	990	103
Realised gains/losses – other	33	–4	–8	1
Total realised gains/losses – unit-linked and with-profit business	1 402	282	**968**	**108**
Total net investment result – unit-linked and with-profit business	1 868	393	**1 383**	**202**

Impairment on fixed income securities related to credit losses

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

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

Investments available-for-sale

Amortised cost or cost and estimated fair values of fixed income securities classified as available-for-sale as of 31 December 2016 and 30 June 2017 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
Netherlands	141	21		162
France	127	36		163
Other	386	42		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	94	24		118
United Kingdom	3 782	519	–25	4 276
Netherlands	157	21		178
France	128	39		167
Other	427	43		470
Total	4 588	646	–25	5 209
Corporate debt securities	14 447	1 773	–29	16 191
Mortgage- and asset-backed securities	613	83		696
Fixed income securities available-for-sale	**19 648**	**2 502**	**–54**	**22 096**

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 2016 and 30 June 2017 were as follows:

USD millions	2016 Unit-linked	2016 With-profit	2017 Unit-linked	2017 With-profit
Fixed income securities trading	2 379	2 774	2 119	2 958
Equity securities trading	23 310	1 948	24 666	2 070
Investment real estate	580	298	571	296
Other	266	75	222	119
Total investments for unit-linked and with-profit business	26 535	5 095	**27 578**	**5 443**

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 30 June 2017, USD 1 232 million and USD 955 million, respectively, of fixed income securities available-for-sale were callable.

USD millions	2016 Amortised cost or cost	2016 Estimated fair value	2017 Amortised cost or cost	2017 Estimated fair value
Due in one year or less	719	728	647	655
Due after one year through five years	2 451	2 595	2 791	2 946
Due after five years through ten years	3 992	4 345	3 615	3 959
Due after ten years	12 231	14 049	11 982	13 841
Mortgage- and asset-backed securities with no fixed maturity	622	677	613	695
Total fixed income securities available-for-sale	20 015	22 394	**19 648**	**22 096**

Assets pledged

As of 30 June 2017 investments with a carrying value of USD 56 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 30 June 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	613	25			613	25
Other	122	0			122	0
Total	735	25	0	0	735	25
Corporate debt securities	799	29	3	0	802	29
Mortgage- and asset-backed securities	25	0			25	0
Total	**1 559**	**54**	**3**	**0**	**1 562**	**54**

Mortgages, loans and real estate

As of 31 December 2016 and 30 June 2017, the carrying 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	**2017**
Policy loans	9	9
Mortgage loans	454	594
Other loans	649	200
Investment real estate	212	206

The fair value of mortgage loans as of 31 December 2016 and 30 June 2017 was USD 461 million and USD 602 million, respectively. The fair value of other loans as of 31 December 2016 and 30 June 2017 was USD 654 million and USD 205 million, respectively. The carrying value of policy loans and real estate approximates fair value.

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 (e.g. 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 (e.g. interest rates, yield curves, volatilities, prepayment speeds, credit risks and default rates); and (iv) inputs derived from, or corroborated by, observable market data.

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

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

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

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

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

The fair values of assets are adjusted to incorporate the counterparty risk of non-performance. Similarly, the fair values of liabilities reflect the risk of non-performance of the Group, captured by the Group's credit spread. These valuation adjustments from assets and liabilities measured at fair value using significant unobservable inputs are recognised in net realised gains and losses. For the six months ended 30 June 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 2016 and 30 June 2017, 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)	Impact of netting	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	0	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	0	–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)	Impact of netting[1]	Total
Assets					
Fixed income securities held for proprietary investment purposes		21 149	947		22 096
Debt securities issued by US government and government agencies		118			118
Debt securities issued by non-US governments and government agencies		5 091			5 091
Corporate debt securities		15 244	947		16 191
Mortgage- and asset-backed securities		696			696
Fixed income securities backing unit-linked and with-profit business		5 077			5 077
Equity securities backing unit-linked and with-profit business	26 733	3			26 736
Short-term investments held for proprietary investment purposes		1 181			1 181
Short-term investments backing unit-linked and with-profit business		52			52
Derivative financial instruments		146		–3	143
Interest rate contracts		9			9
Foreign exchange contracts		94			94
Contracts backing unit-linked and with-profit business		43			43
Investment real estate			202		202
Total assets at fair value	**26 733**	**27 608**	**1 149**	**–3**	**55 487**
Liabilities					
Derivative financial instruments	–4	–131	–152	3	–284
Interest rate contracts		–62			–62
Foreign exchange contracts		–4			–4
Equity contracts	–2				–2
Other contracts			–152		–152
Contracts backing unit-linked and with-profit business	–2	–65			–67
Total liabilities at fair value	**–4**	**–131**	**–152**	**3**	**–284**

[1] The netting of derivative receivables and derivative payables is permitted when a legally enforceable master netting agreement exists between two counterparties. A master netting agreement provides for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default or on the termination of any one contract.

Assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (level 3)
As of 31 December 2016 and 30 June 2017, the reconciliation of the fair values of assets and liabilities measured on a recurring basis using significant unobservable inputs was 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.
[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	−8		10	**2**	17	**17**
Included in other comprehensive income	15			**15**		**0**
Purchases	67			**67**		**0**
Issuances				**0**		**0**
Sales			−27	**−27**		**0**
Settlements	−1			**−1**		**0**
Transfers into level 3[1]				**0**		**0**
Transfers out of level 3[1]	−2			**−2**		**0**
Impact of foreign exchange movements	42		10	**52**	−8	**−8**
Closing balance as of 30 June	**947**	**0**	**202**	**1 149**	**−152**	**−152**

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

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

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

USD millions	2016	2017
Gains/losses included in net income for the period	37	19
Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date	30	2

Quantitative information about level 3 fair value measurements

Unobservable inputs for major level 3 assets and liabilities as of 31 December 2016 and 30 June 2017 were as follows:

USD millions	2016 Fair value	2017 Fair value	Valuation technique	Unobservable input	Range (weighted average)
Assets					
Corporate debt securities	834	**947**			
Private placement corporate debt	330	281	Corporate Spread Matrix	Credit spread	142 bps–240 bps (181 bps)
Infrastructure loans	369	459	Discounted Cash Flow Model	Valuation spread	117 bps–236 bps (179 bps)
Investment real estate	209	**202**	Discounted Cash Flow Model	Discount rate	5% per annum
Liabilities					
Other derivative contracts	–161	**–152**			
Swap liability referencing real estate investments	–161	–152	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 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 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 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 2016 and 30 June 2017 were as follows:

USD millions	2016	2017
Assets		
Investments for unit-linked and with-profit business	31 630	33 021
of which at fair value pursuant to the fair value option	42	
Liabilities		
Accrued expenses and other liabilities	–756	–877
of which at fair value pursuant to the fair value option	–161	–152

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

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

USD millions	2016	2017
Investments for unit-linked and with-profit business	5	
Accrued expenses and other liabilities	8	17
Total	13	**17**

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 2016 and 30 June 2017 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		9	9
Mortgage loans		602	602
Other loans		205	205
Investment real estate		4	4
Total assets	**0**	**820**	**820**
Liabilities			
Debt	–882	–617	–1 499
Total liabilities	**–882**	**–617**	**–1 499**

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

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

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

7 Derivative financial instruments

The Group uses a variety of derivative financial instruments including swaps, options, forwards, credit derivatives 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 2016 and 30 June 2017, 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
Amount offset				
Where a right of set-off exists				
Due to cash collateral				
Total net amount of derivative financial instruments		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	3 477	50	–128	–78
Foreign exchange contracts	666	5	–4	1
Equity contracts	455	2	–2	
Other contracts	1		–153	–153
Total	**4 599**	**57**	**–287**	**–230**
Derivatives designated as hedging instruments				
Foreign exchange contracts	861	89		89
Total	**861**	**89**	**0**	**89**
Total derivative financial instruments	**5 460**	**146**	**–287**	**–141**
Amount offset				
Where a right of set-off exists		–3	3	
Due to cash collateral				
Total net amount of derivative financial instruments		**143**	**–284**	**–141**

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

Non-hedging activities

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

USD millions	2016	2017
Derivatives not designated as hedging instruments		
Interest rate contracts	544	–32
Foreign exchange contracts	–27	2
Equity contracts	–32	–34
Other contracts	5	15
Total gains/losses recognised in income	490	**–49**

Hedging activities

The Group designates certain derivative financial instruments as hedging instruments. The designation of derivative financial instruments is primarily used for overall portfolio and risk management strategies. As of 30 June 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 six months ended 30 June 2017, the Group recorded a gain of USD 18 million on derivatives in accumulated other comprehensive income. For the six months ended 30 June 2017, the Group reclassified a gain of USD 23 million from accumulated other comprehensive income into income.

As of 30 June 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 8 years.

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

Hedges of the net investment in foreign operations

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

For the year ended 31 December 2016 and the six months ended 30 June 2017, the Group recorded an accumulated net unrealised foreign currency remeasurement loss USD 19 million and a loss of USD 22 million, respectively, in shareholder's equity. These offset translation gains and losses on the hedged net investment.

Maximum potential loss

The maximum potential loss as of 31 December 2016 and 30 June 2017 was approximately USD 228 million and USD 143 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 1/5 of the 2016 Annual Report for further details on the Guardian Holdings Europe Ltd.'s acquisition.

9 Debt

As of 31 December 2016 and 30 June 2017, the Group's outstanding carrying value of long-term senior financial debt was USD 1 465 million (fair value: USD 1 490 million) and USD 1 466 million (fair value: USD 1 499 million), respectively.

Interest expense on long-term debt

Interest expense on long-term debt for the periods ended 30 June was as follows:

USD millions	2016	2017
Senior financial debt	3	10
Total	3	**10**

Long-term debt issued in 2017

No long-term debt was issued in the first half of 2017.

10 Variable interest entities

The Group enters into arrangements with 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, senior commercial mortgage and infrastructure loans as well as other entities, 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 2016 and 30 June 2017:

USD millions	2016	**2017**
Investment real estate	209	202
Cash and cash equivalents	18	11
Other assets	5	
Total assets	232	**213**
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 Group's assets related to VIEs in which the Group held a variable interest but was not the primary beneficiary as of 31 December 2016 and 30 June 2017:

USD millions	2016	**2017**
Fixed income securities available-for-sale	110	130
Policy loans, mortgages and other loans	110	137
Investments for unit-linked business	8 608	9 439
Total assets	8 828	**9 706**

The following table shows the Group's assets and maximum exposure to loss related to the VIEs in which the Group held a variable interest but was not the primary beneficiary as of 31 December 2016 and 30 June 2017:

USD millions	Total assets	2016 Maximum exposure to loss[1]	Total assets	**2017** Maximum exposure to loss[1]
Investment vehicles for unit-linked business	8 608	–	9 439	–
Senior commercial mortgage and infrastructure loans	220	220	267	267
Total	8 828	220	**9 706**	**267**

[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.

11 Benefit plans

Employer's contribution for 2017
For the six months ended 30 June 2017, the Group contributed USD 2 million to its defined benefit pension plan, compared to USD 8 million in the same period of 2016.

The expected 2017 contributions to the defined benefit pension plan, revised as of 30 June 2017 for the latest information, amount to USD 2 million.

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Cautionary note on forward-looking statements

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

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

- 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.

Market sentiment is dominated in large part by concerns over the trends exemplified by the outcome of the US presidential election and the UK referendum on European Union ("EU") membership. Growth forecasts among the principal global economies remain uneven and uncertain in an environment of elevated political uncertainty. Stable, but uneven growth, in the Eurozone could suffer as a result of the potential impact of populism and anti-globalisation sentiments on upcoming elections in Germany, and potentially Italy, during 2017. The planned withdrawal of the United Kingdom from the EU has created uncertainty not only for the United Kingdom but for the rest of the EU, and negotiations over withdrawal will likely continue to contribute to volatility and pose significant challenges for the EU and the United Kingdom, while also calling into question the ability of the EU to address significant ongoing structural challenges. The long-term effects of a withdrawal of the United Kingdom from the EU will depend in part on any agreements the United Kingdom makes to retain access to the single market within the European Economic Area ("EEA") following such withdrawal, the scope and nature of which currently remain highly uncertain.

Since the referendum, sterling has fallen to lows against the dollar not seen since 1985, bond yields have plummeted and business confidence indices and consumer confidence have dropped. As a significant portion of the Group's revenues are derived from its operations and investments in the United Kingdom, further exchange rate fluctuations could adversely affect its business, results of operations and financial condition. ReAssure Group Limited ("ReAssure Group") has assets and liabilities that are principally denominated in pounds sterling. Ark Life Designated Activity Company ("Ark Life DAC"), which is based in Dublin, Ireland, has assets and liabilities that are principally denominated in Euros.

Efforts to address the issues presented by the withdrawal of the UK from the EU will take place against the backdrop of macro-economic and global political conditions, including uncertainty created by the positions that may be taken by the US administration on a range of trade, foreign policy and other issues with global consequences; uneven and uncertain growth forecasts for the principal global economies; continued dislocation caused by the drop in oil prices; continued concerns over the implications of austerity-driven economic policies in Europe and the ability of the European Union to address significant ongoing structural challenges; deceleration in GDP growth and other negative trends in emerging markets; and geopolitical tensions, fears over security and migration. These factors have contributed to downward pressure on the capital markets and significant volatility in foreign exchange markets, and call into question the likelihood of continued recovery of the global economies. Liquidity concerns in respect of financial institutions could exacerbate current levels of volatility.

With fewer options available to policymakers and concerns generally over the absence of realistic confidence-building measures, and with heightened risk that volatility or depressed conditions in one sector, one market, one country or one region could have far broader implications, volatility in the UK economy can be expected to continue. Further adverse developments or the continuation of adverse trends that in

turn have a negative impact on financial markets and economic conditions in the United Kingdom could limit the Group's ability to access the capital markets and bank funding markets, could adversely affect the ability of counterparties to meet their obligations to us and could adversely affect the confidence of the ultimate buyers of insurance.

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 insurance cycle could have a material adverse effect on its overall results, make it difficult to determine the value of certain assets in its portfolio, make 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 Windsor Life With-Profit Fund and Guardian With-Profit Fund.

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 Group 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 Group 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 Group 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 following, the UK Referendum on EU membership, with an impact for us particularly on the Group's 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. Interest rates are expected to remain low for an extended period, but there is a risk that they could rise significantly if the relevant economies are unable to manage effectively their levels of government debt or inflation. 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.

ReAssure Group'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 Groups'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 Life 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.

ReAssure Group has assets and liabilities that are principally denominated in pounds sterling. Ark Life DAC, which is based in Dublin, Ireland, has assets and liabilities that are principally denominated in Euros, which foreign exchange exposure has been hedged. 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 Groups's functional currency, and the relative value of the US dollar and the euro, being Ark Life DAC's functional currency.

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 UK Financial Conduct Authority ("FCA") and the UK Prudential Regulation Authority ("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 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. 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.

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 Group offer a guaranteed cash option, which is currently 'out of the money' and hedged by an option on interest rate swaps within the ReAssure Life 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"), 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.

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. 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. 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. 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, certain of which could result in adverse judgements, settlements, fines and other outcomes. The volume and scope of such 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 anti-trust, market abuse, bribery, money laundering, trade sanctions and data protection and privacy. The Group also has in the past faced, and may in the future face, audits and challenges brought 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

Subsidiaries of the Group are subject to the dual supervision of the PRA for prudential issues and the FCA for conduct issues. Additionally, Ark Life DAC is subject to regulation by the Central Bank of Ireland ("CBI"). The Group is subject to Solvency II requirements effective 1 January 2016. ReAssure Limited ("ReAssure") reports to the PRA under Solvency II and all of ReAssure's subsidiaries are required to maintain capital resources consistent with regulatory requirements and adopted risk appetites. The Group's principal operating subsidiary, ReAssure, is authorised by the PRA and regulated by the PRA and FCA as a life assurer. Ark Life DAC is authorised and regulated by the CBI. Additionally, ReAssure UK Services Limited ("RUKSL"), which provides policy administration for ReAssure 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. Ark Life DAC 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). This is set with a reference to a one-in-ten year stress and remains subject to discretion of the board of ReAssure and on the interaction of the buffer with any specific capital margins required by either a court order or the PRA.

Actions of the Group's regulators could have the effect of increasing capital requirements to which the Group is subject. The Group is in contact with the PRA in terms of capital requirements for purposes of Solvency II reporting. The Group's ultimate aim is to have an internal model for Solvency II purposes (the "Internal Model") approved by the PRA for ReAssure, ReAssure's residual fund (including Guardian's non-profit business that has been transferred), RUKSL and the Group's defined benefit pension scheme. Preparation of an application for such approval remains a key priority for the Group in 2017. Key changes in the scope of the Group's Internal Model from its previous application will be the inclusion of the Guardian business and a proposed move to a partial Internal Model with the standard formula ("Standard Formula") approach used for with-profit funds. Until the Group's partial Internal Model is approved, it is using the Standard Formula approach for Solvency II reporting, which is expected to be more onerous than the partial Internal Model. While the PRA can require add-ons to the Standard Formula, the PRA has communicated that zero capital-add on is suitable for ReAssure. On a Standard Formula basis, the solvency ratios under the Solvency II regime are similar to the solvency ratios under the Solvency I regime In addition, the Group is required to comply with the CBI rules in respect of required capital for Ark Life DAC.

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 and FCA, 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 UK pensions legislation (that came into effect in April 2015) that introduced pension flexibility for individuals with a defined contribution scheme, tax reforms on pension savings, publication in March 2015 of the FCA's final report on its retirement income market study (which reinforced the importance of consumer choice), and the outcome of the FCA's thematic reviews. For example, the FCA published the findings of its thematic review on annuities sales practices in October 2016. As a result, it is possible that liabilities in respect of certain historical annuity sales practices principally by the legacy Guardian operations may increase and we could incur increased costs associated with complying with new FCA guidance arising from the thematic reviews. Based on current information, the Group believes that it is adequately reserved for any potential liability that might arise from

this issue. It continues to evaluate FCA expectations and the impact on the Group's practices, and the Group expects that both will evolve over time.

In addition, the FCA recently 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, from 1 April 2017.

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, for example, 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

Swiss Re is a wholly owned subsidiary of Swiss Re Ltd ("SRL"), and the operations of the Group encompass the core closed life book business within Life Capital, one of the four operating business segments of the Swiss Re group, comprising SRL and its consolidated subsidiaries, of which the Group is a part (the "Swiss Re Group"). From the perspective of the Swiss Re Group, the Group represents a source of cash generation, diversification and complementary client solutions.

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 and cost allocations are made at the Swiss Re Group level across its four operating segments based principally on business plans as measured against US GAAP and economic value management metrics. As part of the Swiss Re Group's focus on efficient capital allocation, the Group expects to be paying dividends to SRL via intermediate holding companies. 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 expects that, over time, its structure will continue to evolve, and while to date all of the Swiss Re Group's principal operations, including the Group, remain wholly owned, in the future the Swiss Re Group may elect to partner with minority investors in or within one or more of the Swiss Re Group's business units or sub-groups within its business units, which could alter 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.

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