Swiss Re

Swiss Re ReAssure Ltd

# 2018 Annual Report

# Key Information

## FINANCIAL HIGHLIGHTS

**For the years ended 31 December**

| USD millions, unless otherwise stated | 2017 | 2018 | Change in % |
|---|---|---|---|
| **Swiss Re ReAssure Group** | | | |
| Net income attributable to common shareholder | 273 | **182** | –33 |
| Premiums earned and fee income | 551 | **539** | –2 |
| Dividends on common shares | 1 658 | **1 077** | –35 |
| Shareholder's equity | 6 198 | **4 350** | –30 |
| Return on equity in %[1] | 4.3 | **3.5** | |
| Gross cash generation[2] | 1 071 | **719** | –33 |

[1] Return on equity is calculated by dividing net income attributable to common shareholder by average common shareholder's equity.
[2] Gross cash generation is the change in excess capital available over and above the target capital position, with the target capital being the minimum statutory capital plus the additional capital required by Swiss Re ReAssure Group's capital management policy.

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# Income statement

## For the years ended 31 December

| USD millions | Note | 2017 | 2018 |
|---|---|---|---|
| **Revenues** | | | |
| Gross premiums written | 3 | 456 | **488** |
| Net premiums written | 3 | 189 | **206** |
| Change in unearned premiums | | 1 | **–3** |
| **Premiums earned** | 3 | 190 | **203** |
| Fee income from policyholders | | 361 | **336** |
| Net investment income – non-participating business | 5 | 725 | **790** |
| Net realised investment gains/losses – non-participating business[1] | 5 | 102 | **83** |
| Net investment result – unit-linked and with-profit business | 5 | 3 234 | **–1 560** |
| **Total revenues** | | 4 612 | **–148** |
| | | | |
| **Expenses** | | | |
| Life and health benefits | 3 | –1 039 | **–540** |
| Return credited to policyholders | | –2 855 | **1 350** |
| Acquisition costs | 3 | –9 | **–155** |
| Operating expenses | | –292 | **–263** |
| **Total expenses before interest expenses** | | –4 195 | **392** |
| | | | |
| **Income before interest and income tax expense** | | 417 | **244** |
| Interest expenses | | –32 | **–36** |
| **Income before income tax expense** | | 385 | **208** |
| Income tax expense | 9 | –112 | **–26** |
| **Net income attributable to common shareholder** | | 273 | **182** |

[1] Total impairments for the years ended 31 December of USD 11 million in 2017 and USD 5 million in 2018, respectively, were fully recognised in earnings.

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

# Statement of comprehensive income

**For the years ended 31 December**

| USD millions | 2017 | **2018** |
|---|---|---|
| Net income attributable to common shareholder | 273 | **182** |
| Other comprehensive income, net of tax: | | |
| Change in net unrealised investment gains/losses | 242 | **–885** |
| Change in cash flow hedges | –3 | **17** |
| Change in foreign currency translation | 373 | **–210** |
| Change in adjustment for pension benefits | 53 | **12** |
| **Total comprehensive income attributable to common shareholder** | 938 | **–884** |

### Reclassification out of accumulated other comprehensive income

For the years ended 31 December

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

| **2018**<br>USD millions | Net unrealised investment gains/losses[1] | Cash flow hedges[1] | Foreign currency translation[1,2] | Adjustment from pension benefits[3] | **Accumulated other comprehensive income** |
|---|---|---|---|---|---|
| Balance as of 1 January | 2 171 | –10 | –340 | –83 | **1 738** |
| Change during the period | –985 | 27 | –209 | 6 | **–1 161** |
| Amounts reclassified out of accumulated other comprehensive income | –60 | –10 | | 7 | **–63** |
| Tax | 160 | | –1 | –1 | **158** |
| **Balance as of period end** | **1 286** | **7** | **–550** | **–71** | **672** |

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

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

# Balance sheet

## ASSETS

**As of 31 December**

| USD millions | Note | 2017 | 2018 |
|---|---|---|---|
| **Investments** | 5, 6, 7 | | |
| Fixed income securities available-for-sale (amortised cost: 2017: 20 633; 2018: 17 702) | | 23 312 | **19 334** |
| Policy loans, mortgages and other loans | | 853 | **922** |
| Investment real estate | | 201 | **170** |
| Short-term investments | | 1 345 | **894** |
| Other invested assets | | 539 | **542** |
| Investments for unit-linked and with-profit business (including fixed income securities trading: 5 209 in 2017 and 4 938 in 2018, equity securities trading: 28 198 in 2017, equity securities at fair value through earnings: 22 698 in 2018) | | 34 581 | **29 122** |
| **Total investments** | | 60 831 | **50 984** |
| | | | |
| Cash and cash equivalents | | 2 543 | **1 158** |
| Accrued investment income | | 417 | **362** |
| Premiums and other receivables | | 29 | **112** |
| Reinsurance recoverable on unpaid claims and policy benefits | | 2 028 | **1 847** |
| Deferred acquisition costs | 4 | | **721** |
| Acquired present value of future profits | 4 | 557 | **503** |
| Goodwill | | 142 | **134** |
| Income taxes recoverable | | 48 | **46** |
| Deferred tax assets | 9 | 624 | **420** |
| Other assets | | 273 | **188** |
| | | | |
| **Total assets** | | 67 492 | **56 475** |

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

## LIABILITIES AND EQUITY

| USD millions | Note | 2017 | 2018 |
|---|---|---|---|
| **Liabilities** | | | |
| Unpaid claims and claim adjustment expenses | | 352 | **352** |
| Liabilities for life and health policy benefits | | 24 545 | **21 715** |
| Policyholder account balances | | 31 773 | **26 364** |
| Unearned premiums | | 142 | **136** |
| Funds held under reinsurance treaties | | 169 | **133** |
| Reinsurance balances payable | | 41 | **62** |
| Income taxes payable | | 84 | **21** |
| Deferred and other non-current tax liabilities | 9 | 1 415 | **880** |
| Short-term debt | 8 | 433 | **217** |
| Accrued expenses and other liabilities | | 803 | **796** |
| Long-term debt | 8 | 1 537 | **1 449** |
| **Total liabilities** | | 61 294 | **52 125** |
| | | | |
| **Equity** | | | |
| Common shares, GBP 1 par value | | | |
| 2017: 2 738 045; 2018: 2 738 045 registered shares | | 4 | **4** |
| Additional paid-in capital | | 5 061 | **5 174** |
| Accumulated other comprehensive income: | | | |
| Net unrealised investment gains/losses, net of tax | | 2 171 | **1 286** |
| Cash flow hedges, net of tax | | –10 | **7** |
| Foreign currency translation, net of tax | | –340 | **–550** |
| Adjustment for pension and other post-retirement benefits, net of tax | | –83 | **–71** |
| Total accumulated other comprehensive income | | 1 738 | **672** |
| | | | |
| Retained earnings | | –605 | **–1 500** |
| **Total equity** | | 6 198 | **4 350** |
| | | | |
| **Total liabilities and equity** | | 67 492 | **56 475** |

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

# Statement of shareholder's equity

**For the years ended 31 December**

| USD millions | 2017 | 2018 |
|---|---|---|
| **Common shares** | | |
| Balance as of 1 January | 4 | **4** |
| Issue of common shares | | |
| Balance as of period end | 4 | **4** |
| **Additional paid-in capital** | | |
| Balance as of 1 January | 4 620 | **5 061** |
| Capital contribution | 441 | **113** |
| Balance as of period end | 5 061 | **5 174** |
| **Net unrealised investment gains/losses, net of tax** | | |
| Balance as of 1 January | 1 929 | **2 171** |
| Changes during the period | 242 | **–885** |
| Balance as of period end | 2 171 | **1 286** |
| **Cash flow hedges, net of tax** | | |
| Balance as of 1 January | –7 | **–10** |
| Changes during the period | –3 | **17** |
| Balance as of period end | –10 | **7** |
| **Foreign currency translation, net of tax** | | |
| Balance as of 1 January | –713 | **–340** |
| Changes during the period | 373 | **–210** |
| Balance as of period end | –340 | **–550** |
| **Adjustment for pension and other post-retirement benefits, net of tax** | | |
| Balance as of 1 January | –136 | **–83** |
| Changes during the period | 53 | **12** |
| Balance as of period end | –83 | **–71** |
| **Retained earnings** | | |
| Balance as of 1 January | 773 | **–605** |
| Net income attributable to common shareholder | 273 | **182** |
| Dividends on common shares | –1 658 | **–1 077** |
| Transactions under common control[1] | 7 | |
| Balance as of period end | –605 | **–1 500** |
| **Shareholder's equity** | 6 198 | **4 350** |

[1] Includes business transfers from and to entities outside of the SRRL Group.

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

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# Statement of cash flows

For the years ended 31 December

| USD millions | 2017 | 2018 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income attributable to common shareholder | 273 | **182** |
| Adjustments to reconcile net income to net cash provided/used by operating activities: | | |
| Depreciation, amortisation and other non-cash items | 152 | **149** |
| Net realised investment gains/losses | –2 371 | **2 454** |
| Change in: | | |
| Technical provisions and other reinsurance assets and liabilities, net | 1 598 | **–3 737** |
| Funds held by ceding companies and under reinsurance treaties | –31 | **–27** |
| Reinsurance recoverable on unpaid claims and policy benefits | 106 | **70** |
| Other assets and liabilities, net | 9 | **40** |
| Income taxes payable/recoverable | –39 | **–227** |
| Trading positions, net | –6 | **24** |
| **Net cash provided/used by operating activities** | –309 | **–1 072** |
| | | |
| **Cash flows from investing activities** | | |
| Fixed income securities: | | |
| Sales | 2 450 | **2 548** |
| Maturities | 634 | **598** |
| Purchases | –2 123 | **–1 403** |
| Net purchases/sales/maturities of short-term investments | –282 | **294** |
| Net purchases/sales/maturities of other investments | 283 | **–29** |
| Net purchases/sales/maturities of investments held for unit-linked and with-profit business | 2 289 | **1 212** |
| **Net cash provided/used by investing activities** | 3 251 | **3 220** |
| | | |
| **Cash flows from financing activities** | | |
| Policyholder account balances, unit-linked and with-profit business: | | |
| Deposits | 559 | **557** |
| Withdrawals | –2 724 | **–2 828** |
| Issuance/repayment of long-term debt | –97 | **–9** |
| Issuance/repayment of short-term debt | 412 | **–200** |
| Capital contribution received from parent | 441 | **113** |
| Dividends paid to parent | –1 403 | **–1 077** |
| **Net cash provided/used by financing activities** | –2 812 | **–3 444** |

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

| USD millions | 2017 | 2018 |
|---|---|---|
| **Total net cash provided/used** | 130 | **–1 296** |
| Effect of foreign currency translation | 207 | **–89** |
| **Change in cash and cash equivalents** | 337 | **–1 385** |
| Cash and cash equivalents as of 1 January | 2 206 | **2 543** |
| **Cash and cash equivalents as of 31 December** | 2 543 | **1 158** |

Interest paid was USD 20 million and USD 25 million for 2017 and 2018, respectively. Tax paid was USD 151 million and USD 253 million for 2017 and 2018, respectively.

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

# Notes to the Group financial statements

## 1 Organisation and summary of significant accounting policies

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

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

**Basis of presentation**
The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). All significant intra-group transactions and balances have been eliminated on consolidation.

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

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

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

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

### Valuation of financial assets

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

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

For assets or derivative structures at fair value, the Group uses market prices or inputs derived from market prices. A separate internal price verification process, independent of the trading function, provides an additional control over the market prices or market input used to determine the fair values of such assets. Although management considers that appropriate values have been ascribed to such assets, there is always a level of uncertainty and judgement over these valuations. Subsequent valuations could differ significantly from the results of the process described above. The Group may become aware of counterparty valuations, either directly through the exchange of information or indirectly, for example through collateral demands. Any implied differences are considered in the independent price verification process and may result in adjustments to initially indicated valuations. As of 31 December 2018, the Group had not provided any collateral on financial instruments in excess of its own market value estimates.

### Investments

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

For fixed income securities AFS that are other-than-temporary impaired and for which there is not an intention to sell, the impairment is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. The estimated credit loss amount is recognised in earnings, with the remainder of the loss amount recognised in other comprehensive income. In cases where there is an intention or requirement to sell and the fair value is lower than cost expressed in functional currency terms, the cost of fixed income securities AFS is reduced to fair value, with a corresponding charge to realised investment losses. Subsequent recoveries are not recognised in earnings.

Equity investments are carried at fair value with unrealised gains and losses recognised in earnings, with the exception of equity method investments and investments that result in consolidation.

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

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

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

lower of cost or fair value, less estimated selling costs, and is not depreciated. Reductions in the carrying value of real estate held for sale are included in realised investment losses.

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

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

### Derivative financial instruments and hedge accounting

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

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

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

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

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

### Cash and cash equivalents

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

### Deferred acquisition costs

The Group incurs costs in connection with acquiring new and renewal reinsurance and insurance business. Some of these costs, which consist primarily of commissions, are deferred as they are directly related to the successful acquisition of such business.

Deferred acquisition costs for long-duration contracts are amortised over the life of underlying contracts. Deferred acquisition costs for universal-life and similar products are amortised based on the present value of estimated gross profits. Estimated gross profits are updated quarterly.

### Modifications of insurance and reinsurance contracts

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

### Business combinations

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

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

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

### Acquired present value of future profits

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

### Goodwill

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

### Other assets

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

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

### Income taxes

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

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

The Group releases stranded tax effects for unrealised gains/losses on AFS securities to earnings on a straight-line basis over the average duration of the relevant AFS portfolio as an approximation of when the individual securities within the portfolio are sold or mature. For adjustment for pension and other post-retirement benefits, stranded tax effects are released to earnings when the relevant pension plan is terminated. For foreign currency translation, stranded tax effects are released to earnings in line with the recycling of the underlying foreign currency translation amounts.

### Contract classification

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

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

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

The Group does not discount life and health claim reserves except for disability income claims in payment and mortality claims paid out in the form of an annuity. These claims are recognised at the estimated present value of the remaining ultimate net costs of the incurred claims.

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

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

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

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

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

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

Unit-linked and with-profit business are presented together as they are similar in nature. For unit-linked contracts, the investment risk is borne by the policyholder. For with-profit contracts, the majority of the investment risk is also borne by the policyholder, although there are certain guarantees that limit the downside risk for the policyholder, and a certain proportion of the returns may be retained by Swiss Re Group (typically 10%). Additional disclosures are provided in Note 5.

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

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

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

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

### Insurance ceded
The Group uses retrocession arrangements to increase its aggregate underwriting capacity, to diversify its risk and to reduce the risk of catastrophic loss on insurance assumed. The ceding of risks to retrocessionaires does not relieve the Group of its obligations to its policyholders and cedents. The Group regularly evaluates the financial condition of its retrocessionaires and monitors the concentration of credit risk to minimise its exposure to financial loss from retrocessionaires' insolvency. Premiums and losses ceded under retrocession contracts are reported as reductions of premiums earned and claims and claim adjustment expenses. Amounts recoverable for ceded short- and long-duration contracts, including universal-life-type and investment contracts, are reported as assets in the accompanying consolidated balance sheet.

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

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

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

### Subsequent events
Subsequent events for the current reporting period have been evaluated up to 12 March 2019. This is the date on which the financial statements are available to be issued.

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

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

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

In October 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory", an update to topic 740, "Income Taxes". This ASU amends the former guidance which prohibited the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset had been sold to an outside party. This new standard requires that an entity recognises the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The Group adopted ASU 2016-16 on 1 January 2018 on a modified retrospective basis. The adoption did not have a material impact on the Group's financial statements.

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

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

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

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

In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income", an update to topic 220, "Income Statement – Reporting Comprehensive Income". The ASU allows a reclassification from accumulated other comprehensive income to retained earnings of stranded tax effects resulting from the Tax Cuts and Jobs Act. The Group early adopted ASU 2018-02 on 1 January 2018. The adoption did not have a material impact on the Group's financial statements.

**Future adoption of new accounting standards**

In February 2016, the FASB issued ASU 2016-02 "Leases", which creates topic 842, "Leases". The core principle of topic 842 is that a lessee should recognise the assets and liabilities that arise from leases. A lessee should recognise in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing the right to use the underlying asset for the lease term. This accounting treatment applies to finance leases and operating leases. The accounting applied by a lessor is largely unchanged from that applied under the current guidance. The Group will adopt the ASU on 1 January 2019. It is expected that the adoption will not have a material impact 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 is permitted. The Group is currently assessing the impact of the new requirements.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment", an update to topic 350, "Intangibles – Goodwill and Other". This ASU simplifies the subsequent measurement of goodwill and eliminates Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity has to perform procedures to

determine the fair value at the impairment testing date of its assets and liabilities (including unrecognised assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this update, an entity should perform its regular goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognise an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognised should not exceed the total amount of goodwill allocated to that reporting unit. The new requirements are effective for goodwill impairment tests in annual and interim periods beginning after 15 December 2020. Early adoption of the ASU is permitted. The Group is currently assessing the impact of the new requirements.

In August 2018, the FASB issued ASU 2018-12, "Targeted Improvements to the Accounting for Long-Duration Contracts", an update to topic 944, "Financial Services—Insurance". This ASU requires that the cash flows and net premium ratio will be updated for changes in insurance assumptions (eg mortality, morbidity, terminations) when measuring the liability for future policy benefits for non-participating traditional and limited-payment insurance and reinsurance contracts. The effect of updating cash flow assumptions will be measured on a retrospective catch-up basis and presented separately from the ongoing policyholder benefit expense in the statement of operations in the period the update is made. There will no longer be a provision for adverse deviation. In addition, the discount rate used to reflect the time value of money in the calculation of the liability for future policy benefits will be standardised. An upper-medium-grade fixed-income instrument yield will be required, which differs from the current requirement to use a discount rate reflecting expected investment yields. Further, a locked-in rate will be used in the periodic calculation of the net premium ratio and accretion of interest on the liability for income statement purposes. For balance sheet remeasurement purposes, the discount rate will be updated at each reporting date, with the effect of discount rate changes on the liability recorded immediately in OCI. The ASU requires deferred acquisition costs (DAC) relating to most long-duration contracts to be amortised on a constant basis over the expected term of the contract, and the resulting amortisation amount should not be a function of revenue or profit. The new standard also introduces a new category called market risk benefits, which are features that protect the contract holder from capital market risk and expose the insurer to that risk. These features have to be measured at fair value, with changes in own credit risk recognised in OCI, and presented separately in the primary financial statements. The ASU also requires significant additional disclosures, including disaggregated roll forwards of the liability for future policy benefits, policyholder account balances, market risk benefits and DAC. The ASU is effective for annual and interim periods beginning after 15 December 2020. Early adoption of the amendments is permitted. The new guidance relating to measurement of the traditional and limited-payment contract liabilities and DAC amortisation has to be adopted under a modified retrospective transition approach, with an option to elect a full retrospective transition if certain criteria are met. Under the modified retrospective approach, for contracts in force at the transition date, an entity would continue to use the existing locked-in investment yield interest rate assumptions to calculate the net premium ratio. However, for balance sheet measurement purposes, policyholder liabilities are discounted at the upper-medium-grade fixed-income instrument yield at the transition date, with the impact of the change recognised against accumulated OCI. 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 business operating within the United Kingdom. This segment acquires individual closed blocks of in-force long-term life, pensions and health business. The segment administers the policies until they reach maturity, are surrendered, or an insured event occurs. The main products administered are long-term life and pension products, permanent health insurance and critical illness products and retirement annuities. This segment includes unit-linked and with-profit business as well as non-participating business.

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

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

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

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

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

## Business segments – income statement
For the years ended 31 December

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

| **2018**<br>USD millions | United Kingdom | Republic of Ireland | Group items and consolidation | Total |
|---|---|---|---|---|
| **Revenues** | | | | |
| Gross premiums written | 418 | 70 | | 488 |
| Net premiums written | 189 | 17 | | 206 |
| Change in unearned premiums | –3 | | | –3 |
| **Premiums earned** | 186 | 17 | | 203 |
| Fee income from policyholders | 311 | 25 | | 336 |
| Net investment income – non-participating business | 819 | –2 | –27 | 790 |
| Net realised investment gains/losses – non-participating business | 83 | | | 83 |
| Net investment result – unit-linked and with-profit business | –1 510 | –50 | | –1 560 |
| **Total revenues** | **–111** | **–10** | **–27** | **–148** |
| | | | | |
| **Expenses** | | | | |
| Life and health benefits | –535 | –5 | | –540 |
| Return credited to policyholders | 1 299 | 51 | | 1 350 |
| Acquisition costs | –158 | 3 | | –155 |
| Operating expenses | –247 | –16 | | –263 |
| **Total expenses before interest expenses** | **359** | **33** | | **392** |
| | | | | |
| **Income/loss before interest and income tax expense/benefit** | **248** | **23** | **–27** | **244** |
| Interest expenses | | | –36 | –36 |
| **Income/loss before income tax expense/benefit** | **248** | **23** | **–63** | **208** |
| Income tax expense/benefit | –33 | –4 | 11 | –26 |
| **Net income/loss attributable to common shareholder** | **215** | **19** | **–52** | **182** |

## Business segments – balance sheet

As of 31 December

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

| 2018<br>USD millions | United Kingdom | Republic of Ireland | Group items and consolidation | Total |
|---|---|---|---|---|
| Total assets | 53 961 | 2 609 | –95 | 56 475 |

## Net premiums earned and fee income by type of business

For the years ended 31 December

| USD millions | 2017 | **2018** |
|---|---|---|
| Unit-linked business | 358 | 333 |
| Non-participating business | 178 | 194 |
| With-profit business | 15 | 12 |
| **Total** | 551 | **539** |

# 3 Insurance information

For the years ended 31 December

### Premiums written and premiums earned

| USD millions | 2017 | 2018 |
|---|---|---|
| **Premiums written, thereof:** | | |
| Direct | 456 | 488 |
| Ceded | –267 | –282 |
| **Net premiums written** | 189 | **206** |
| | | |
| **Premiums earned, thereof:** | | |
| Direct | 457 | 485 |
| Ceded | –267 | –282 |
| **Net premiums earned** | 190 | **203** |

### Life and health benefits

| USD millions | 2017 | 2018 |
|---|---|---|
| **Life and health benefits paid, thereof:** | | |
| Gross | –2 079 | –2 125 |
| Ceded | 361 | 422 |
| **Net life and health benefits paid** | –1 718 | **–1 703** |
| | | |
| **Change in life and health benefits, thereof:** | | |
| Gross | 794 | 1 233 |
| Ceded | –115 | –70 |
| **Net change in life and health benefits** | 679 | **1 163** |
| | | |
| **Life and health benefits** | –1 039 | **–540** |

### Acquisition costs

| USD millions | 2017 | 2018 |
|---|---|---|
| **Acquisition costs, thereof:** | | |
| Gross | –10 | –156 |
| Ceded | 1 | 1 |
| **Net acquisition costs** | –9 | **–155** |

### Insurance receivables

As of 31 December 2017 and 2018, the Group had receivables invoices from ceded insurance business of USD 29 million and USD 26 million, respectively, and premium receivables invoices from assumed business of nil and USD 86 million, respectively.

### Reinsurance recoverable on unpaid claims and policy benefits

As of 31 December 2017 and 2018, the Group had a reinsurance recoverable of USD 2 028 million and USD 1 847 million, respectively. The concentration of credit risk is regularly monitored and evaluated. The reinsurance programme with Scottish Equitable accounted for 53% and 51% of the Group's reinsurance recoverable as of year-end 2017 and 2018, respectively.

The Group cedes certain re/insurance contracts to affiliated companies within the Swiss Re Group, but outside of the Group (please refer to Note 11).

### Policyholder dividends

Policyholder dividends are recognised as an element of policyholder benefits. In the years ended 31 December 2017 and 2018, the relative percentage of participating insurance of the life and health policy benefits was 18% and 17%, respectively. The amount of policyholder dividend expense for the years ended 31 December 2017 and 2018 was USD 194 million and USD 245 million, respectively. The Group revised the presentation for policyholder dividend expense. Comparative information for 2017 has been adjusted accordingly.

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

As of 31 December, the DAC were as follows:

| USD millions | **2018** |
|---|---|
| Opening balance as of 1 January | 0 |
| Deferred[1] | 869 |
| Amortisation | −112 |
| Effect of foreign currency translation | −36 |
| **Closing balance** | **721** |

[1] This balance has arisen as a result of the agreement with Legal and General Assurance Society Limited.

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

As of 31 December, the PVFP was as follows:

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

| **2018**<br>USD millions | Positive<br>PVFP | Negative<br>PVFP | Total |
|---|---|---|---|
| Opening balance as of 1 January | 1 101 | −544 | **557** |
| Amortisation | −113 | 40 | **−73** |
| Interest accrued on unamortised PVFP | 68 | −17 | **51** |
| Effect of foreign currency translation | −62 | 30 | **−32** |
| **Closing balance** | **994** | **−491** | **503** |

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.

The percentage of PVFP which is expected to be amortised in each of the next five years is 11%, 10%, 10%, 10% and 9%.

# 5 Investments

### Investment income

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

| USD millions | 2017 | 2018 |
|---|---|---|
| Fixed income securities | 726 | 687 |
| Policy loans, mortgages and other loans | 37 | 29 |
| Short-term investments | 1 | 4 |
| Other current investments | | 4 |
| Cash and cash equivalents | 2 | 3 |
| Net result from deposit-accounted contracts | | 133 |
| **Gross investment income** | 766 | **860** |
| Investment expenses | –34 | –61 |
| Interest charged for funds held | –7 | –9 |
| **Net investment income – non-participating business** | 725 | **790** |

### Realised gains and losses

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

| USD millions | 2017 | 2018 |
|---|---|---|
| Fixed income securities available-for-sale: | | |
| Gross realised gains | 173 | 71 |
| Gross realised losses | –9 | –11 |
| Other-than-temporary impairments | –11 | –5 |
| Net realised investment gains/losses on trading securities | –1 | |
| Net realised/unrealised gains/losses on other investments | –66 | 37 |
| Net realised/unrealised gains/losses on insurance-related activities | 9 | 3 |
| Foreign exchange gains/losses | 7 | –12 |
| **Net realised investment gains/losses – non-participating business** | 102 | **83** |

### Investment result – unit-linked and with-profit business

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

Net investment result on unit-linked and with-profit business credited to policyholders was as follows:

| | | 2017 | | 2018 |
|---|---|---|---|---|
| USD millions | Unit-linked | With-profit | Unit-linked | With-profit |
| Investment income – fixed income securities | 68 | 120 | 68 | 120 |
| Investment income – equity securities | 677 | 69 | 690 | 72 |
| Investment income – other | 20 | 11 | 17 | 10 |
| **Total investment income – unit-linked and with-profit business** | 765 | 200 | **775** | **202** |
| Realised gains/losses – fixed income securities | –12 | 12 | –61 | –140 |
| Realised gains/losses – equity securities | 2 040 | 191 | –2 065 | –257 |
| Realised gains/losses – other | 30 | 8 | –15 | 1 |
| **Total realised gains/losses – unit-linked and with-profit business** | 2 058 | 211 | **–2 141** | **–396** |
| **Total net investment result – unit-linked and with-profit business** | 2 823 | 411 | **–1 366** | **–194** |

### Impairment on fixed income securities related to credit losses

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

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

## Investments available-for-sale

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

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

| **2018**<br>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 | 92 | 21 | | 113 |
| United Kingdom | 4 040 | 510 | –17 | 4 533 |
| France | 121 | 36 | | 157 |
| Netherlands | 83 | 17 | | 100 |
| Other | 308 | 31 | 0 | 339 |
| Total | 4 644 | 615 | –17 | 5 242 |
| Corporate debt securities | 12 603 | 1 068 | –97 | 13 574 |
| Mortgage- and asset-backed securities | 455 | 64 | –1 | 518 |
| **Fixed income securities available-for-sale** | **17 702** | **1 747** | **–115** | **19 334** |

### Unrealised losses on securities available-for-sale

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

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

| **2018**<br>USD millions | Less than 12 months<br>Fair value | <br>Unrealised losses | 12 months or more<br>Fair value | <br>Unrealised losses | Total<br>Fair value | <br>Unrealised losses |
|---|---|---|---|---|---|---|
| Debt securities issued by governments and government agencies: | | | | | | |
| United Kingdom | 381 | 5 | 195 | 12 | 576 | 17 |
| Other | | | 3 | 0 | 3 | 0 |
| Total | 381 | 5 | 198 | 12 | 579 | 17 |
| Corporate debt securities | 1 231 | 41 | 662 | 56 | 1 893 | 97 |
| Mortgage- and asset-backed securities | 2 | 0 | 9 | 1 | 11 | 1 |
| **Total** | **1 614** | **46** | **869** | **69** | **2 483** | **115** |

### Maturity of fixed income securities available-for-sale

The amortised cost or cost and estimated fair values of investments in fixed income securities available-for-sale by remaining maturity are shown below. Fixed maturity investments are assumed not to be called for redemption prior to the stated maturity date. As of 31 December 2017 and 2018, USD 1 055 million and USD 839 million, respectively, of fixed income securities available-for-sale were callable.

| USD millions | Amortised cost or cost | 2017<br>Estimated fair value | Amortised cost or cost | **2018**<br>Estimated fair value |
|---|---|---|---|---|
| Due in one year or less | 639 | 648 | 586 | 590 |
| Due after one year through five years | 3 359 | 3 515 | 2 638 | 2 726 |
| Due after five years through ten years | 3 523 | 3 897 | 3 289 | 3 528 |
| Due after ten years | 12 588 | 14 641 | 10 734 | 11 972 |
| Mortgage- and asset-backed securities with no fixed maturity | 524 | 611 | 455 | 518 |
| **Total fixed income securities available-for-sale** | 20 633 | 23 312 | **17 702** | **19 334** |

### Assets pledged

As of 31 December 2017 and 2018, investments with a carrying value of USD 61 million and USD 62 million, respectively, were placed on deposit or pledged to secure certain reinsurance liabilities.

## Investments held for unit-linked and with-profit business

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

| USD millions | 2017 Unit-linked | 2017 With-profit | 2018 Unit-linked | 2018 With-profit |
|---|---|---|---|---|
| Fixed income securities trading | 2 105 | 3 104 | 2 253 | 2 685 |
| Equity securities trading[1] | 25 997 | 2 201 | | |
| Equity securities at fair value through earnings[1] | | | 20 902 | 1 796 |
| Investment real estate | 543 | 281 | 537 | 230 |
| Other | 286 | 64 | 702 | 17 |
| **Total investments for unit-linked and with-profit business** | 28 931 | 5 650 | **24 394** | **4 728** |

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

## Mortgage, policy and other loans and investment real estate

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

| USD millions | 2017 Carrying value | 2017 Fair value | 2018 Carrying value | 2018 Fair value |
|---|---|---|---|---|
| Policy loans | 8 | 8 | 6 | 6 |
| Mortgage loans | 603 | 610 | 597 | 601 |
| Other loans | 242 | 247 | 319 | 329 |
| Investment real estate | 201 | 201 | 170 | 170 |

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

### Other financial assets and liabilities by measurement category

As of 31 December 2017 and 2018, ''Other invested assets'' and ''Accrued expenses and other liabilities'' by measurement category were as follows:

| 2017<br>USD millions | Fair value | Amortised Cost or cost | Not in scope[1] | Total |
|---|---|---|---|---|
| Other invested assets | | | | |
| Derivative financial instruments | 115 | | | 115 |
| Other | | 424 | | 424 |
| **Other invested assets** | 115 | 424 | 0 | 539 |
| | | | | |
| Accrued expenses and other liabilities | | | | |
| Derivative financial instruments | 171 | | | 171 |
| Other | | 366 | 266 | 632 |
| **Accrued expenses and other liabilities** | 171 | 366 | 266 | 803 |

| **2018**<br>USD millions | Fair value | Amortised Cost or cost | Not in scope[1] | Total |
|---|---|---|---|---|
| Other invested assets | | | | |
| Derivative financial instruments | 131 | | | 131 |
| Other | | 411 | | 411 |
| **Other invested assets** | **131** | **411** | **0** | **542** |
| | | | | |
| Accrued expenses and other liabilities | | | | |
| Derivative financial instruments | 144 | | | 144 |
| Other | | 437 | 215 | 652 |
| **Accrued expenses and other liabilities** | **144** | **437** | **215** | **796** |

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

# 6 Fair value disclosures

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

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

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

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

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

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

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

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

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

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

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

**Valuation techniques**

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

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

inputs and option-adjusted spreads and incorporate considerations of the security's seniority and maturity and the issuer's corporate structure.

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

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

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

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

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

### Governance around level 3 fair valuation

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

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

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

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

## Assets and liabilities measured at fair value on a recurring basis

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

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

| 2018<br>USD millions | Quoted prices in active markets for identical assets and liabilities (level 1) | Significant other observable inputs (level 2) | Significant unobservable inputs (level 3) | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Fixed income securities held for proprietary investment purposes | | 18 424 | 910 | 19 334 |
| Debt securities issued by US government and government agencies | | 113 | | 113 |
| Debt securities issued by non-US governments and government agencies | | 5 126 | 3 | 5 129 |
| Corporate debt securities | | 12 667 | 907 | 13 574 |
| Mortgage- and asset-backed securities | | 518 | | 518 |
| Fixed income securities backing unit-linked and with-profit business | | 4 938 | | 4 938 |
| Equity securities backing unit-linked and with-profit business | 22 686 | 12 | | 22 698 |
| Short-term investments held for proprietary investment purposes | | 894 | | 894 |
| Short-term investments backing unit-linked and with-profit business | | 11 | | 11 |
| Derivative financial instruments | 3 | 136 | | 139 |
| Interest rate contracts | | 6 | | 6 |
| Foreign exchange contracts | | 123 | | 123 |
| Equity contracts | 1 | 2 | | 3 |
| Contracts backing unit-linked and with-profit business | 2 | 5 | | 7 |
| Investment real estate | | | 166 | 166 |
| **Total assets at fair value** | **22 689** | **24 415** | **1 076** | **48 180** |
| | | | | |
| **Liabilities** | | | | |
| Derivative financial instruments | –3 | –14 | –127 | –144 |
| Interest rate contracts | | –12 | | –12 |
| Foreign exchange contracts | | | | 0 |
| Other contracts | | | –127 | –127 |
| Contracts backing unit-linked and with-profit business | –3 | –2 | | –5 |
| **Total liabilities at fair value** | **–3** | **–14** | **–127** | **–144** |

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

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

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

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

| **2018**<br>USD millions | Fixed income securities | Investment real estate | **Total assets** | Derivative liabilities | **Total liabilities** |
|---|---|---|---|---|---|
| **Assets and liabilities** | | | | | |
| Balance as of 1 January | 969 | 198 | **1 167** | –150 | **–150** |
| Realised/unrealised gains/losses: | | | | | |
| Included in net income | | 13 | **13** | –11 | **–11** |
| Included in other comprehensive income | –28 | | **–28** | | **0** |
| Purchases | 35 | | **35** | | **0** |
| Issuances | | | **0** | | **0** |
| Sales | –1 | –33 | **–34** | 1 | **1** |
| Settlements | –9 | | **–9** | 24 | **24** |
| Transfers into level 3[1] | 1 | | **1** | | **0** |
| Transfers out of level 3[1] | –1 | | **–1** | | **0** |
| Impact of foreign exchange movements | –56 | –12 | **–68** | 9 | **9** |
| **Closing balance as of 31 December** | **910** | **166** | **1 076** | **–127** | **–127** |

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

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

The gains and losses relating to the assets and liabilities measured at fair value using significant unobservable inputs (level 3) for the years ended 31 December were as follows:

| USD millions | 2017 | 2018 |
|---|---|---|
| Gains/losses included in net income for the period | 30 | 2 |
| Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date | 10 | –5 |

### Quantitative information about level 3 fair value measurements

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

| USD millions | 2017 Fair value | 2018 Fair value | Valuation technique | Unobservable input | Range (weighted average) |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Corporate debt securities | 966 | **907** | | | |
| Infrastructure loans | 563 | 561 | Discounted cash flow model | Valuation spread | 158–227 bps (195 bps) |
| Private placement corporate debt | 337 | 285 | Corporate spread matrix | Credit spread | 154–402 bps (260 bps) |
| Investment real estate | 198 | **166** | Discounted cash flow model | Discount rate | 5% per annum |
| **Liabilities** | | | | | |
| Other derivative contracts | –150 | **–127** | | | |
| Swap liability referencing real estate investments | –150 | –127 | Discounted cash flow model | Discount rate | 5% per annum |

### Sensitivity of recurring level 3 measurements to changes in unobservable inputs

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

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

### Fair value option

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

#### Other derivative liabilities

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

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

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

| USD millions | 2017 | **2018** |
|---|---|---|
| **Liabilities** | | |
| Accrued expenses and other liabilities | –803 | –796 |
| of which at fair value pursuant to the fair value option | –150 | –127 |

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

Gains/losses included in earnings for items measured at fair value pursuant to election of the fair value option including foreign exchange impact for the years ended 31 December were as follows:

| USD millions | 2017 | **2018** |
|---|---|---|
| Accrued expenses and other liabilities | 20 | –11 |
| **Total** | 20 | **–11** |

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

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

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

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

| **2018**<br>USD millions | Significant other observable inputs (level 2) | Significant unobservable inputs (level 3) | Total |
|---|---|---|---|
| **Assets** | | | |
| Policy loans | | 6 | 6 |
| Mortgage loans | | 601 | 601 |
| Other loans | | 329 | 329 |
| Investment real estate | | 4 | 4 |
| **Total assets** | **0** | **940** | **940** |
| | | | |
| **Liabilities** | | | |
| Debt | –874 | –813 | –1 687 |
| **Total liabilities** | **–874** | **–813** | **–1 687** |

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

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

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

# 7 Derivative financial instruments

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

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

### Fair values and notional amounts of derivative financial instruments

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

| 2017<br>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[1] | 2 265 | 17 | –19 | –2 |
| Foreign exchange contracts[1] | 543 | 1 | –1 | 0 |
| Equity contracts[1] | 597 | 4 | –1 | 3 |
| Other contracts | 1 | | –150 | –150 |
| **Total** | 3 406 | 22 | –171 | –149 |
| **Derivatives designated as hedging instruments** | | | | |
| Foreign exchange contracts | 914 | 100 | | 100 |
| **Total** | 914 | 100 | 0 | 100 |
| **Total derivative financial instruments** | 4 320 | 122 | –171 | –49 |

| **2018**<br>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[1] | 2 682 | 11 | –14 | –3 |
| Foreign exchange contracts[1] | 991 | 2 | | 2 |
| Equity contracts[1] | 529 | 5 | –3 | 2 |
| Other contracts | 1 | | –127 | –127 |
| **Total** | **4 203** | **18** | **–144** | **–126** |
| **Derivatives designated as hedging instruments** | | | | |
| Foreign exchange contracts | 870 | 121 | | 121 |
| **Total** | **870** | **121** | **0** | **121** |
| **Total derivative financial instruments** | **5 073** | **139** | **–144** | **–5** |

[1] During 2018, the Group revised its methodology on the calculation of notional amounts for interest rate derivatives. The revision has no impact on the income statement or balance sheet of the Group. Comparative information for 2017 has been adjusted accordingly.

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

## Non-hedging activities

The Group primarily uses derivative financial instruments for risk management and trading strategies. Gains and losses of derivative financial instruments not designated as hedging instruments are recorded in "Net realised investment gains/losses – non participating business" and "Net investment result – unit-linked and with-profit business" in the income statement.
For the years ended 31 December, the gains and losses of derivative financial instruments not designated as hedging instruments were as follows:

| USD millions | 2017 | 2018 |
|---|---|---|
| **Derivatives not designated as hedging instruments** | | |
| Interest rate contracts | –20 | 13 |
| Foreign exchange contracts | 9 | –11 |
| Equity contracts | –45 | 10 |
| Other contracts | 26 | –11 |
| **Total gains/losses recognised in income** | –30 | **1** |

## Hedging activities

The Group designates certain derivative financial instruments as hedging instruments. The designation of derivative financial instruments is primarily used for overall portfolio and risk management strategies. As of 31 December 2018, the following hedging relationships were outstanding:

### Cash flow hedges

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

For the year ended 31 December 2018, the Group recorded a gain of USD 27 million on derivatives in accumulated other comprehensive income. For the year ended 31 December 2018, the Group reclassified a gain of USD 10 million from accumulated other comprehensive income into income.

As of 31 December 2018, the maximum length of time over which the Group hedged its exposure to the variability in future cash flows for forecasted transactions, excluding those forecasted transactions related to the payment of variable interest on existing financial instruments, was eight years.

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

### Hedges of the net investment in foreign operations

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

For the years ended 31 December 2017 and 2018, the Group recorded an accumulated net unrealised foreign currency remeasurement loss of USD 24 million and USD 21 million, respectively, in shareholder's equity. These offset translation gains and losses on the hedged net investment.

## Maximum potential loss

The maximum potential loss as of 31 December 2017 and 2018 was approximately USD 122 million and USD 139 million, respectively. The maximum potential loss is based on the positive market replacement cost assuming non-performance of all counterparties.

# 8 Debt

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

| USD millions | 2017 | **2018** |
|---|---|---|
| Senior financial debt | 433 | 217 |
| **Short-term debt** | 433 | **217** |
| | | |
| Senior financial debt | 1 537 | 1 449 |
| **Long-term debt** | 1 537 | **1 449** |
| | | |
| **Total carrying value** | 1 970 | **1 666** |
| **Total fair value** | 2 015 | **1 687** |

### Interest expense on long-term debt

Interest expense on long-term senior financial debt was USD 21 million and USD 23 million for the years ended 31 December 2017 and 2018, respectively.

### Long-term debt

In May 2016, Swiss Re ReAssure Limited issued senior notes due 2023. The notes have a face value of EUR 750 million (carrying value as of 31 December 2018 of USD 853 million), with a fixed coupon of 1.38% per annum.

In June 2018, Swiss Re ReAssure Limited entered into a GBP 550 million revolving credit facility with a syndicate of banks. The facility has an expiry date of 26 June 2021. At 29 June 2018, the amount drawn under the facility was GBP 468 235 294 (carrying value as of 31 December 2018 of USD 596 million). This revolving credit facility replaces the previous GBP 550 million revolving credit facility that Swiss Re ReAssure Limited had entered into in April 2016.

# 9 Income taxes

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

| USD millions | 2017 | 2018 |
|---|---|---|
| Current taxes | 184 | 187 |
| Deferred taxes | –72 | –161 |
| **Income tax expense** | 112 | **26** |

### Tax rate reconciliation

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

| USD millions | 2017 | 2018 |
|---|---|---|
| Income tax at the UK statutory tax rate of 19% (2017: 19.25%) | 74 | 40 |
| Increase (decrease) in the income tax charge resulting from: | | |
| Foreign income taxed at different rates | –2 | –3 |
| Change in valuation allowance | –4 | –9 |
| Change in statutory rate | 9 | 29 |
| Unrecognised tax benefits | –4 | 7 |
| Policyholder Tax | 9 | –44 |
| Disallowed expenses | 3 | |
| Other, net[1] | 27 | 6 |
| **Total** | 112 | **26** |

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

For the year ended 31 December 2018, the Group reported a tax charge of USD 26 million on a pre-tax income of USD 208 million compared to a charge of USD 112 million on a pre-tax income of USD 385 million for 2017. This translates into an effective tax rate in the current and prior-year reporting periods of 12.5% and 29.1%, respectively.

The lower rate in the current year is mainly driven by policyholder tax benefits partially offset by tax charges from changes in statutory tax rates.

## Deferred and other non-current taxes

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

| USD millions | 2017 | 2018 |
|---|---|---|
| **Deferred tax assets** | | |
| Benefit on loss carryforwards | 158 | 133 |
| Unrealised gains in income | 466 | 278 |
| Other | 59 | 57 |
| **Gross deferred tax asset** | 683 | 468 |
| Valuation allowance | –59 | –48 |
| **Total deferred tax assets** | 624 | **420** |
| | | |
| **Deferred tax liabilities** | | |
| Present value of future profits | –82 | –73 |
| Technical provisions | –740 | –432 |
| Unrealised gains on investments | –456 | –278 |
| Investment valuations in income | –88 | –45 |
| Other | –27 | –24 |
| **Total deferred tax liabilities** | –1 393 | **–852** |
| | | |
| Liability for unrecognised tax benefits including interest and penalties | –22 | –28 |
| **Total deferred and other non-current tax liabilities** | –1 415 | **–880** |

As of 31 December 2018, the Group has no temporary differences associated with investment in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised.

As of 31 December 2018, the Group had USD 370 million net operating tax loss carryforwards that never expire. The Group also had USD 432 million net capital loss carryforwards that never expire

For the year ended 31 December 2018, net operating tax losses of USD 31 million and net capital tax losses of USD 117 million were utilised.

For the years ended 31 December 2017 and 2018, income taxes paid were USD 151 million and USD 253 million, respectively.

### Unrecognised tax benefits

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

| USD millions | 2017 | **2018** |
|---|---|---|
| Balance as of 1 January | 22 | 19 |
| Reductions for tax positions of prior years | –5 | |
| Additions for tax positions of current year | | 6 |
| Other (including foreign currency translation) | 2 | –1 |
| **Balance as of 31 December** | 19 | **24** |

As of 31 December 2017 and 2018, the amount of gross unrecognised tax benefits within the tabular reconciliation that, if recognised, would affect the effective tax rate were approximately USD 19 million and USD 24 million, respectively.

Interest and penalties related to unrecognised tax benefits are recorded in income tax expense. For the years ended 2017 and 2018, such expenses were USD 1 million and USD 1 million. As of 31 December 2017 and 2018 USD 3 million and USD 4 million respectively were accrued for the payment of interest and penalties. The accrued interest balance is included within the deferred and other non-current taxes section reflected above and in the balance sheet.

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

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

| | |
|---|---|
| Ireland | 2014–2018 |
| United Kingdom | 2008–2009, 2013–2018 |

# 10 Benefit plans

### Defined benefit pension plans and post-retirement benefits

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

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

| USD millions | 2017 | **2018** |
|---|---|---|
| Benefit obligation as of 1 January | 540 | 540 |
| Service cost | 1 | 1 |
| Interest cost | 14 | 15 |
| Actuarial gains/losses | –46 | –36 |
| Benefits paid | –18 | –19 |
| Effect of foreign currency translation | 49 | –29 |
| **Benefit obligation as of 31 December** | 540 | **472** |
| | | |
| Fair value of plan assets as of 1 January | 486 | 553 |
| Actual return on plan assets | 35 | –17 |
| Company contribution | 3 | 3 |
| Benefits paid | –18 | –19 |
| Effect of foreign currency translation | 47 | –31 |
| **Fair value of plan assets as of 31 December** | 553 | **489** |
| **Funded status** | 13 | **17** |

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

| USD millions | 2017 | **2018** |
|---|---|---|
| Non-current assets | 15 | 19 |
| Non-current liabilities | –2 | –2 |
| **Net amount recognised** | 13 | **17** |

As of 31 December 2017 and 2018, a net loss recognised in accumulated other comprehensive income, gross of tax, was USD 104 million and USD 91 million, respectively.

### Components of net periodic benefit cost

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

| USD millions | 2017 | 2018 |
|---|---|---|
| Service cost (net of participant contributions) | 1 | 1 |
| Interest cost | 14 | 15 |
| Expected return on assets | –19 | –19 |
| Amortisation of: | | |
| Net gain/loss | 14 | 7 |
| **Net periodic benefit cost** | 10 | **4** |

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

| USD millions | 2017 | 2018 |
|---|---|---|
| Net gain/loss | –62 | 0 |
| Amortisation of: | | |
| Net gain/loss | –14 | –7 |
| Exchange rate gain/loss recognised during the year | 12 | –6 |
| **Total recognised in other comprehensive income, gross of tax** | –64 | **–13** |
| **Total recognised in net periodic benefit cost and other comprehensive income, gross of tax** | –54 | **–9** |

The estimated net loss and prior service cost/credit for the defined benefit pension plans that will be amortised from accumulated other comprehensive income into net periodic benefit cost in 2019 are USD 2 million and nil, respectively.

The accumulated benefit obligation (the current value of accrued benefits excluding future salary increases) for pension benefits was USD 540 million and USD 472 million as of 31 December 2017 and 2018, respectively.

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

| USD millions | 2017 | 2018 |
|---|---|---|
| Projected benefit obligation | 3 | 3 |
| Accumulated benefit obligation | 3 | 3 |
| Fair value of plan assets | 1 | 0 |

### Principal actuarial assumptions

| | Weighted average | |
|---|---|---|
| | 2017 | **2018** |
| **Assumptions used to determine obligations at the end of the year** | | |
| Discount rate | 2.8% | 2.9% |
| Rate of compensation increase | 3.4% | 3.4% |
| **Assumptions used to determine net periodic pension costs for the year ended** | | |
| Discount rate | 2.6% | 2.8% |
| Expected long-term return on plan assets | 3.9% | 3.8% |
| Rate of compensation increase | 3.5% | 3.4% |

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

### Plan asset allocation by asset category

The actual asset allocation by major asset category for defined benefit pension plans as of the respective measurement dates in 2017 and 2018 was as follows:

| | 2017 | **2018** | **Target allocation** |
|---|---|---|---|
| **Asset category** | | | |
| Equity securities | 37% | 10% | 36% |
| Debt securities | 50% | 49% | 54% |
| Real estate | 0% | 10% | 0% |
| Other | 13% | 31% | 10% |
| **Total** | 100% | **100%** | **100%** |

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

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

### Assets measured at fair value

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

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

| USD millions | 2017 | 2018 |
|---|---|---|
| **Assets** | | |
| Fixed income securities: | | |
| Debt securities issued by the US government and government agencies | 0 | 8 |
| Debt securities issued by non-US governments and government agencies | 111 | 79 |
| Corporate debt securities | 176 | 144 |
| Equity securities: | | |
| Equity securities held for proprietary investment purposes | 67 | 51 |
| Short-term investments | 38 | 43 |
| Derivative financial instruments | 25 | 23 |
| Other assets | 13 | 13 |
| **Total assets at fair value** | 430 | 361 |

As of 31 December 2017 and 2018, pension plan assets classified as level 1 included cash of USD 10 million and USD 14 million, respectively. There are no pension plan assets classified as level 3. As of 31 December 2017 and 2018, pension plan assets classified as investments measured at net asset value as practical expedient of USD 113 million and USD 114 million, respectively, were included in other assets.

### Expected contributions and estimated future benefit payments

The employer contributions expected to be made in 2019 to the defined benefit pension plans are USD 3 million.

As of 31 December 2018, the projected benefit payments, which reflect expected future service, not adjusted for transfers in and for employees' voluntary contributions, are as follows:

| USD millions | ReAssure |
|---|---|
| 2019 | 17 |
| 2020 | 18 |
| 2021 | 18 |
| 2022 | 18 |
| 2023 | 19 |
| Years 2024–2028 | 98 |

### Defined contribution pension plans

The Group sponsors a defined contribution plan to which employees and the Group make contributions.
All costs for the scheme are charged in full to the income statement as they arise. The amount expensed was USD 7 million in 2017 and 2018.

# 11 Related parties

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

| USD millions | 2017 | 2018 |
|---|---|---|
| **Revenues** | | |
| Net premiums written | –222 | –224 |
| **Premiums earned** | –222 | –224 |
| Net investment income/loss – non-participating business | –7 | –31 |
| Net realised investment gains/losses – non-participating business | –41 | 44 |
| **Total revenues** | –270 | **–211** |
| | | |
| **Expenses** | | |
| Life and health benefits | 200 | 185 |
| Acquisition costs | 1 | 1 |
| Operating expenses | –24 | –20 |
| Interest expenses | –10 | –12 |
| **Total expenses** | 167 | **154** |

| USD millions | 2017 | 2018 |
|---|---|---|
| **Assets** | | |
| Other invested assets | 194 | 233 |
| Premiums and other receivables | 2 | 4 |
| Reinsurance recoverable on unpaid claims and policy benefits | 24 | 28 |
| Other assets | 29 | 6 |
| **Total assets** | 249 | **271** |
| | | |
| **Liabilities** | | |
| Liabilities for life and health policy benefits | 10 | 17 |
| Reinsurance balances payable | 20 | 22 |
| Short-term debt | | 217 |
| Accrued expenses and other liabilities | 144 | 150 |
| **Total liabilities** | 174 | **406** |

As of 31 December 2018, the total short term debt consists of a senior loan with a face value of GBP 170 million and a variable interest rate.

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

# 12 Variable interest entities

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

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

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

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

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

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

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

**Investment vehicles**

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

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

**Investment vehicles for unit-linked business**

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

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

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

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

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

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

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

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

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

| USD millions | 2017 | 2018 |
|---|---|---|
| Investment real estate | 198 | 166 |
| Cash and cash equivalents | 1 | |
| **Total assets** | 199 | **166** |
| | | |
| Accrued expenses and other liabilities | 154 | 129 |
| **Total liabilities** | 154 | **129** |

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

### Non-consolidated VIEs
The following table shows the total assets on the Group's balance sheet related to VIEs in which the Group held a variable interest but was not the primary beneficiary as of 31 December:

| USD millions | 2017 | 2018 |
|---|---|---|
| Fixed income securities available-for-sale | 175 | 186 |
| Policy loans, mortgages and other loans | 173 | 252 |
| Investments for unit-linked and with-profit business | 9 043 | 5 858 |
| **Total assets** | 9 391 | **6 296** |

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

| | 2017 | | 2018 | |
|---|---|---|---|---|
| USD millions | Total assets | Maximum exposure to loss[1] | Total assets | Maximum exposure to loss[1] |
| Investment vehicles for unit-linked business | 9 043 | | 5 858 | |
| Senior commercial mortgage and infrastructure loans | 348 | 348 | 438 | 438 |
| **Total** | 9 391 | 348 | **6 296** | **438** |

[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.

# Directors' report

The Board of Directors present their report and the audited consolidated financial statements of the Swiss Re ReAssure Group (referred to as "the Group") for the year ended 31 December 2018.

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

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

As of 31 December 2018, SRRL was an intermediate holding company and a financing vehicle for the activities of the Group. The Group acquires individual closed blocks of in-force long-term life, pensions and health business through reinsurance, legal transfers of books of business to the Group, the acquisition of life insurance companies or a combination thereof.

**Performance and dividends**
The results for the year ended 31 December 2018 are set out on page 2.

During the years ended 31 December 2018 and 2017, dividends of USD 1 077 million and USD 1 658 million have been paid, respectively.

**Directors and their interests**
During the year ended 31 December 2018, the following members served as Board of Directors of Swiss Re ReAssure Limited:

| Name | Date of appointment | Date of resignation |
|---|---|---|
| Ian Patrick | | |
| Neil Rolfe | | 26 January 2018 |
| Matthew Cuhls | | |
| Michael Woodcock | | |
| Rejean Besner | 26 January 2018 | |

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

**Statement of directors' responsibilities in respect of the financial statements**
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with accounting principles generally accepted in the United States of America. Under company law the directors must not approve the group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991.

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

**Directors' confirmations**
In the case of each director in office at the date the Directors' Report is approved:

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

# Report of the independent auditor

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

## Report on the audit of the group financial statements

### Opinion

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

- give a true and fair view of the state of the group's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with accounting principles generally accepted in the United States of America; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law1991.

We have audited the financial statements, included within the Annual Report (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the income statement, the statement of comprehensive income, the statement of cash flows, and the statement of shareholder's equity for the year then ended; the accounting policies; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

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

#### Independence

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

### Overview of our audit approach

#### Materiality

- USD 565 million (2017: USD 337million) based on 1% of total assets.

#### Key Audit Scope Highlights

- We performed an audit of the complete financial information of the key components ReAssure Limited and Ark Life Assurance Company Limited, taking into account all material financial statement line items. These components represents 98.2% of the group's total assets.
- We have also performed audit procedures on material balances within all the other components.

#### Key Audit Matters

##### Actuarial reserving

The valuation of life insurance liabilities under US GAAP requires the use of actuarial models and assumptions about economic conditions and demographics (e.g. mortality rates). As a result, an element of subjectivity is inherent in the US GAAP balance sheet, although the impact of this is minimised by the US GAAP requirements to lock in the assumptions when the business is acquired meaning changes in assumptions usually only impact incremental new business over the year.

**The scope of our audit**

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

**Key audit matters**

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

Key audit matter

Actuarial reserving

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

a) Management's US GAAP reporting methodology has remained unchanged over the year.

b) US GAAP regulations require that assumptions are locked-in when business is acquired, meaning that changes in assumptions each year usually have an immaterial impact on the balance sheet, impacting only incremental new business over the year.

How our audit addressed the key audit matter

- We ave confirmed that there have been no changes in ReAssure's business or US GAAP regulations which would necessitate a change in management's methodology. We note that following the risk transfer agreement (RTA) with Legal and General in 2017, a Deferred Acquisition Cost (DAC) balance was set up on the effective date of 1st January 2018, equal to the purchase price. We have performed audit procedures to review the amortisation of the DAC balance over 2018 and to confirm that the DAC is recoverable at 31st December 2018. As the Part VII transfer has not yet occurred, the US GAAP liabilities remain unaffected.
- We have tested whether all locked-in assumptions have remained unchanged since prior year, as we would expect. We have no material findings in this regard.
- For incremental new business in the year, we have confirmed that the assumptions applied are equal to the best estimate assumptions plus the required prudent margins, in line with agreed methodology.
- We have tested the migration of the modelling of ex-Guardian business from Prophet to MoSes. We are satisfied that the change in the insurance reserves under US GAAP is as a result of the improved model functionality in MoSes and is immaterial as expected.
- We have performed an analysis of the change in reserves over the year.

As a result of the above audit procedures, we are satisfied that the methodologies and assumptions used in the calculation of insurance liabilities are appropriate.

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

The accounting and financial reporting function of the Group is based in two location, United Kingdom and Ireland. In establishing the overall approach for individual line items in the financial statements we have considered the location of the source data including those that have been accounted for at material outsourced providers and performed testing at those locations.

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

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

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

| | |
|---|---|
| Overall materiality | USD 565 million (2017: USD 337 million). |
| How we determined it | 1% of total assets (2017: 0.75% of total assets). |
| Rationale for benchmark applied | We have considered a range of benchmarks including total assets, net assets and profit over time. We believe that total assets in the primary measure used by both shareholders and lenders in assessing the performance of the entity, and is a generally accepted auditing benchmarking. We have also slightly increased the benchmark percentage as consolidation risks from the historic Guardian Business are now considered to be mitigated through the migration of that business into ReAssure Limited and hence the benchmark has returned to normal levels. |

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality.

We agreed with the Audit Committee and Management that we would report to them misstatements identified during our audit above USD 28 million (2017: 16.8 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

**Conclusions relating to going concern**
ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union,

which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

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

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

**Responsibilities for the financial statements and the audit**

Responsibilities of the directors for the financial statements
As explained more fully in the Directors' Responsibilities Statement set out on page 52, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

## Other required reporting

### Companies (Jersey) Law 1991 exception reporting

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

Philip Watson
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Recognized Auditor
7 More London Riverside, London
12 March 2019

# Cautionary note on forward-looking statements

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

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

- further instability affecting the global financial system and developments related thereto;
- further deterioration in economic conditions in the United Kingdom or, more broadly, in global economic conditions;
- the Group's ability to maintain sufficient liquidity and access to capital and funding;
- the effect of market conditions, including the global equity and credit markets, and the level and volatility of interest rates, credit spreads, equity prices, currency values and other market indices, on the Group's investment assets;
- changes in the Group's investment result as a result of changes in its investment policy or the changed composition of its investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
- possible inability to realise amounts on sales of securities on the Group's balance sheet equivalent to their market-to-market values recorded for accounting purposes;
- mortality, morbidity, longevity and persistency rates;
- policy renewal and lapse rates;
- uncertainties in estimating reserves;
- extraordinary events affecting the Group's counterparties;
- current, pending and future legislation and regulation affecting the Group and the interpretation of legislation or regulations by regulators, particularly in respect of minimum capital requirements;
- legal actions or regulatory investigations or actions, including those in respect of industry requirements or business conduct rules of general applicability;
- changes in accounting standards;
- significant investments, acquisitions or dispositions, and any delays, unexpected costs or other issues experienced in connection with any such transactions and, in particular, the Group's ability to integrate Guardian successfully and obtain the expected operational, capital and asset management synergies, benefits of scale and other expected benefits of the Guardian acquisition;
- changing levels of competition, including from new entrants into the market; and
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks.

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

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

# Note on risk factors

### Risks relating to adverse economic and market conditions in the UK

The operations of Swiss Re ReAssure Limited ("Swiss Re") and its consolidated subsidiaries (collectively, the "Group") as well as its investment returns are subject to general macroeconomic conditions, particularly in the United Kingdom, as well as volatility in the global economic and financial markets. These, in turn, could be influenced, for example, by a range of political, economic and other uncertainties, some of the more significant of which are inter-related, such as the planned withdrawal of the United Kingdom from the European Union ("Brexit") and significant uncertainty regarding the basis of that withdrawal and the future relationship between the United Kingdom and the European Union; the possible emergence of trade barriers and other protection policies across a range of economies, including a sustained trade war between the United States and China; geopolitical tensions more broadly; a prolonged slowdown in one or more of the principal global economies, particularly in China, and possible recession; continued challenges faced by the Eurozone; the tightening of monetary policy; sustained challenges to multilateral institutions and frameworks; the domestic political situation in the United States, various member states of the European Union and potentially other countries; and heightened scrutiny of technology companies. The extent of the Group's exposure to these conditions and volatility depends in part on the extent to which the net present value of its future obligations to policyholders are affected by the changes in the value of its assets.

Under the Group's unit-linked and with-profit policies, investment risks are typically borne by its policyholders and, accordingly, the Group's exposure to change in the value of the relevant assets underlying these policies is reduced. The Group's exposure to risks relating to unit-linked policies primarily relates to the level of investment management fees it is entitled to charge. In the case of with-profit policies, the Group's exposure to these risks relates to its proportion of distributable profits for the relevant fund that the Group receives (maximum of 10%). A decrease in profit distributions may encourage policyholder retention to decrease and withdrawals to increase, as policyholders seek to reduce their exposure to the Group's investments. If losses in the with-profit funds are substantial enough to cause the value of their assets to fall below the contractual commitments to policyholders, the Group will be required to contribute additional capital to meet those policyholder liabilities, and such losses could affect the Group's ability to release capital to pay dividends to its shareholder. In the case of non-linked products, the Group bears risk when the benefits are not aligned with the investment performance of the assets which support them. Decreases in the value of assets supporting the Group's non-linked policies could lead to an increase in the amount of regulatory capital that the Group is required to hold to meet its policyholder liabilities.

The impact of market risks faced by the Group is uncertain and difficult to predict, in particular due to difficulties in predicting the rate at which any deterioration may occur and over what duration, and the fact that many of the related risks to the business are outside the control of the Group. In the event of adverse economic, financial or market conditions in relevant markets, the Group's business, results of operations, financial condition and prospects could be adversely affected, and the Group's regulatory capital requirements could increase. If actual economic, financial or market conditions vary materially from those conditions that were assumed by the Group, at any given

time, the Group may need to recalibrate the methodology that it uses to calculate its assumptions in respect of market conditions, which could lead to higher regulatory capital requirements. This in turn could restrict the Group's ability to make required distributions to policyholders or release capital to pay dividends to its shareholder.

**Risks relating to defaults or declines in market value of fixed income securities held by the Group**

The Group has significant holdings of fixed income securities, which are primarily used to back the Group's non-linked policyholder liabilities. As part of its asset and liability management policy, the Group seeks to match these non-linked liabilities with fixed income securities of appropriate duration and currency such that cash flows are matched. The Group is exposed to the risk of default from issuers of the securities it holds. The Group also intends to increase the level of privately placed debt that it holds, which will expose it to the risk of default by the borrowers of such privately placed debt. If any of the issuers or borrowers were to default on an asset held to support non-linked policyholder liabilities, it would adversely affect the Group's investment income and increase the Group's regulatory capital requirements. The Group is also exposed to the risk of decline in the market value of its fixed income securities. Ratings downgrades affecting issuers or guarantors, or similar trends that could worsen their credit quality, movement in credit spreads or fluctuations in interest rates could adversely impact the value of the relevant fixed income securities in the Group's investment portfolio, which in aggregate could have a material adverse effect on the Group. In addition, any such downgrade or trend could increase the Group's regulatory capital requirements, depending on whether the asset is held within the Group's matching adjustment ("Matching Adjustment") and the extent to which the Matching Adjustment can be used to partially offset the impact of the Group's regulatory capital requirements. A fall in market value of the Group's fixed income securities may also have an adverse effect on the Group's regulatory surplus.

**Risks related to changes in interest rates and inflation risks**

Interest rate fluctuations, including movements in interest rate spreads, such as gilt-swap spreads, affect the Group's assets and liabilities. The Group's investment portfolio contains interest rate-sensitive instruments and its obligations to its policyholders and pension schemes vary as interest rates fluctuate due to the discount rate used. As a result, a reduction in long-term interest rates or negative interest rates increases the Group's liabilities. For example, non-linked products have benefit payments that are fixed at the inception of the contract, and the Group bears the risk that the interest income and capital redemption from the financial assets backing the liabilities are insufficient to fund the benefits payable. The Group's asset and liability management strategy is designed to limit the amount of any mismatch between assets and liabilities where interest rates fluctuate. However, to the extent that such asset to liability matching is not practicable or fully achieved, it could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. It could also lead to higher regulatory capital requirements and affect the Group's ability to release capital to pay dividends to its shareholder. In addition, the ongoing uncertainty with respect to interest rate calculations due to the planned phasing out of the London Interbank Offered Rate (LIBOR), as well as uncertainty about the future of the Euro Interbank Offered Rate (EURIBOR) and other benchmarks, could have an adverse effect on the Group's interest rate sensitive liabilities. Changes to inflation rates could also have an adverse impact on the Group primarily reflecting liabilities that are linked to an inflation escalation rate in the Group's annuity portfolio,

which varies with an underlying market inflation measure, the Group's pension scheme obligations and increases in the Group's expenses.

The Group also uses financial instruments, such as interest rate swaps, and holds fixed interest asset investments of a similar duration to hedge interest rate risk associated with the movements in best estimate liabilities and risk margin, as the risk margin will increase significantly if there is a material fall in long-term interest rates. Hedging transactions do not eliminate the interest rate risk entirely, and the remaining mismatch between assets and liabilities could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. In addition, any such mismatch could result in an increase in the Group's regulatory capital requirement and affect the Group's ability to release capital to pay dividends to its shareholder.

### Risks relating to equity markets

The Group has exposure to the equity markets and currency fluctuations through its unit-linked products, with-profit products and defined benefit pension scheme investments. The majority of the assets underlying the Group's unit-linked products are invested in equity securities, and therefore, the Group could be adversely affected by any substantial declines in the values of any such investments through the reduction of investment management fees received in connection with those assets. Reductions in the value of equity securities could also adversely impact the Group's share of the distributable profits from its with-profit funds. A substantial fall in equity markets could lead to a reduction in the surplus in the Group's with-profit funds and reduce the distributable profits to the Group. If losses in the with-profit funds are substantial enough to cause the value of the assets to fall below the contractual commitments to policyholders, the Group would be required to contribute the additional capital to meet those liabilities and such losses could affect its ability to release capital to pay dividends to its shareholder.

### Risks relating to liquidity

The Group could be subject to liquidity requirements for a variety of reasons, including higher than expected policyholder payments and expenses, increased collateral required due to its derivative positions, dividend payments and other circumstances. The ability to meet these liquidity requirements could be adversely impacted by factors that the Group cannot control, such as financial and credit market dislocations or interruptions and the increased constraints on the availability of credit, adverse economic conditions, changes in interest rates, foreign exchange rates and credit spreads; or by perceptions among market participants of the extent of the Group's liquidity requirements.

Unexpected liquidity requirements could also require the Group to incur indebtedness. The Group may not be able to secure new sources of liquidity or funding, should projected or actual liquidity fall below levels it requires and market conditions constrain the general availability of credit and willingness of lenders to lend. In addition, the Group's ability to meet liquidity needs may also be constrained by regulatory requirements that require it to maintain or increase regulatory capital or that restrict intra-group transactions, the timing of dividend payments from subsidiaries or the fact that certain assets may be encumbered or otherwise non-tradable.

Further, the Group holds certain investments within its investment portfolios that may lack liquidity, such as privately placed fixed maturity securities, emerging market debt, private equity investments and unlisted equities, and intends to increase its exposures to illiquid credit assets. If significant amounts of liquidity are required on short notice in excess of expected cash requirements, it may be difficult to sell less liquid investments in a timely manner. If the Group were forced to sell certain assets, it may be unable to sell them for the prices at which they were purchased and may be forced to sell them at significantly lower prices. Any increases in unexpected liquidity requirements could subject the Group to increasing capital requirements and affect the Group's ability to release capital to pay dividends to its shareholder.

**Risks related to regulatory oversight**
The Group has been, and will continue to be, impacted by legal and regulatory developments, as well as fiscal or other policies and actions of various governmental and regulatory authorities, in particular in the United Kingdom and Ireland. The Group's business could be impacted by regulatory initiatives directed specifically at its industry. For example, the Group's regulators might decide to impose a cap on ongoing fees that can be charged in respect to insurance policies. A reduction in such charges would reduce future fee income on existing policies. The Group could also be impacted by regulatory changes directed more broadly at financial services providers (for example, regarding employee misconduct and compliance with broader business conduct rules, including those in respect of market abuse, bribery, money laundering, trade sanctions, data protection and privacy) or regulatory changes prompted by political developments in the United Kingdom, Ireland and at the level of the European Union, including Brexit.

In recent years, the Prudential Regulatory Authority ("PRA"), the FCA ("Financial Conduct Authority") and the Central Bank of Ireland ("CBI") like other regulators, each have adopted an approach of intensive supervision in respect of the life and pensions sector covering all material facets of the Group's business. As a result of this and recent regulatory initiatives, the increase in the level of regulatory oversight over the Group is likely to continue. The move to conduct-focused regulation may see a continued move away from rules-based regulation with a greater focus on customer outcomes, which may result in remediation exercises where the Group cannot demonstrate that it has met expected customer outcomes from the regulator's perspective. The Group cannot predict the exact nature, timing or scope of possible governmental initiatives, but future regulatory changes may potentially restrict its operations or mandate certain risks to be covered. The FCA, the PRA, the CBI and other regulators may also undertake regulatory interventions using their significant statutory powers, including through investigations, requests for data and analysis, interviews or reviews (including skilled persons reports), and may carry out formal "thematic reviews," which are sector-wide reviews or other informal sector-wide inquiries in respect of a theme or common issue or a particular type of product.

Regulatory intervention may lead to the FCA, the PRA and/or the CBI (and any other relevant regulators or bodies) requiring specific remediation in respect of historical practices (which could include compensating customers, fines or other penalties), changes going forward to the Group's practices, public censure and/or the loss or restriction of regulatory permissions necessary to carry on its business in the same manner as before. In addition, if any member of the Group were found to be in breach of any existing or new laws or regulations, such member could be subject to criminal,

civil or administrative proceedings, as a result of which the Group's reputation could suffer and it could be fined or prohibited from engaging in some or all of its business activities, or the Group could be sued by counterparties and be forced to devote significant resources to defend itself.

### Risks relating to regulatory requirements

The Group is required under Solvency II to maintain reserves of assets to match its best estimate liabilities. The Group maintains capital at target levels over and above its solvency capital requirements ("SCR") in accordance with its stated risk appetite. In order to calculate its SCR, the Group has availed itself of: (i) a Partial Internal Model (since December 2018); (ii) a Matching Adjustment; (iii) a volatility adjustment ("Volatility Adjustment"); and (iv) Transitional Measures on Technical Provisions. The Solvency II long-term guarantee measures that the Group uses to calculate SCR have been approved for use by the PRA. However, the Group could lose the benefit of their application, if it does not comply with the applicable rules relevant to their application. The withdrawal of PRA approval for the use of any of the measures used to calculate SCR could adversely impact the Group's regulatory capital position, which could restrict the ability of the Group to make required distributions to policyholders or affect its ability to release capital to pay dividends to its shareholder. In addition, if the Group were unable to meet an increase in regulatory capital requirements, the PRA and FCA could intervene and 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 within acceptable timescales.

In addition, the Group intends to increase its asset allocation in private debt assets, which will require the approval of the Group's regulators, and there is a risk that such approval might not be forthcoming, in which case the Group will not be able to enjoy the diversification benefits associated with these assets.

Any change to the Group's underlying regulations or the withholding or rescinding of certain approvals could have a material adverse effect on the Group's business, results of operations, financial condition and prospects and could lead to higher regulatory capital requirements and affect its ability to release capital to pay dividends to its shareholder.

### Risks relating to legal and regulatory proceedings

In the ordinary course of business, the Group is involved in lawsuits, arbitrations and other formal and informal dispute resolution procedures, the outcomes of which determine rights and obligations under contractual agreements and/or the Group's non-contractual rights and obligations arising at law. From time to time, the Group may institute, or be named as a defendant in, legal proceedings, and it 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. Additionally, disputes relating to financial services products, including insurance policies, are subject to the Pensions Ombudsman and Financial Ombudsman Services regime which exists to resolve disputes involving individual or small business policyholders. Any of the foregoing could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

### Risks relating to growth strategy

As a consolidator of closed books, the Group relies on the acquisition of blocks of business and the replacement of policies as they run-off in order to continue to cover the fixed costs of its business model. In an effort to maintain and increase the Group's cash flows and maintain economies of scale in its operations as its closed books run-off, the Group intends to continue to grow both by selectively pursuing additional opportunities to build and enhance its franchise and product line in the UK market, predominantly by acquiring businesses that allow it to leverage its capabilities and build on its market-leading position as a consolidator of closed books.

The Group's ability to acquire closed books depends upon a number of factors, including its ability to identify acceptable acquisition candidates, consummate acquisitions, obtain regulatory consents from the PRA and other relevant regulatory authorities (such as for insurance business transfers under Part VII of the Financial Services and Markets Act) and internal fund mergers under Part VII, which may be made subject to restrictions as a condition of approval), obtain financing to support growth and maintain the Group's infrastructure to support its acquisition strategy and integrate acquired companies and portfolios successfully. Various external factors may influence sellers' decisions as to whether to dispose of their closed books and could also impact the Group's ability to make suitable acquisitions. The Group's ability to obtain regulatory consents could be affected by perceptions of its regulators regarding its ability to effectively and efficiently integrate acquired operations, as well as the financial implications of the acquisition and the impact of those financial implications on new and existing policyholders.

In order to fund future acquisitions, the Group will rely on the retention of surplus generated from its existing portfolio of policies, the capital markets for equity or debt funding or on bank funding. The availability of any such external funding will be dependent on a range of factors including market conditions and, in the case of debt funding, on credit ratings.

In seeking closed books, the Group operates in a highly competitive market in the United Kingdom in which key factors for success include industry knowledge and infrastructure requirements, migration and operational capabilities, relationships with regulators, adaptability to change and financial wherewithal. The Group competes with other closed book consolidators as well as a number of other potential purchasers of closed books, including insurance and reinsurance companies, as alternative capital continues to flow into the closed book market. The nature of the Group's competitors depends heavily on the constitution of the book being considered. The Group competes largely on the basis of pricing, and prices paid to acquire closed books tend to fluctuate over time (including as a result of increased competition). The Group's ability to compete is also affected by changes in the regulatory and political landscape. If the Group is unable to acquire additional closed books in line with its strategy or if it is unable to complete acquisitions due to any of the factors discussed above, it could have a material adverse effect on the Group's business, results of operations, financial condition and prospects, particularly if it is unable to reduce fixed costs in line with a reduced portfolio size.

When deciding to make an acquisition, the Group makes certain assumptions and determinations based on its due diligence of the business to be acquired, as well as other information then available (including, without independent verification). However, these assumptions and determinations involve risks and uncertainties that may cause them to be incorrect. As a result, the Group may not realise the full benefits that it expects from an acquisition. Should the Group be unable to secure cash flows from the closed books it acquires or should the value of any acquired business be less than the consideration paid (including as a result of adverse developments affecting value), it could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

**Risks relating to adverse experience or changes in expectations**

The Group monitors its actual experience against the actuarial assumptions that it uses for reserving and applies the outcome of such monitoring to refine its long-term assumptions. Based on these assumptions, the Group makes asset and liability management decisions aimed at ensuring an appropriate duration of assets and liabilities relative to one another. However, due to the underlying risks inherent in actuarial assumptions, it is not possible to determine precisely the amounts that will ultimately be paid to meet policyholder liabilities, and actual liabilities may vary from estimates, especially when those liabilities do not occur until well into the future. The Group is constantly evaluating the assumptions used to establish its liabilities and its actual claims experience and to the extent that the variance is material, or expected to persist, it may prompt a change in the assumption regarding future experience, which may impact the regulatory capital the Group deems it prudent to hold.

Primary factors that affect the Group's actuarial assumptions and liability experience are longevity, lapses and expenses.  Any variance of the actual experience from the actuarial assumption may lead to changes in the level of capital that is required to be maintained. If the variance is material, it could lead to the Group recalibrating the risk methodology that it uses to model its assumptions and recalculating its best estimate liabilities, which could lead to a further increase in regulatory capital requirements and affect its ability to release capital to pay dividends to its shareholder. If the Group's reserving and/or regulatory capital requirements are significantly increased, the amount of cash or other assets available for other business purposes or for dividend payments to its shareholder may decline.

**Risks relating to the Group's cost base**

Insurance funds closed to new business are, by their nature, in long-term run-off. This means that the income and in-force value of such funds will decline in the long-term as policies mature and are not replenished by writing new policies. Thus, in order to protect the returns to the Group, it is necessary to optimise the costs of managing such closed books, at least in line with the run-off profile of the book. This is partly addressed through the use of outsourcing arrangements and seeking new acquisitions across which to spread the Group's fixed costs. The Group is exposed to expense risk, which could arise from three primary sources: an increase in actual expenses paid by the Group in administering its policyholder obligations compared to the expected expenses allowed for within the actuarial reserves for the best estimate assessment of this risk; an unforeseen event that increases the expenses overall for the Group; and a failure of existing expenses to decrease. An unexpected increase or persistence of expenses could have a material adverse effect on the Group's business, results of operations, financial condition and prospects and could lead to higher

regulatory capital requirements and affect its ability to release capital to pay dividends to its shareholder.

### Operational risks

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 interference 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 regulators. They are increasingly viewing cyber risk as a primary threat to solvency because of the significant, rapid and unexpected impact of security incidents affecting healthcare insurers in the United Kingdom and the inability of such insurers to effectively respond to the events in question. The FCA conducted an industry-wide survey in 2017 on the topic and the Group currently awaits the results of such survey. The Group's operations rely on the secure processing, storage and transmission of confidential and other information in its computer systems and networks. Although the Group takes protective measures and endeavors to modify them as circumstances warrant, its computer systems, its data stored on third-party servers or applications by means of "cloud computing," its software and its 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. Cyber-attacks, in particular, have become far more prevalent in the past few years, leading potentially to the theft or manipulation of confidential and proprietary information or loss of access to, or destruction of, data on the Group's systems.

The occurrence of one or more of such events in respect of the Group's systems, its data (wherever stored), its software or its networks could jeopardize the Group's or its clients' confidential and other information processed and stored in, and transmitted through, the Group's computer systems and networks or third-party platforms, or otherwise cause interruptions or malfunctions in the Group's or the Group's clients' or third parties' operations, which could result in significant losses or reputational harm, third party liability, business interruption, reputational harm and sometimes physical damage. In addition, the Group updates its systems and infrastructure to support its operations and growth and to respond to changes in regulations and markets. This updating can create risks associated with implementing new systems and integrating them with existing ones.

The Group may be required to expend significant additional resources to modify its protective measures or to investigate and remediate vulnerabilities or other exposures, and it may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by the Group. Regulators are increasingly focused on promoting the protection of customer/client information and the integrity of information technology systems of regulated firms, for example the EU General Data Protection Regulation. These initiatives increase the risk of potential liability and could lead potentially to more conservative approaches to sharing data, which in turn could impact assessments of risks. Increased regulatory activity may also include greater scrutiny of personal data processing within the broader industry, which may give rise to regulatory intervention and reputational harm. Failure to comply with applicable regulations would expose the Group to significant regulatory fines.

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.

**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 standard models instead of permitting the use of internal models. To the extent that management's estimates or assumptions prove to be incorrect, it could have a material impact on 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 such 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 Group represents only one of the four principal operating segments of the Swiss Re Group. The Group does not currently operate on a standalone basis. It is dependent on other members of the Swiss Re Group for a range of asset management services, corporate services (including general management services, human resources, logistics, IT support, finance, treasury and accounting services, auditing services, risk management oversight and legal and compliance) and technical services (including actuarial services support and underwriting services support). In addition, the Group derives a range of significant operational and other benefits from its status as a part of the Swiss Re Group. As a result, factors affecting the Swiss Re Group, whether involving developments or events unique to Swiss Re or events or developments applicable more broadly, could have a material adverse effect on the Group's ability to conduct its business, even if such factors do not directly impact the Group's business operations.

Capital, funding, reserve and cost allocations are made at the Swiss Re Group level across the four operating segments based principally on business plans as measured against US GAAP and economic value management metrics. Decisions at the Swiss Re Group level in respect of the broader Swiss Re Group could have an adverse impact on the Group's financial condition, including its capital and liquidity levels, as well as on its solvency capital requirements. As part of the Swiss Re Group's focus on efficient capital allocation, the Group expects to be paying dividends to SRL. Decisions on dividends payable by each of the operating segments, including the Group, are made at the Swiss Re Group level based on legal entity, regulatory, capital and liquidity considerations.

The Swiss Re Group's structure provides flexibility in the way in which it finances operations and the Swiss Re Group expects that its structure will continue to evolve over time. In 2017, the Swiss Re Group entered into a transaction with MS&AD Insurance Group Holdings Inc. ("MS&AD") pursuant to which MS&AD agreed to invest in the Swiss Re Group's Life Capital business; MS&AD holds a 25% interest in our sole shareholder. In the future, the Swiss Re Group may partner (for purposes of acquisitions or otherwise) with other investors in, or within, one or more of its business units or sub-groups within its business units (including within the Group or at the Group level), which, subject to applicable regulatory requirements, have the potential to alter its historical approaches taken in respect of capital, liquidity, funding and/or dividends, as well as other governance matters, including strategy for such business unit or sub-group and board composition at the relevant corporate level. The Group's structure could also change in connection with acquisitions.

If and when the holding company for the closed book business goes public, the Group will cease to consolidate that business, which will at that point become an independent enterprise, with its own resources, processes and systems and its relationship with us will be governed by applicable listing rules as well as required or appropriate contractual arrangements.

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