Swiss Re
Admin Re

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION FOR THE PURPOSES

OF ARTICLE 7 OF THE MARKET ABUSE REGULATION (EU) 596/2014.

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Swiss Re
Admin Re

Swiss Re Admin Re Limited

Half-year Report 2016

Key Information

Financial highlights

For the six months ended 30 June

USD millions, unless otherwise stated	2015	**2016**	Change in %
Swiss Re Admin Re Group			
Net income attributable to common shareholder	291	**653**	124
Premiums earned and fee income	257	**298**	16
Dividends on common shares	279	**359**	29
Shareholder's equity (31.12.2015/30.06.2016)	4 568	**6 719**	47
Return on equity[1] in %	14.5	**21.1**	
Gross cash generation	93	**94**	1

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

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Income statement

For the six months ended 30 June

USD millions	Note	2015	2016
Revenues			
Gross premiums written	3	226	**253**
Net premiums written	3	93	**95**
Change in unearned premiums		2	**2**
Premiums earned	3	95	**97**
Fee income from policyholders		162	**201**
Net investment income – non-participating business	6	240	**401**
Net realised investment gains/losses – non-participating business[1]	6	223	**516**
Net investment result – unit-linked and with-profit business	6	632	**2 261**
Total revenues		1 352	**3 476**
Expenses			
Life and health benefits	3	–234	**–697**
Return credited to policyholders		–647	**–1 891**
Acquisition costs	3	–13	**29**
Operating expenses		–119	**–145**
Total expenses before interest expenses		–1 013	**–2 704**
Income before interest and income tax expense		339	**772**
Interest expenses		–20	**–6**
Income before income tax expense		319	**766**
Income tax expense		–28	**–113**
Net income attributable to common shareholder		291	**653**

[1] Total impairments for the six months ended 30 June were nil in 2015 and USD 7 million in 2016 of which nil and USD 7 million, respectively, were recognised in earnings.

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

Statement of comprehensive income

For the six months ended 30 June

USD millions	2015	2016
Net income attributable to common shareholder	291	**653**
Other comprehensive income, net of tax:		
Change in unrealised investment gains/losses	–298	**1 003**
Change in cash flow hedges		**–12**
Change in foreign currency translation	43	**–291**
Change in adjustment for pension benefits	1	**7**
Total comprehensive income attributable to common shareholder	37	**1 360**

Reclassification out of accumulated other comprehensive income

For the six months ended 30 June

2015 USD millions	Unrealised investment gains/losses[1]	Cash flow hedges[1]	Foreign currency translation[2]	Adjustment from pension benefits[3]	Accumulated other comprehensive income
Balance as of 1 January	809	0	–11	–63	735
Change during the period	–149		43		–106
Amounts reclassified out of accumulated other comprehensive income	–223			2	–221
Tax	74			–1	73
Balance as of period end	511	0	32	–62	481

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

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

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

Balance sheet

Assets

USD millions	Note	31.12.2015	30.06.2016
Investments			
Fixed income securities available-for-sale (amortised cost: 2015: 11 247; 2016: 21 722)	6, 7	12 233	**24 194**
Policy loans, mortgages and other loans		57	**1 126**
Investment real estate		4	**241**
Short-term investments	7	275	**1 040**
Other invested assets		365	**588**
Investments for unit-linked and with-profit business (including fixed income securities trading: 4 069 in 2015 and 5 740 in 2016, equity securities trading: 21 965 in 2015 and 25 767 in 2016)	6	27 423	**33 085**
Total investments		40 357	**60 274**
Cash and cash equivalents		1 230	**2 587**
Accrued investment income		265	**423**
Premiums and other receivables		3	**45**
Reinsurance recoverable on unpaid claims and policy benefits		876	**2 180**
Acquired present value of future profits	4	1 259	**310**
Goodwill			**141**
Income taxes recoverable		36	**39**
Deferred tax assets		335	**668**
Other assets		165	**325**
Total assets		44 526	**66 992**

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

Liabilities and equity

USD millions	Note	31.12.2015	30.06.2016
Liabilities			
Unpaid claims and claim adjustment expenses		225	**280**
Liabilities for life and health policy benefits		12 033	**25 728**
Policyholder account balances		26 196	**29 917**
Unearned premiums		158	**142**
Funds held under reinsurance treaties		221	**192**
Reinsurance balances payable		25	**33**
Income taxes payable		64	**43**
Deferred and other non-current tax liabilities		724	**1 468**
Accrued expenses and other liabilities		312	**903**
Long-term debt	9		**1 567**
Total liabilities		39 958	**60 273**
Equity			
Common shares, GBP 1 par value 2015: 73 050 694; 2016: 2 738 045 registered shares		114	**4**
Additional paid-in capital		4 703	**4 620**
Accumulated other comprehensive income:			
Net unrealised investment gains, net of tax		715	**1 718**
Cash flow hedges, net of tax			**–12**
Foreign currency translation, net of tax		–191	**–305**
Adjustment for pension and other post-retirement benefits, net of tax		–64	**–57**
Total accumulated other comprehensive income		460	**1 344**
Retained earnings		–709	**751**
Total equity		4 568	**6 719**
Total liabilities and equity		44 526	**66 992**

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

Statement of shareholder's equity

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

USD millions	2015	2016
Common shares		
Balance as of 1 January	114	**114**
Effect of change in Group structure[1]		**–110**
Balance as of period end	114	**4**
Additional paid-in capital		
Balance as of 1 January	4 128	**4 703**
Effect of change in Group structure[1]		**–150**
Changes during the period	575	**67**
Balance as of period end	4 703	**4 620**
Net unrealised investment gains/losses, net of tax		
Balance as of 1 January	809	**715**
Changes during the period	–94	**1 003**
Balance as of period end	715	**1 718**
Cash flow hedges, net of tax		
Balance as of 1 January	0	**0**
Changes during the period		**–12**
Balance as of period end	0	**–12**
Foreign currency translation, net of tax		
Balance as of 1 January	–11	**–191**
Effect of change in Group structure[1]		**177**
Changes during the period	–180	**–291**
Balance as of period end	–191	**–305**
Adjustment for pension and other post-retirement benefits, net of tax		
Balance as of 1 January	–63	**–64**
Changes during the period	–1	**7**
Balance as of period end	–64	**–57**
Retained earnings		
Balance as of 1 January	–855	**–709**
Effect of change in Group structure[1]		**1 166**
Net income attributable to common shareholder	425	**653**
Dividends on common shares	–279	**–359**
Balance as of period end	–709	**751**
Shareholder's equity	4 568	**6 719**

[1] Please refer to Note 1 for more details.

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

Statement of cash flow

For the six months ended 30 June

USD millions	2015	2016
Cash flows from operating activities		
Net income attributable to common shareholder	291	**653**
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items	54	**103**
Net realised investment gains/losses	–457	**–2 200**
Change in:		
Technical provisions and other reinsurance assets and liabilities, net	257	**1 214**
Funds held by ceding companies and under reinsurance treaties	3	**–10**
Reinsurance recoverable on unpaid claims and policy benefits	–21	**83**
Other assets and liabilities, net	–28	**70**
Income taxes payable/recoverable	–15	**36**
Trading positions, net		**780**
Net cash provided/used by operating activities	84	**729**
Cash flows from investing activities		
Fixed income securities:		
Sales	2 030	**2 684**
Maturities	57	**159**
Purchases	–1 982	**–3 694**
Net purchase/sale/maturities of short-term investments	492	**–707**
Acquisitions, net of cash acquired		**1 657**
Net purchases/sales/maturities of other investments	–79	**216**
Net purchases/sales/maturities of investments held for unit-linked and with profit business	885	**1 160**
Net cash provided/used by investing activities	1 403	**1 475**
Cash flows from financing activities		
Policyholder account balances, unit-linked and with-profit business:		
Deposits	211	**344**
Withdrawals	–1 052	**–1 805**
Issuance/repayment of long-term debt		**826**
Issuance/repayment of short-term debt		**307**
Dividends paid to parent	–279	**–359**
Net cash provided/used by financing activities	–1 120	**–687**
Total net cash provided/used	367	**1 517**
Effect of foreign currency translation	34	**–160**
Change in cash and cash equivalents	401	**1 357**
Cash and cash equivalents as of 1 January	924	**1 230**
Cash and cash equivalents as of 30 June	1 325	**2 587**

Interest paid was USD 20 million and USD 5 million for the six months ended 30 June 2015 and 2016, respectively.

Tax paid was USD 43 million and USD 77 million for the six months ended 30 June 2015 and 2016, 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 Admin Re Group, which is headquartered in Jersey, comprises Swiss Re Admin Re Limited (the parent company, referred to as "SRAR") 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 purchase of a majority interest in 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.

SRAR 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 SRAR and its subsidiaries. SRAR and its subsidiaries manage the closed book business of the Life Capital segment in the United Kingdom and Republic of Ireland.

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). All significant intra-group transactions and balances have been eliminated on consolidation. These half-year financial statements are the first published financial statements of the Group. They are unaudited and do not include all disclosures that US GAAP requires on an annual basis. Disclosures required on an annual basis will be provided in the Group's audited financial statements for the year ended 31 December 2016.

On 6 January 2016, the Swiss Re Group acquired 100% of the shares of Guardian Holdings Europe Ltd together with its subsidiaries ("Guardian"). Guardian Midco Ltd, a subsidiary of Guardian Holdings Europe Ltd, was renamed as Swiss Re Admin Re Limited and designated to be the new holding entity of the Group as of the acquisition date. It replaced Admin Re UK Ltd, which continues to be part of the Group, as Group holding company. The purchase price has been allocated based on estimated fair values of assets acquired and liabilities assumed as of the date of acquisition. The allocation required significant judgement. Consequently, it is possible that the estimates will change as the purchase price allocation gets finalised. The results of operations of Guardian have only been included from 6 January 2016. The results from 1 January 2016 to 5 January 2016 are immaterial. The comparative information for 2015 does not include Guardian as it was not under common control with the Group in 2015. For more details on the transaction and its impact on the Group's financial statements, please refer to Note 5.

Principles of consolidation

The Group's financial statements include the consolidated financial statements of SRAR and its subsidiaries. Voting entities which SRAR directly or indirectly controls through holding a majority of the voting rights are consolidated in the Group's accounts. 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 30 June 2016, the Group has not provided any collateral on financial instruments in excess of its own market value estimates.

Investments

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

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

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

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

Investments in real estate that the Group intends to hold for the production of income, including properties that back liabilities from unit-linked and with-profit business, are 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. Impairment in value, depreciation and other related charges or credits are included in net investment income. Investment in real estate held for sale is carried at the lower of cost or fair value, less estimated selling costs, and is not depreciated. Reductions in the carrying value of real estate held for sale are included in realised investment losses.

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

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

Cash and cash equivalents

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

Modifications of insurance and reinsurance contracts

The Group accounts for modifications of insurance and reinsurance contracts that result in a substantially unchanged contract as a continuation of the replaced contract. The associated 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 PVFP is 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.

Blocks of business can be acquired in different legal forms including reinsurance, legal transfers of books of business to the Group, the purchase of a majority interest in a life insurance company or a combination thereof. 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 on the balance sheet. Premiums, life and health benefits and other income statement items are not recorded in the income statement on the date of the acquisition.

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

Acquired present value of future profits
PVFP of business in force is recorded in connection with the acquisition of life and 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.

Capitalised software costs
External direct costs of materials and services incurred to develop or obtain software for internal use, payroll and payroll-related costs for employees directly associated with software development and interest costs incurred while developing software for internal use are capitalised and amortised on a straight-line basis through earnings over the estimated useful life.

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.

Contract classification

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

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

Unpaid claims and claim adjustment expenses

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

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

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

Liabilities for life and health policy benefits

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

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

Policyholder account balances

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

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

Investment contracts are long-duration contracts that do not incorporate significant insurance risk, 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. 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. 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 included in net investment income and net realised investment gains/losses except for unit-linked and with-profit business which is presented in a separate line item on the face of the income statement.

Unit-linked and with-profit business are presented together as they are similar in nature. For unit-linked contracts, the investment risk is borne by the policyholder. For with-profit contracts, the majority of the investment risk is also borne by the policyholder, although there are certain guarantees that limit the down-side risk for the policyholder, and a certain proportion of the returns may be retained by Swiss Re Group (typically 10%). Additional disclosures are provided in Note 6.

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

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

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

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

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

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

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

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

Subsequent events
Subsequent events for the current reporting period have been evaluated up to 25 August 2016. This is the date on which the financial statements are available to be issued.

Recent accounting guidance
In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-13, "Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity – a consensus of the FASB Emerging Issues Task Force", an update to topic 810, "Consolidation". The ASU applies to entities that are required to consolidate a collateralised financing entity (CFE) under the variable interest entities (VIE) consolidation guidance when the entity measures all financial assets and financial liabilities of the CFE at fair value, with changes in fair value recorded in earnings. Before the ASU became effective, if an entity would measure the fair value of assets and liabilities separately following applicable US GAAP rules, the aggregate fair value might have differed. The new guidance allows the use of the more observable of the fair value of the financial assets or the fair value of the financial liabilities of the CFE to measure both. The Group adopted ASU 2014-13 on 1 January 2016. The adoption did not have a material effect on the Group's financial statements.

In November 2014, the FASB issued ASU 2014-16, "Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity – a consensus of the FASB Emerging Issues Task Force", an update to topic 815, "Derivatives and Hedging". The ASU provides guidance on how to assess whether or not a derivative embedded in an instrument in the legal form of a share must be bifurcated and accounted for separately from its host contract. Entities are required to use "the whole instrument approach" to determine whether the nature of the host contract in a hybrid instrument issued in the form of a share is more akin to debt or to equity. Under this approach, an issuer or investor considers all stated and implied substantive terms and features of a hybrid instrument when determining the nature of the host contract. No single term or feature will necessarily determine the nature of the host contract. The Group adopted ASU 2014-16 on 1 January 2016. The adoption did not have a material effect on the Group's financial statements.

In January 2015, the FASB issued ASU 2015-01, "Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items", an update to subtopic 225-20, "Income Statement – Extraordinary and Unusual Items". The ASU eliminates the separate presentation of extraordinary items, net of tax and the related earnings per share. Extraordinary items were events and transactions that were distinguished by their unusual nature and by the infrequency of their occurrence. The ASU does not affect the requirement to disclose material items that are unusual in nature or infrequently occurring. The Group adopted ASU 2015-01 on 1 January 2016 on a prospective basis. The adoption did not have a material effect on the Group's financial statements.

In February 2015, the FASB issued ASU 2015-02, "Consolidation: Amendments to the Consolidation Analysis", an amendment to topic 810, "Consolidation". ASU 2015-02 (i) eliminates the indefinite deferral of the consolidation requirements for certain investment companies and similar entities, (ii) modifies how to evaluate partnerships and other entities under the VIE framework, (iii) eliminates the presumption that a general partner should consolidate a limited partnership, (iv) modifies consolidation analysis, particularly for decision-maker fee arrangements and related party relationships, (v) excludes from the scope of consolidation assessment the entities that are, or operate similar to, money market funds registered under the US Investment Company Act of 1940. The Group adopted ASU 2015-02 on 1 January 2016 following the modified retrospective method. The modified retrospective method does not require the restatement of prior periods. The adoption did not have a material effect on the Group's financial statements; however, it led to an increase in VIEs disclosed in Note 10 Variable interest entities.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs", an update to subtopic 835-30, "Interest — Imputation of Interest". The ASU changes the presentation of debt issuance costs in financial statements by requiring that an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortisation of the costs is reported as interest expense. The Group adopted ASU 2015-03 on 1 January 2016 on a prospective basis. The adoption did not have an impact on the Group's financial statements.

In May 2015, the FASB issued ASU 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)", an amendment to topic 820, "Fair Value Measurement". ASU 2015-07 removes the requirement to categorise within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The Group adopted ASU 2015-07 on 1 January 2016 and applies the amendments retrospectively. The retrospective approach requires that an investment for which fair value is measured using the net asset value per share practical expedient gets removed from the fair value hierarchy in all periods presented in an entity's financial statements. The amended disclosures are provided in Note 7 Fair value disclosures.

In May 2015, the FASB issued ASU 2015-09, "Disclosures about Short-Duration Contracts", an update to topic 944, "Financial Services — Insurance". ASU 2015-09 requires an insurance entity to provide additional information about insurance liabilities, including information on the nature, amount, timing, and uncertainty of future cash flows related to insurance liabilities and the effect of those cash flows on the statement of comprehensive income. Requirements include disaggregated incurred and paid claims development information by accident year, on a net basis after risk mitigation, for at least the most recent 10 years with the periods preceding the current period considered required supplementary information. In addition, for each accident year presented in the claims development tables, an insurer has to provide disaggregated information about claim frequency (unless impracticable) and the amounts of incurred but not reported (IBNR) liabilities plus the expected development on reported claims. Required disclosures also include a description of the methods for determining both IBNR and expected development on reported claims as well as information about any significant changes in methods and assumptions used in the computation of the liability for unpaid claims and claim adjustment expenses, including reasons for the changes and the impact of the changes on the most recent reporting period in the financial statements. All aforementioned disclosures have to be provided on an annual basis. In addition, insurance entities must disclose the roll-forward of the liability for unpaid claims and claims adjustment expenses in both interim and annual periods. The Group will adopt the annual disclosure requirements for the annual reporting period ending on 31 December 2016, and the interim disclosure requirements for the quarter ending on 31 March 2017. The Group has set up a project to implement the new requirements.

In September 2015, the FASB issued ASU 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments", an amendment to topic 805, "Business Combinations". ASU 2015-16 is on adjustments to provisional amounts from business combinations during the measurement periods. It requires that an acquirer recognises such adjustments in the reporting period in which the adjustment amounts are determined. Further, the ASU requires that the acquirer records, in the same period's financial statements, the effect on earnings of changes in depreciation, amortisation, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The Group adopted this guidance on 1 January 2016. The adoption did not have an effect on the Group's financial statements.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities", an update to subtopic 825-10, "Financial Instruments – Overall". The ASU requires an entity to carry investments in equity securities, including other ownership interests and limited liability companies at fair value through net income, with the exception of equity method investments, investments that result in consolidation or investments for which the entity has elected the practicability exception to fair value measurement. The practicability exception can only be applied by certain entities and only to equity investments without a readily determinable fair value. Investments under the practicability exception will be subject to an indicator-based impairment test. For financial liabilities to which the fair value option has been applied, the ASU also requires an entity to separately present the change in fair value attributable to instrument-specific credit risk in other comprehensive income rather than in net income. Specific exceptions apply to this requirement. In addition, the ASU requires an entity to assess whether a valuation allowance is needed on a deferred tax asset (DTA) related to fixed income securities AFS in combination with the entity's other DTAs rather than separately from other DTAs. The ASU also introduces changes to disclosure requirements for financial instruments not measured at fair value and introduces new requirements for equity instruments where the practicability exception to fair value measurement is applied. The new requirements are effective for annual and interim periods beginning after 15 December 2017 with early adoption permitted for requirements relating to the presentation of the impact of instrument specific credit risk on qualifying financial liabilities in other comprehensive income. The Group is currently assessing the impact of the new requirements.

In February 2016, the FASB issued ASU 2016-02 "Leases", which creates topic 842, "Leases". The core principle of topic 842 is that a lessee should recognise the assets and liabilities that arise from leases. A lessee should recognise in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing the right to use the underlying asset for the lease term. This accounting treatment applies to finance leases and operating leases. The accounting applied by a lessor is largely unchanged from that applied under the current guidance. The new requirements are effective for the Group for annual and interim periods beginning after 15 December 2018. Early application of the Update is permitted. The Group is currently assessing the impact of the new requirements.

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

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

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

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

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

Republic of Ireland

The Republic of Ireland segment reflects the operations of Ark Life Assurance Company Limited, which is based in Dublin. The principal activity of the segment relates to closed life assurance and pension blocks of business. This includes the administration of unit-linked business and non-linked life and disability business.

Group items and consolidation

Items not allocated to the business segments are included in the "Group items and consolidation" column, which encompasses SRAR, the holding company of the Group, and Swiss Re Admin Re Midco Limited. The purpose 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 intra-group arrangements. Such elimination of intra-group transactions includes mainly intersegmental funding.

Business segments – income statement

For the six months ended 30 June

2015 USD millions	United Kingdom	Republic of Ireland	Group items and consolidation	Total
Revenues				
Gross premiums written	226			226
Net premiums written	93			93
Change in unearned premiums	2			2
Premiums earned	95			95
Fee income from policyholders	162			162
Net investment income – non-participating	240			240
Net realised investment gains/losses – non-participating	223			223
Net investment result – unit-linked and with-profit	632			632
Total revenues	1 352			1 352
Expenses				
Life and health benefits	–234			–234
Return credited to policyholders	–647			–647
Acquisition costs	–13			–13
Operating expenses	–119			–119
Total expenses before interest expenses	–1 013			–1 013
Income before interest and income tax expense	339			339
Interest expenses	–20			–20
Income before income tax expense	319			319
Income tax expense	–28			–28
Net income attributable to common shareholder	291			291

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

Business segments – balance sheet

As of 31 December 2015 and 30 June 2016

2015 USD millions	United Kingdom	Republic of Ireland	Group items and consolidation	Total
Total assets	44 526			44 526

2016 USD millions	United Kingdom	Republic of Ireland	Group items and consolidation	Total
Total assets	63 403	3 286	303	66 992

3 Insurance information

For the six months ended 30 June

Premiums written and premiums earned

USD millions	2015	2016
Premiums written		
Direct	226	253
Ceded	–133	–158
Net premiums written	93	**95**
Premiums earned		
Direct	228	255
Ceded	–133	–158
Net premiums earned	95	**97**

Life and health benefits

USD millions	2015	2016
Life and health benefits paid, thereof:		
Gross	–650	–1 252
Ceded	124	203
Net life and health benefits paid	–526	**–1 049**
Change in life and health benefits, thereof:		
Gross	300	416
Ceded	–8	–64
Net change in life and health benefits	292	**352**
Life and health benefits	–234	**–697**

Acquisition costs

USD millions	2015	2016
Acquisition costs		
Gross	–14	28
Ceded	1	1
Net acquisition costs	–13	**29**

Insurance receivables

Insurance receivables as of 31 December 2015 and 30 June 2016 were as follows:

USD millions	2015	2016
Premium receivables invoiced	0	1
Receivables invoiced from ceded re/insurance business	5	46

Policyholder dividends

Policyholder dividends are recognised as an element of policyholder benefits. In the six months ended 30 June 2015 and 2016, the relative percentage of participating insurance of the life and health policy benefits was 21% and 17%, respectively. The amount of policyholder dividend expense for the six months ended 30 June 2015 and 2016 was USD 58 million and USD 136 million, respectively.

4 Acquired present value of future profits (PVFP)

As of 31 December 2015 and 30 June 2016, the PVFP was as follows:

2015 USD millions	Positive PVFP	Negative PVFP	Total
Opening balance as of 1 January	596	0	596
Effect of acquisition/disposals and retrocessions	153		153
Amortisation	–163		–163
Interest accrued on unamortised PVFP	83		83
Effect of foreign currency translation	–61		–61
Effect of change in unrealised gains/losses	651		651
Closing balance	1 259	0	1 259

2016 USD millions	Positive PVFP	Negative PVFP	**Total**
Opening balance as of 1 January	1 259	0	1 259
Effect of change of Group structure		–633	–633
Amortisation	–45	26	–19
Interest accrued on unamortised PVFP	61	–7	54
Effect of foreign currency translation	–94	36	–58
Effect of change in unrealised gains/losses	–293		–293
Closing balance	**888**	**–578**	**310**

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.

In 2015 and 2016, based on the results of shadow loss recognition testing, the shadow loss reserve was reduced by USD 662 million and increased by USD 270 million, respectively, impacting PVFP and other comprehensive income. The adjustment is reflected in the "effect of change in unrealised gains/losses" line in the table above. Shadow loss recognition testing considers the adequacy of contractual liabilities, net of PVFP, using current best estimates of all future cash flows discounted at current market yields. The purpose is to reflect the fact that certain amounts recorded as unrealised investment gains and losses within shareholder's equity will ultimately accrue to policyholders and not the shareholder. Shadow losses recognised can reverse up to the amount of losses recognised previously in subsequent periods.

Upon the acquisition of Guardian (see Note 5), the Group recognised negative PVFP. Upon acquisition, PVFP is calculated as the difference between the estimated fair value and established reserves, which are in line with US GAAP accounting policies and assumptions of the Group. The product mix of Guardian is weighted towards annuity business, for which the fair value of insurance and investment contract liabilities significantly exceeds the established US GAAP reserves. This excess is mainly due to differences in discount rates and risk weightings between fair value and US GAAP estimates. Overall, the excess on the annuity business outweighs the estimated future gross profits of other business and synergy expectations included in the fair value of insurance and investment contract liabilities for the business as a whole, resulting in a negative PVFP.

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

5 Acquisitions

Guardian Holdings Europe Limited

On 6 January 2016, the Swiss Re Group acquired 100% of the shares of Guardian Holdings Europe Limited, the holding company for operations trading under the name Guardian Financial Services ("Guardian") from private equity company Cinven. Guardian Midco Ltd, a subsidiary of Guardian, was renamed as Swiss Re Admin Re Limited and designated to be the new holding entity of the Group (please refer to Note 1). Guardian provides insurance solutions to financial institutions and insurance companies, either through the acquisition of closed books of business or through entering reinsurance agreements with its customers.

The transaction has further demonstrated progress against the strategy of the Group as a leading closed life book consolidator in the UK, adding approximately 900,000 policies including a mixture of annuities, life insurance and pensions. As a result, the policyholder and asset base of the Group has expanded and the Group has diversified its current business mix, with a total of approximately four million policies under administration.

The results of the operations of Guardian have been included in the Group's consolidated financial statements since 6 January 2016. For the period 6 January until 30 June 2016, Guardian generated USD 1 095 million in revenues (including net investment result – unit-linked and with-profit business of USD 365 million) and USD 460 million in net income for the Group.

Determination and allocation of the purchase price

The total cost of acquisition as of 6 January 2016 was USD 2.3 billion in cash, paid in the form of the following components:

USD millions	2016
Share purchase[1]	1 211
Debt repayment	1 118
Total cost of acquisition	**2 329**
Goodwill	153
Total net assets acquired	**2 176**

[1] The shares were purchased by an entity within the Swiss Re Group but outside the SRAR Group.

The purchase price has been allocated based on estimated fair values of assets acquired and liabilities assumed as of the date of acquisition. The allocation required significant judgement. Consequently, the estimates might change. The estimated fair values of assets acquired and liabilities assumed as of the date of the acquisition were as follows:

USD millions	2016
Assets	
Fixed income securities	11 321
Equity securities	1
Policy loans, mortgages and other loans	1 240
Short-term investments	117
Other invested assets	590
Investments for unit-linked and with-profit business	8 023
Total investments	**21 292**
Cash and cash equivalents	2 775
Accrued investment income	265
Premiums and other receivables	39
Reinsurance recoverable[1]	1 676
Negative acquired present value of future profits	–641
Deferred tax assets	119
Other assets	11
Total assets acquired	**25 536**
Liabilities	
Unpaid claims and claims adjustment expenses	56
Liabilities for life and health policy benefits[1]	16 460
Policyholder account balances	6 157
Reinsurance balances payable	9
Income taxes payable	6
Deferred and other non-current tax liabilities	294
Accrued expenses and other liabilities	378
Total liabilities assumed	**23 360**
Total net assets acquired	**2 176**

[1] Due to new information obtained, based on facts and circumstances existing as of the date of acquisition, reinsurance recoverable and liabilities for life and health policy benefits have been adjusted in Q2 2016 with no impact on goodwill. As of Q1 2016, the estimated reinsurance recoverable and liabilities for life and health policy benefits were USD 1 751 million and USD 16 535 million, respectively.

Intangible assets
Historical intangible assets including goodwill have been eliminated. The Group has established negative acquired PVFP, which qualifies as a purchased intangible liability, and goodwill.

The negative PVFP of USD 641 million is amortised over a weighted average amortisation period of 12 years. The residual amount is expected to be nil.

The goodwill of USD 153 million recognised upon acquisition is attributed to the United Kingdom segment. It is mainly the result of synergies, which the Group expects to receive from cost savings, capital savings and asset allocation management actions. These do not qualify for separate recognition. The recorded goodwill is not expected to be deductible for tax purposes and, as of 30 June 2016, remained unchanged at constant foreign exchange rates.

Receivables
Receivables acquired consisted of the following:

2016 USD millions	Fair value	Gross contractual amount
Receivables from ceded re/insurance business	39	39
Other debtors	15	15
Total	**54**	**54**

The receivables are expected to be collectible.

Pro forma financial information (unaudited)
The following table shows the Group's unaudited pro forma consolidated financial information for the six months ended 30 June 2015, assuming that the acquisition had occurred on 1 January 2015:

USD millions	2015
Total revenues	2 037
Net income	337

The pro forma information for the period 1 January 2016 to 5 January 2016 is immaterial.

The pro forma financial information are presented for informational purposes and in order to illustrate the financial effect on the Group's income statement only. Consequently, they neither reflect the results that would have occurred had the acquisition been closed on the assumed date, nor necessarily indicate future results.

6 Investments

Investment income

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

USD millions	2015	2016
Fixed income securities	223	395
Policy loans, mortgages and other loans	1	31
Other investment income	9	8
Net result from deposit-accounted contracts	19	1
Gross investment income	252	**435**
Investment expenses	–8	–29
Interest charged for funds held	–4	–5
Net investment income	240	**401**

Realised gains and losses

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

USD millions	2015	2016
Fixed income securities available-for-sale:		
Gross realised gains	232	69
Gross realised losses	–3	–23
Other-than-temporary impairments		–7
Net realised investment gains/losses on trading securities		–13
Net realised/unrealised gains/losses on other investments	–2	111
Net realised/unrealised gains/losses on insurance-related activities		421
Foreign exchange gains/losses	–4	–42
Net realised investment gains/losses	223	**516**

Investment result – unit-linked and with-profit business

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

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

		2015		2016
USD millions	Unit-linked	With-profit	Unit-linked	With-profit
Investment income – fixed income securities	42	41	53	71
Investment income – equity securities	275	15	402	34
Investment income – other	16	9	11	6
Total investment income – unit-linked and with-profit business	333	65	**466**	**111**
Realised gains/losses – fixed income securities	–47	–52	174	178
Realised gains/losses – equity securities	307	12	1 195	108
Realised gains/losses – other	9	5	33	–4
Total realised gains/losses – unit-linked and with-profit business	269	–35	**1 402**	**282**
Total net investment result – unit-linked and with-profit business	602	30	**1 868**	**393**

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 2015 and 30 June 2016 were as follows:

2015 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	106	19		125
United Kingdom	3 052	287	–11	3 328
Netherlands	152	15		167
France	135	26		161
Other	382	33	–2	413
Total	3 827	380	–13	4 194
Corporate debt securities	7 177	652	–59	7 770
Mortgage- and asset-backed securities	243	31	–5	269
Fixed income securities available-for-sale	11 247	1 063	–77	12 233

2016 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Estimated fair value
Debt securities issued by governments and government agencies:				
US Treasury and other US government corporations and agencies	98	28		126
United Kingdom	5 093	795		5 888
Netherlands	138	24		162
France	133	42		175
Other	395	52		447
Total	5 857	941	0	6 798
Corporate debt securities	15 150	1 514	–41	16 623
Mortgage- and asset-backed securities	715	61	–3	773
Fixed income securities available-for-sale	**21 722**	**2 516**	**–44**	**24 194**

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 2015 and 30 June 2016 were as follows:

USD millions	Unit-linked	2015 With-profit	Unit-linked	**2016** With-profit
Fixed income securities trading	2 410	1 659	2 590	3 150
Equity securities trading	21 076	889	23 705	2 062
Investment real estate	691	366	623	320
Other	332		538	97
Total investments for unit-linked and with-profit business	24 509	2 914	**27 456**	**5 629**

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 2015 and 30 June 2016, USD 162 million and USD 1 221 million, respectively, of fixed income securities available-for-sale were callable.

USD millions	Amortised cost or cost	2015 Estimated fair value	Amortised cost or cost	**2016** Estimated fair value
Due in one year or less	1 020	1 025	677	683
Due after one year through five years	2 128	2 232	2 831	2 966
Due after five years through ten years	2 181	2 342	4 146	4 482
Due after ten years	5 675	6 365	13 353	15 290
Mortgage- and asset-backed securities with no fixed maturity	243	269	715	773
Total fixed income securities available-for-sale	11 247	12 233	**21 722**	**24 194**

Assets pledged

As of 30 June 2016, investments with a carrying value of USD 2 604 million were placed on deposit or pledged to secure certain reinsurance liabilities, including pledged investments in subsidiaries.

Collateral accepted which the Group has the right to sell or repledge

As of 31 December 2015 and 30 June 2016, the fair value of the government and corporate debt securities received as collateral was nil and USD 185 million, respectively. The sources of the collateral are derivative transactions.

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 2015 and 30 June 2016.

2015 USD millions	Less than 12 months Fair value	 Unrealised losses	12 months or more Fair value	 Unrealised losses	Total Fair value	 Unrealised losses
Debt securities issued by governments and government agencies:						
United Kingdom	484	11	43	0	527	11
Other	53	2	1	0	54	2
Total	537	13	44	0	581	13
Corporate debt securities	1 402	57	13	2	1 415	59
Mortgage- and asset-backed securities	57	5			57	5
Total	1 996	75	57	2	2 053	77

2016 USD millions	Less than 12 months Fair value	 Unrealised losses	12 months or more Fair value	 Unrealised losses	Total Fair value	 Unrealised losses
Debt securities issued by governments and government agencies:						
United Kingdom	50	0			50	0
Other	3	0	1	0	4	0
Total	53	0	1	0	54	0
Corporate debt securities	1 215	40	29	1	1 244	41
Mortgage- and asset-backed securities	57	3			57	3
Total	**1 325**	**43**	**30**	**1**	**1 355**	**44**

Mortgages, loans and real estate

As of 31 December 2015 and 30 June 2016, the carrying values of investments in mortgages, policy and other loans (excluding unit-linked and with-profit business) were as follows:

USD millions	2015	**2016**
Policy loans	11	9
Mortgage loans		455
Other loans	46	662
Investment real estate	4	241

The fair value of mortgage loans as of 30 June 2016 was USD 464 million. The fair value of other loans as of 31 December 2015 and 30 June 2016 was USD 46 million and USD 667 million, respectively. The carrying value of policy loans and real estate approximates fair value.

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

7 Fair value disclosures

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

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

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

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

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

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

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

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

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

The fair values of assets are adjusted to incorporate the counterparty risk of non-performance. Similarly, the fair values of liabilities reflect the risk of non-performance of the Group, captured by the Group's credit spread. These valuation adjustments from assets and liabilities measured at fair value using significant unobservable inputs are recognised in net realised gains and losses. For the six months ended 30 June 2016, 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 Swiss Re 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 transparent and liquid markets.

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

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

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

The Group holds both exchange-traded and OTC interest rate, foreign exchange, credit 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 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.

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 the 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 the 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 2015 and 30 June 2016, the fair values of assets and liabilities measured on a recurring basis by level of input were as follows:

2015 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		12 179	54	12 233
Debt securities issued by US government and government agencies		125		125
Debt securities issued by non-US governments and government agencies		4 069		4 069
Corporate debt securities		7 716	54	7 770
Mortgage- and asset-backed securities		269		269
Fixed income securities backing unit-linked and with-profit business		4 069		4 069
Equity securities backing unit-linked and with-profit business	21 965			21 965
Short-term investments held for proprietary investment purposes		275		275
Short-term investments backing unit-linked and with-profit business		64		64
Total assets at fair value	21 965	16 587	54	38 606

2016 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Fixed income securities held for proprietary investment purposes		23 280	914	24 194
Debt securities issued by US government and government agencies		126		126
Debt securities issued by non-US governments and government agencies		6 672		6 672
Corporate debt securities		15 709	914	16 623
Mortgage- and asset-backed securities		773		773
Fixed income securities backing unit-linked and with-profit business		5 740		5 740
Equity securities backing unit-linked and with-profit business	25 767			25 767
Short-term investments held for proprietary investment purposes		1 040		1 040
Derivative financial instruments	5	406		411
Interest rate contracts		364		364
Foreign exchange contracts	2	42		44
Equity contracts	3			3
Investment real estate			237	237
Other investments backing unit-linked and with-profit business		344		344
Total assets at fair value	**25 772**	**30 810**	**1 151**	**57 733**
Liabilities				
Derivative financial instruments		–210	–185	–395
Interest rate contracts		–167		–167
Foreign exchange contracts		–43		–43
Other contracts			–185	–185
Total liabilities at fair value	**0**	**–210**	**–185**	**–395**

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

As of 31 December 2015 and 30 June 2016, the reconciliation of the fair values of assets and liabilities measured on a recurring basis using significant unobservable inputs was as follows:

2015 USD millions	Fixed income securities	Total assets	Total liabilities
Assets and liabilities			
Balance as of 1 January	0	0	0
Realised/unrealised gains/losses:			
Included in net income		0	0
Included in other comprehensive income		0	0
Purchases	22	22	0
Issuances		0	0
Sales		0	0
Settlements		0	0
Transfers into level 3[1]	32	32	0
Transfers out of level 3[1]		0	0
Impact of foreign exchange movements		0	0
Closing balance as of 31 December	54	54	0

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

2016 USD millions	Fixed income securities	Derivative assets	Investment real estate	**Total assets**	Derivative liabilities	**Total liabilities**
Assets and liabilities						
Balance as of 1 January	54	0	0	**54**	0	**0**
Impact of Accounting Standards Updates[2]			274	**274**	–207	**–207**
Realised/unrealised gains/losses:						
Included in net income		4	29	**33**	4	**4**
Included in other comprehensive income	42			**42**		**0**
Purchases	503	–2		**501**		**0**
Issuances				**0**	2	**2**
Sales	–1	–2	–48	**–51**		**0**
Settlements	–1			**–1**	2	**2**
Transfers into level 3[1]	321			**321**		**0**
Transfers out of level 3[1]				**0**		**0**
Impact of foreign exchange movements	–4		–18	**–22**	14	**14**
Closing balance as of 30 June	**914**	**0**	**237**	**1 151**	**–185**	**–185**

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

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

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

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

Quantitative information about level 3 fair value measurements

Unobservable inputs for major level 3 assets and liabilities as of 31 December 2015 and 30 June 2016 were as follows:

USD millions	2015 Fair value	2016 Fair value	Valuation technique	Unobservable input	Range (weighted average)
Assets					
Corporate debt securities	54	**914**			
Private placement corporate debt		349	Corporate Spread Matrix	Credit spread	147 bps - 300 bps (225 bps)
Infrastructure loans	54	407	Discounted Cash Flow Model	Valuation spread	140 bps - 202 bps (171 bps)
Investment real estate		**237**	Discounted Cash Flow Model	Discount rate due to lifetime lease	5% per annum
Liabilities					
Other derivative contracts	0	**–185**			
Swap liability referencing real estate investments		–185	Discounted Cash Flow Model	Discount rate due to lifetime lease	5% per annum

Sensitivity of recurring level 3 measurements to changes in unobservable inputs

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

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

Fair value option

The fair value option under the Financial Instruments Topic permits the choice to measure specified financial assets and liabilities at fair value on an instrument-by-instrument basis.

The Group elected the fair value option for positions in the following line items:

Other investments backing unit-linked and with-profit business

For operational efficiencies, the Group elected the fair value option for equity linked deposits from one of its unit-linked businesses. The assets are carried at fair value and changes in fair value are reported as a component of earnings. In the balance sheet and the following fair value disclosures, this item is included under "Investments for unit-linked and with-profit business".

Other derivative liabilities

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

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

Pursuant to the election of the fair value option for the items described, the balances as of 31 December 2015 were nil and as of 30 June 2016 were as follows:

USD millions	2016
Assets	
Investments for unit-linked and with-profit business	33 085
of which at fair value pursuant to the fair value option	344
Liabilities	
Accrued expenses and other liabilities	–903
of which at fair value pursuant to the fair value option	–185

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

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

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

Fair value changes from investments for unit-linked and with-profit business are reported in "Net investment result unit-linked and with-profit". Fair value changes from accrued expenses and other liabilities are reported in "Net realised investment gains/losses – non-participating business".

Assets and liabilities not measured at fair value but for which the fair value is disclosed
Assets and liabilities not measured at fair value but for which the fair value is disclosed as of 31 December 2015 and 30 June 2016 were as follows:

2015 USD millions	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets			
Policy loans		11	11
Mortgage loans			0
Other loans		46	46
Investment real estate		4	4
Total assets	**0**	**61**	**61**
Liabilities			
Debt			0
Total liabilities	**0**	**0**	**0**

2016 USD millions	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets			
Policy loans		9	9
Mortgage loans		464	464
Other loans		667	667
Investment real estate		4	4
Total assets	**0**	**1 144**	**1 144**
Liabilities			
Debt	–851	–738	–1 589
Total liabilities	**–851**	**–738**	**–1 589**

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

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

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

8 Derivative financial instruments

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

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

Fair values and notional amounts of derivative financial instruments

As of 31 December 2015, the fair values and notional amounts of the derivatives outstanding were nil.

As of 30 June 2016, the fair values and notional amounts of the derivatives outstanding were as follows:

2016 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivatives not designated as hedging instruments				
Interest rate contracts	5 933	364	–167	197
Foreign exchange contracts	678	2	–43	–41
Equity contracts	90	3		3
Other contracts	6		–185	–185
Total	**6 707**	**369**	**–395**	**–26**
Derivatives designated as hedging instruments				
Foreign exchange contracts	834	42		42
Total	**834**	**42**	**0**	**42**
Total derivative financial instruments	**7 541**	**411**	**–395**	**16**

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 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" in the income statement. For the six months ended 30 June 2016, the gains and losses of derivative financial instruments not designated as hedging instruments were as follows:

	2015	2016
Derivatives not designated as hedging instruments		
Interest rate contracts		544
Foreign exchange contracts		–27
Equity contracts	–11	–32
Other contracts		5
Total gains/losses recognised in income	–11	**490**

Hedging activities

The Group designates certain derivative financial instruments as hedging instruments. The designation of derivative financial instruments is primarily used for overall portfolio and risk management strategies. As of 30 June 2016, the following hedging relationships were outstanding:

Cash flow hedges

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

For the six months ended 30 June 2016, the Group recorded a gain of USD 43 million on derivatives in accumulated other comprehensive income. For the six months ended 30 June 2016, the Group reclassified a gain of USD 55 million from accumulated other comprehensive income into income.

As of 30 June 2016, 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 7 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 six months ended 30 June 2016, the Group recorded an accumulated net unrealised foreign currency remeasurement loss of USD 15 million in shareholder's equity. These offset translation gains and losses on the hedged net investment.

Maximum potential loss

In consideration of the qualifying master netting arrangements with various counterparties, the maximum potential loss as of 31 December 2015 and 30 June 2016 was approximately nil and USD 411 million, respectively. The maximum potential loss is based on the positive market replacement cost assuming non-performance of all counterparties.

9 Debt

As of 31 December 2015 and 30 June 2016, the Group's outstanding carrying value of long-term senior financial debt was nil and USD 1 567 million (fair value: USD 1 589 million), respectively.

Interest expense on long-term debt

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

USD millions	2015	**2016**
Senior financial debt		3
Subordinated financial debt	20	
Total	20	**3**

Long-term debt issued in 2016

In May 2016, SRAR issued senior notes due 2023. The notes have a face value of EUR 750 million, with a fixed coupon of 1.375% per annum.

10 Variable interest entities

The adoption of ASU 2015-02 as of 1 January 2016 led to an increase in the number of variable interest entities (VIEs), mainly due to the evaluation of partnerships and investment funds.

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

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

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

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

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

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

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

Investment vehicles
The ASU 2015-02 implementation resulted in consolidation by the Group of the following two structured investment vehicles that are VIEs:

- 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.
- Investment entity, which was acquired through the Guardian acquisition, where the Group holds the entire variable interest and participated in the entity's formation. The contractual termination of the Group's interests in the vehicle will take place in 2016.

Investment vehicles (unit-linked business)
Additionally, 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.

Consolidated VIEs

The following table shows the total assets and liabilities on the Group's balance sheet relating to the VIEs of which the Group is the primary beneficiary as of 31 December 2015 and 30 June 2016:

USD millions	2015	**2016**
Investment real estate		237
Cash and cash equivalents		151
Other assets		22
Total assets	0	**410**
Accrued expenses and other liabilities		188
Total liabilities	0	**188**

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 and liabilities in the Group's balance sheet related to the VIEs in which the Group held a variable interest but was not the primary beneficiary as of 31 December 2015 and 30 June 2016:

USD millions	2015	**2016**
Fixed income securities available-for-sale		117
Policy loans, mortgages and other loans		116
Investments for unit-linked and with-profit business		8 928
Other invested assets	189	
Total assets	189	**9 161**

The following table shows the Group's assets, liabilities representing variable interests and maximum exposure to loss related to the VIEs in which the Group held a variable interest but was not the primary beneficiary as of 31 December 2015 and 30 June 2016:

	2015		**2016**	
USD millions	Total assets	Maximum exposure to loss[1]	Total assets	Maximum exposure to loss[1]
Investments for unit-linked and with-profit business			8 928	–
Commercial mortgage/infrastructure loans			233	233
Residential real estate vehicle[2]	189	189		
Total	189	189	**9 161**	**233**

[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.
[2] Comparative information for 2015 has not been restated for ASU 2015-02, i.e. the real estate investment entity was reported as non-consolidated VIE in 2015.

11 Benefit plans

Employer's contributions for 2016
For the six months ended 30 June 2016, the Group contributed USD 8 million to its defined benefit pension plan, compared to USD 11 million in the same period of 2015.

The expected 2016 contributions to the defined benefit pension plan, revised as of 30 June 2016 for the latest information, amount to USD 9 million.

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 the Group's 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 the Group's results of operations, financial condition, liquidity position or prospects are:

- instability affecting the global financial system and developments related thereto;
- 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. The Group operates in a continually changing environment and new risks emerge continually. Readers are cautioned not to place undue reliance on forward-looking statements. The Group undertakes 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 United Kingdom

The operations of Swiss Re Admin Re Limited ("SRAR") and its consolidated subsidiaries (the "Group") as well as its investment returns are subject to general macroeconomic conditions, particularly in the United Kingdom, as well as volatility in the global economic and financial markets.

Market sentiment currently is dominated largely by reactions to the outcome of the UK referendum in favor of withdrawing from the European Union, and concerns in respect of a range of related economic, monetary, political, regulatory and constitutional issues. There is no consensus on the future of the relationship between the United Kingdom and the European Union. Moreover, the uncertainty is compounded by upcoming elections in various key European countries and the magnitude of the issues that will need to be addressed and resolved in the coming months and possibly longer as between the United Kingdom and the European Union. Since the referendum, the pound sterling has fallen to lows against the dollar not seen since 1985, bond yields have plummeted and business confidence indices and consumer confidence have dropped. As a significant portion of the Group's revenues are derived from its operations and investments in the United Kingdom, further exchange rate fluctuations could adversely affect its business, results of operations and financial condition.

Efforts to address the issues presented by the UK referendum will take place against the backdrop of macro-economic and global political conditions that predate the referendum, including uneven and uncertain growth forecasts for the principal global economies; continued dislocation caused by the drop in oil prices; continued concerns over the implications of austerity-driven economic policies in Europe and the ability of the European Union to address significant ongoing structural challenges; deceleration in GDP growth and other negative trends in emerging markets; and geopolitical instability, reflecting the political and military situations in the Middle East and North Africa, the rise of the Islamic State, concerns over further terrorist attacks across the globe and the political, economic and social crises caused by massive waves of migration into and through Europe. These factors have contributed to downward pressure on the capital markets and significant volatility in foreign exchange markets, and call into question the likelihood of continued recovery of the global economies. Liquidity concerns in respect of financial institutions could exacerbate current levels of volatility.

With the nature of the relationship between the United Kingdom and the European Union unlikely to be resolved in the near-term, fewer options available to policymakers and concerns generally over the absence of realistic confidence-building measures, and with heightened risk that volatility or depressed conditions in one sector, one market, one country or one region could have far broader implications, volatility in the UK economy can be expected to continue. Further adverse developments or the continuation of adverse trends that in turn have a negative impact on financial markets and economic conditions in the United Kingdom could limit the Group's ability to access the capital markets and bank funding markets, could adversely affect the ability of counterparties to meet their obligations to the Group and could adversely affect the confidence of the ultimate buyers of insurance. Any such developments and trends could also have an adverse effect on the Group's investment results (resulting in reduced fee income on policyholder assets and a reduction in the value of shareholder assets), which in the current low interest rate environment and soft insurance cycle could have a material adverse effect on the Group's overall results, make it difficult to determine the value of certain assets in the Group's investment portfolio and/or make it difficult to

acquire suitable investments to meet the Group's risk and return criteria. An adverse impact on the Group's investments would adversely affect its Solvency II capital position and that impact could be significant. In addition, increased volatility in foreign exchange rate movements, as well as regulatory and compliance risks, including restrictions on the movement of capital, and potential operational challenges (including in respect of movement of personnel and services, as well as data storage and transfers) could have an adverse impact on the Group's business. The Group will continue to assess the longer-term implications of the UK referendum and potential scenarios affecting both the United Kingdom and the European Union on its operations and capital position.

Market risk

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

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

The Group's exposure to interest rate risk is primarily related to the market price and cash flow variability associated with changes in interest rates. Economic weakness, fiscal tightening and monetary policies are keeping government bond yields low, which impacts investment yields and affects the profitability of life and pension savings products. Interest rates are expected to remain low for an extended period, but there is a risk that they could rise significantly if the relevant economies are unable to manage effectively their levels of government debt or inflation. Regulators in Europe are aware of this tension and have noted the critical importance of long-term interest rates to life insurers, especially where guaranteed rates have been offered to policyholders.

The Group's non-profit non-linked liabilities to policyholders vary as interest rates fluctuate. A reduction in long-term interest rates increases the amount of these policyholder liabilities. The Group attempts to match a significant portion of these policyholder liabilities with assets whose sensitivity to interest rates is the same as, or similar to, that of the underlying liabilities. Under the Solvency II regime, this is achieved through the use of a matching adjustment. Both Reassure Limited ("ReAssure") and Guardian Assurance Limited ("Guardian Assurance") currently have approval to use the matching adjustment for defined blocks of business. Without the matching adjustment, it is still possible, in principle, to match the liabilities against movements in interest rates, but spread movements only impact the assets and not the liabilities. Guardian Assurance also uses financial instruments to hedge interest rate risk. Hedging transactions do not eliminate the interest rate risk entirely, and may not be fully effective. However, to the extent that such asset-liability matching is not practicable or fully achieved, there may be differences in the impact of changes in interest rates on assets and liabilities. Both ReAssure and Guardian Assurance are exposed to interest rate sensitivity in respect of their capital requirements.

ReAssure's with-profit funds are exposed to additional interest rate risk as the funds' guaranteed liabilities (in particular, guaranteed annuity options ("GAOs") are valued based on market interest rates, with the funds' investments including equities, real estate and fixed interest investments. As a result, declines in interest rates could materially decrease the amount of distributions available to policyholders. Guardian Assurance's with-profit deferred annuities offer a guaranteed cash option, which is currently 'out of the money' and hedged by option on interest rate swaps within the Guardian With-Profit Fund. This is also true of equity and real estate assets, as to which the reduction in the value of assets would also result in a decrease in policyholder benefits. This would also have an impact on the shareholder share of the surplus from the Group's 90:10 with-profits funds ("90:10" indicating a 90% share of profits arising within the fund being available for release to policyholders and a 10% share being potentially available for release to shareholders, subject to applicable requirements, including without limitation, regulatory solvency and capital requirements).

Due to the long-term nature of the liabilities of the Group's life companies, sustained declines in long-term interest rates may also subject the Group to reinvestment risks.

The Group's United Kingdom operating business segment has assets and liabilities that are principally denominated in pounds sterling. The Group's Republic of Ireland operating business segment has assets and liabilities that are principally denominated in euros. The Group prepares its financial statements in U.S. dollars, and its financial results will therefore be affected by fluctuations among the relative value of the U.S. dollar and the pound sterling, being the functional currency of entities within the Group's United Kingdom operating business segment, and the relative value of the U.S. dollar and the euro, being the functional currency of the entity within the Group's Republic of Ireland operating business segment.

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

Risks relating to growth strategy

The Group aims to enhance business profitability by leveraging its core competencies of selective growth, value extraction and operational excellence. Selective growth means pursuing opportunities to build and enhance the Group's franchise and product line through transactions that meet Swiss Re Group's (as defined below) investment criteria and hurdle rates. There may be a number of factors impacting the Group's ability to expand, such as the availability of acceptable opportunities, the ability to negotiate favorable acquisition terms, the ability to obtain required regulatory consents and the ability to integrate the acquired assets successfully. The Group recently acquired Guardian Holdings Europe Limited and its subsidiaries ("Guardian"), whose results are reflected in the Group's results since the date of acquisition (6 January 2016), and the Group's results will be impacted in part by its ability to successfully integrate the acquired operations on a timely and efficient basis and manage the consolidated business effectively.

Operational risk

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

IT resilience is also a key focus area for the UK Financial Conduct Authority ("FCA") and the UK Prudential Regulation Authority ("PRA"). They are increasingly viewing cyber risk as a primary threat to solvency because of the significant, rapid and

unexpected impact of security incidents affecting healthcare insurers in the United Kingdom and the inability of such insurers to effectively respond to the events in question. The Group's systems, software and networks (or those of third parties with whom the Group interacts or outsources to) may be vulnerable to unauthorised access (from within the Group or by third parties), computer viruses or other malicious code, cyber threats and other events that could have a security impact and result in the loss, theft or disclosure of confidential information relating to customers or employees. In addition, the Group updates its systems and infrastructure to support its operations and growth and to respond to changes in regulations and markets. This updating can create risks associated with implementing new systems and integrating them with existing ones.

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

Credit risk

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

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

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

Insurance risk and risks relating to the derivation of actuarial assumptions

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

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

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

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

If the assumptions underlying the calculations of the Group's reserves differ from experience (for example, if policyholders do not die at the rate assumed in actuarial calculations or if the volume of guarantees that are required to be met at maturity is greater than assumed), the Group may have to increase the amount of its reserves, which could have a material adverse impact on its business, results, financial condition and prospects.

Liquidity risks

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

The ability to meet liquidity needs through asset sales is viewed as reasonable throughout the Group. Unit-linked and with-profits assets (other than real estate assets) are generally liquid in nature. Fixed interest assets backing non-linked liabilities generally include a reasonable proportion of government bonds to ensure a reasonable level of liquidity. Generally, the ability to meet liquidity needs could be adversely impacted by factors that the Group cannot control, such as market dislocations or interruptions, adverse economic conditions, severe disruption in the financial and worldwide credit markets and the related increased constraints on the availability of credit; changes in interest rates, foreign exchange rates and credit spreads; or by perceptions among market participants of the extent of the Group's liquidity needs. The Group expects that going forward there will be an increasing focus on investments in illiquid assets, although its risk appetite for investments in illiquid assets is relatively low (compared to the Group's investments in liquid assets) and is subject to a stress liquidity ratio limit as well as a defined limit on the proportion of illiquid assets compared to the total fixed income portfolio. The Group intends to increase the size and scope of the illiquid asset portfolio, subject to market developments, regulatory non-objection and changes to the Swiss Re Group's

strategic asset allocation. Any increases in the amounts the Group invests in illiquid assets may have an adverse effect on its ability to meet its liquidity needs through asset sales and may subject the Group to increasing capital requirements.

Legal risks

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

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

Regulatory risks

Subsidiaries of the Group are subject to the dual supervision of the PRA for prudential issues and the FCA for conduct issues. Additionally, Ark Life Limited ("Ark Life"), which is based in Dublin, Ireland, is subject to regulation by the Central Bank of Ireland ("CBI"). The Group is subject to Solvency II requirements effective 1 January 2016. Admin Re UK Limited ("ARUK") reports to the PRA under Solvency II and all of ARUK's subsidiaries are required to maintain capital resources consistent with regulatory requirements and adopted risk appetites. The Group's principal operating subsidiaries, ReAssure and Guardian Assurance, are authorised by the PRA and regulated by the PRA and FCA as life assurers. Ark Life is authorised and regulated by the CBI. Additionally, Admin Re UK Services Limited ("ARUKSL"), which provides policy administration internally and to third parties, is regulated by the FCA. In addition, each of ReAssure and Guardian Assurance operates long-term business that is subdivided for the purposes of Solvency II reporting into ring-fenced funds, which are subject to restrictions on transfers of assets in and out of the funds (and include the with-profit funds and matching adjustment funds of each of ReAssure and Guardian Assurance), and residual funds, which are not ring-fenced. Each of these funds is required under PRA regulations to maintain sufficient capital and has defined investment criteria for financial assets and valuation methodologies for insurance liabilities. Ark Life operates a non-ring-fenced fund, which consists of non-linked life and disability business and unit-linked business. This fund is required under CBI regulations to maintain sufficient capital and has defined investment criteria for financial assets and valuation methodologies for insurance liabilities.

The Group is required to maintain a minimum level of assets (referred to as regulatory capital) in excess of its liabilities. Under Solvency II, both ReAssure and Guardian Assurance's target level of capital buffer is 20% of the Solvency Capital Requirement (SCR) (a risk-sensitive capital requirement introduced under Solvency II). This is set with a reference to a one-in-ten year stress and remains subject to discretion of the

boards of ReAssure and Guardian Assurance and on the interaction of the buffer with any specific capital margins required by either a court order or the PRA.

Actions of the Group's regulators could have the effect of increasing capital requirements to which the Group is subject. The Group is in contact with the PRA in terms of capital requirements for the purposes of Solvency II reporting. The Group's ultimate aim is to have an internal model for Solvency II purposes (the "Internal Model") approved by the PRA for ARUK, ReAssure's residual fund (including Guardian's non-profit business to be transferred), ARUKSL and the Group's defined benefit pension scheme. Preparation of an application for such approval remains a key priority for the Group in 2016 and 2017. Until the Group's Internal Model is approved, it is using the standard formula approach for Solvency II reporting, which is expected to be more onerous than the Internal Model. On a standard formula basis, the solvency ratios under the Solvency II regime are similar to the solvency ratios under the Solvency I regime. The PRA can require add-ons to the standard formula, although it has communicated that zero capital-add on is suitable for ReAssure and Guardian Assurance. In addition, the Group is required to comply with the CBI rules in respect of required capital for Ark Life.

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

The Group can also be impacted by legal or regulatory changes of broader application, such as the changes to the UK pensions flexibility legislation (that came into effect in April 2015) and the outcome of the FCA's thematic reviews. The Group expects possible liability in respect of certain historical annuity sales practices by Guardian as well as increased costs associated with complying with new FCA guidance arising from the thematic reviews. The Group continues to evaluate FCA expectations and the impact on its practices, and expects that both will evolve over time.

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

Use of models; accounting matters

The Group is subject to risks relating to the preparation of estimates and assumptions that management uses, for example, as part of its risk models as well as those that affect the reported amounts of assets, liabilities, revenues and expenses in the Group's financial statements. Deterioration in market conditions could have an adverse impact on assumptions used for financial reporting purposes, which could affect possible impairment of present value of future profits, fair value of assets and liabilities, deferred acquisition costs or goodwill. To the extent that management's estimates or assumptions prove to be incorrect, it could have a material impact on underwriting results (in the case of risk models) or on reported financial condition or results of operations, and such impact could be material.

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

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

Risks related to the Swiss Re Group corporate structure

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

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

Capital, funding and cost allocations are made at the Swiss Re Group level across its four operating segments based principally on business plans as measured against US GAAP and economic value management metrics. As part of the Swiss Re Group's focus on efficient capital allocation, the Group expects to be paying dividends to SRL via intermediate holding companies. Decisions on dividends payable by each of the operating segments, including those payable by the Group within Life Capital, are made at the Swiss Re Group level based on legal entity regulatory, capital and liquidity considerations.

The Swiss Re Group expects that, over time, its structure will continue to evolve, and while to date all of the Swiss Re Group's principal operations, including the Group, remain wholly owned, in the future the Swiss Re Group may elect to partner with minority investors in or within one or more of the Swiss Re Group's business units or sub-groups within its business units, which could alter historical approaches taken in respect of capital, liquidity, funding and/or dividends, as well as other governance matters, including strategy for such business unit or sub-group.

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