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# Income statement

## For the years ended 31 December

USD millions	Note	2016	2017
<b>Revenues</b>			
Gross premiums written	4	35 622	34 775
Net premiums written	4	33 570	32 316
Change in unearned premiums		-879	803
<b>Premiums earned</b>	3	32 691	33 119
Fee income from policyholders	3	540	586
Net investment income – non-participating business <sup>1</sup>	7	3 661	3 708
Net realised investment gains/losses – non-participating business <sup>2</sup>	7	1 484	1 727
Net investment result – unit-linked and with-profit business	7	5 382	3 315
Other revenues		28	32
<b>Total revenues</b>		43 786	42 487
<b>Expenses</b>			
Claims and claim adjustment expenses	3	-12 564	-16 730
Life and health benefits	3	-10 859	-11 083
Return credited to policyholders		-5 099	-3 298
Acquisition costs	3	-6 928	-6 977
Operating expenses		-3 358	-3 308
<b>Total expenses before interest expenses</b>		-38 808	-41 396
<b>Income before interest and income tax expense</b>		4 978	1 091
Interest expenses		-606	-566
<b>Income before income tax expense</b>		4 372	525
Income tax expense	13	-749	-132
<b>Net income before attribution of non-controlling interests</b>		3 623	393
Income/loss attributable to non-controlling interests		3	5
<b>Net income after attribution of non-controlling interests</b>		3 626	398
Interest on contingent capital instruments, net of tax		-68	-67
<b>Net income attributable to common shareholders</b>		3 558	331
<b>Earnings per share in USD</b>			
Basic	12	10.72	1.03
Diluted	12	9.82	1.03
<b>Earnings per share in CHF<sup>3</sup></b>			
Basic	12	10.55	1.02
Diluted	12	9.66	1.01

<sup>1</sup> Total impairments for the years ended 31 December of USD 66 million in 2016 and USD 46 million in 2017, respectively, were fully recognised in earnings.

<sup>2</sup> Total impairments for the years ended 31 December of USD 88 million in 2016 and USD 57 million in 2017, respectively, were fully recognised in earnings.

<sup>3</sup> The translation from USD to CHF is shown for informational purposes only and has been calculated using the Group's average exchange rates.

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

# Statement of comprehensive income

## For the years ended 31 December

USD millions	2016	2017
Net income before attribution of non-controlling interests	3 623	393
Other comprehensive income, net of tax:		
Change in unrealised investment gains/losses	1 711	287
Change in other-than-temporary impairment	6	3
Change in cash flow hedges	-7	-3
Change in foreign currency translation	-387	526
Change in adjustment for pension benefits	-119	315
<b>Total comprehensive income before attribution of non-controlling interests</b>	<b>4 827</b>	<b>1 521</b>
Interest on contingent capital instruments	-68	-67
Comprehensive income attributable to non-controlling interests	3	5
<b>Total comprehensive income attributable to common shareholders</b>	<b>4 762</b>	<b>1 459</b>

## Reclassification out of accumulated other comprehensive income

For the years ended 31 December

2016 USD millions	Unrealised investment gains/losses <sup>1</sup>	Other-than-temporary impairment <sup>1</sup>	Cash flow hedges <sup>1</sup>	Foreign currency translation <sup>1,2</sup>	Adjustment from pension benefits <sup>3</sup>	Accumulated other comprehensive income
Balance as of 1 January	2 748	-11	0	-5 687	-1 016	-3 966
Change during the period	2 856	6	32	-267	-201	2 426
Amounts reclassified out of accumulated other comprehensive income						
Tax	-441	-2		-120	21	-542
<b>Balance as of period end</b>	<b>4 459</b>	<b>-5</b>	<b>-7</b>	<b>-6 074</b>	<b>-1 135</b>	<b>-2 762</b>

2017 USD millions	Unrealised investment gains/losses <sup>1</sup>	Other-than-temporary impairment <sup>1</sup>	Cash flow hedges <sup>1</sup>	Foreign currency translation <sup>1,2</sup>	Adjustment from pension benefits <sup>3</sup>	Accumulated other comprehensive income
Balance as of 1 January	4 459	-5	-7	-6 074	-1 135	-2 762
Change during the period	2 755	4	30	347	348	3 484
Amounts reclassified out of accumulated other comprehensive income						
Tax	-96	-2		196	-76	22
<b>Balance as of period end</b>	<b>4 746</b>	<b>-2</b>	<b>-10</b>	<b>-5 548</b>	<b>-820</b>	<b>-1 634</b>

<sup>1</sup> Reclassification adjustment included in net income is presented in "Net realised investment gains/losses – non-participating business".

<sup>2</sup> 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.

<sup>3</sup> Reclassification adjustment included in net income is presented in "Operating expenses".

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

# Balance sheet

## ASSETS



As of 31 December

USD millions	Note	2016	2017
<b>Investments</b>	7, 8, 9		
Fixed income securities:			
Available-for-sale (including 10 036 in 2016 and 12 969 in 2017 subject to securities lending and repurchase agreements) (amortised cost: 2016: 85 171; 2017: 93 278)		90 581	<b>99 248</b>
Trading (including 1 871 in 2016 and 1 761 in 2017 subject to securities lending and repurchase agreements)		2 695	<b>2 538</b>
Equity securities:			
Available-for-sale (including 23 in 2016 and 277 in 2017 subject to securities lending and repurchase agreements) (cost: 2016: 2 897; 2017: 3 544)		3 375	<b>3 862</b>
Trading		60	<b>3</b>
Policy loans, mortgages and other loans		3 682	<b>4 110</b>
Investment real estate		1 925	<b>2 220</b>
Short-term investments (including 2 960 in 2016 and 411 in 2017 subject to securities lending and repurchase agreements)		10 909	<b>4 846</b>
Other invested assets		9 611	<b>9 904</b>
Investments for unit-linked and with-profit business (including fixed income securities trading: 5 153 in 2016 and 5 209 in 2017, equity securities trading: 25 807 in 2016 and 28 783 in 2017)		32 178	<b>35 166</b>
<b>Total investments</b>		155 016	<b>161 897</b>
Cash and cash equivalents (including 1 169 in 2016 and 322 in 2017 subject to securities lending)		9 011	<b>6 806</b>
Accrued investment income		1 108	<b>1 095</b>
Premiums and other receivables		13 270	<b>13 834</b>
Reinsurance recoverable on unpaid claims and policy benefits		7 461	<b>7 942</b>
Funds held by ceding companies		8 184	<b>9 155</b>
Deferred acquisition costs	6	6 200	<b>6 871</b>
Acquired present value of future profits	6	2 003	<b>1 989</b>
Goodwill		3 965	<b>4 172</b>
Income taxes recoverable		291	<b>378</b>
Deferred tax assets		5 902	<b>4 817</b>
Other assets		2 654	<b>3 570</b>
<b>Total assets</b>		215 065	<b>222 526</b>

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

## LIABILITIES AND EQUITY

USD millions	Note	2016	2017
<b>Liabilities</b>			
Unpaid claims and claim adjustment expenses	5	57 355	66 795
Liabilities for life and health policy benefits	8	41 176	42 561
Policyholder account balances		34 354	37 537
Unearned premiums		11 629	11 769
Funds held under reinsurance treaties		2 544	3 109
Reinsurance balances payable		1 913	1 036
Income taxes payable		633	679
Deferred and other non-current tax liabilities		8 583	6 975
Short-term debt	11	1 564	433
Accrued expenses and other liabilities		9 811	7 190
Long-term debt	11	9 787	10 148
<b>Total liabilities</b>		179 349	188 232
<b>Equity</b>			
Contingent capital instruments		1 102	750
Common shares, CHF 0.10 par value 2016: 360 072 561; 2017: 349 452 281 shares authorised and issued		34	33
Additional paid-in capital		341	368
Treasury shares, net of tax		-1 763	-1 842
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax		4 459	4 746
Other-than-temporary impairment, net of tax		-5	-2
Cash flow hedges, net of tax		-7	-10
Foreign currency translation, net of tax		-6 074	-5 548
Adjustment for pension and other post-retirement benefits, net of tax		-1 135	-820
Total accumulated other comprehensive income		-2 762	-1 634
Retained earnings		38 682	36 449
<b>Shareholders' equity</b>		35 634	34 124
Non-controlling interests		82	170
<b>Total equity</b>		35 716	34 294
<b>Total liabilities and equity</b>		215 065	222 526

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

# Statement of shareholders' equity

For the years ended 31 December

USD millions	2016	2017
<b>Contingent capital instruments</b>		
Balance as of 1 January	1 102	1 102
Changes during the period		-352
Balance as of period end	1 102	750
<b>Common shares</b>		
Balance as of 1 January	35	34
Issue of common shares		
Cancellation of shares bought back	-1	-1
Balance as of period end	34	33
<b>Additional paid-in capital</b>		
Balance as of 1 January	482	341
Gain on sale to minority shareholder		34
Contingent capital instrument issuance costs		8
Cancellation of shares bought back	-176	
Share-based compensation	2	-14
Realised gains/losses on treasury shares	33	-1
Balance as of period end	341	368
<b>Treasury shares, net of tax</b>		
Balance as of 1 January	-1 662	-1 763
Purchase of treasury shares	-1 190	-1 161
Cancellation of shares bought back	1 018	1 006
Issuance of treasury shares, including share-based compensation to employees	71	76
Balance as of period end	-1 763	-1 842
<b>Net unrealised investment gains/losses, net of tax</b>		
Balance as of 1 January	2 748	4 459
Changes during the period	1 711	287
Balance as of period end	4 459	4 746
<b>Other-than-temporary impairment, net of tax</b>		
Balance as of 1 January	-11	-5
Changes during the period	6	3
Balance as of period end	-5	-2
<b>Cash flow hedges, net of tax</b>		
Balance as of 1 January	0	-7
Changes during the period	-7	-3
Balance as of period end	-7	-10
<b>Foreign currency translation, net of tax</b>		
Balance as of 1 January	-5 687	-6 074
Changes during the period	-387	526
Balance as of period end	-6 074	-5 548
<b>Adjustment for pension and other post-retirement benefits, net of tax</b>		
Balance as of 1 January	-1 016	-1 135
Changes during the period	-119	315
Balance as of period end	-1 135	-820

USD millions	2016	2017
<b>Retained earnings</b>		
Balance as of 1 January	37 526	38 682
Net income after attribution of non-controlling interests	3 626	398
Interest on contingent capital instruments, net of tax	-68	-67
Dividends on common shares	-1 561	-1 559
Cancellation of shares bought back	-841	-1 005
Balance as of period end	38 682	36 449
<b>Shareholders' equity</b>	35 634	34 124
<b>Non-controlling interests</b>		
Balance as of 1 January	89	82
Changes during the period	-4	93
Income/loss attributable to non-controlling interests	-3	-5
Balance as of period end	82	170
<b>Total equity</b>	35 716	34 294

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

# Statement of cash flows

## For the years ended 31 December

USD millions	2016	2017
<b>Cash flows from operating activities</b>		
Net income attributable to common shareholders	3 558	331
Add net income/loss attributable to non-controlling interests	-3	-5
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items	643	542
Net realised investment gains/losses	-5 787	-4 048
Income from equity-accounted investees, net of dividends received	135	70
Change in:		
Technical provisions and other reinsurance assets and liabilities, net	5 845	5 739
Funds held by ceding companies and under reinsurance treaties	862	-276
Reinsurance recoverable on unpaid claims and policy benefits	434	61
Other assets and liabilities, net	-37	-386
Income taxes payable/recoverable	-24	-606
Trading positions, net	489	-119
<b>Net cash provided/used by operating activities</b>	<b>6 115</b>	<b>1 303</b>
<b>Cash flows from investing activities</b>		
Fixed income securities:		
Sales	38 700	43 904
Maturities	4 218	5 537
Purchases	-44 389	-52 696
Net purchases/sales/maturities of short-term investments	-3 675	6 459
Equity securities:		
Sales	3 283	7 421
Purchases	-1 702	-7 113
Securities purchased/sold under agreement to resell/repurchase, net	789	-1 042
Cash paid/received for acquisitions/disposals and reinsurance transactions, net	318	36
Net purchases/sales/maturities of other investments	1 293	-2 103
Net purchases/sales/maturities of investments held for unit-linked and with-profit business	2 762	2 356
<b>Net cash provided/used by investing activities</b>	<b>1 597</b>	<b>2 759</b>
<b>Cash flows from financing activities</b>		
Policyholder account balances, unit-linked and with-profit business:		
Deposits	658	565
Withdrawals	-3 755	-2 821
Issuance/repayment of long-term debt	762	-270
Issuance/repayment of short-term debt	-1 331	-1 221
Issuance/repayment of contingent capital instrument		-352
Purchase/sale of treasury shares	-1 170	-1 142
Dividends paid to shareholders	-1 561	-1 559
<b>Net cash provided/used by financing activities</b>	<b>-6 397</b>	<b>-6 800</b>





USD millions	2016	2017
<b>Total net cash provided/used</b>	1 315	<b>-2 738</b>
Effect of foreign currency translation	-508	<b>533</b>
<b>Change in cash and cash equivalents</b>	807	<b>-2 205</b>
Cash and cash equivalents as of 1 January	8 204	<b>9 011</b>
<b>Cash and cash equivalents as of 31 December</b>	9 011	<b>6 806</b>

Interest paid was USD 674 million and USD 655 million (thereof USD 51 million and USD 49 million for letter of credit fees) for 2016 and 2017, respectively. Tax paid was USD 755 million and USD 720 million for 2016 and 2017, respectively.

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

# Notes to the Group financial statements

## 1 Organisation and summary of significant accounting policies

### Nature of operations

The Swiss Re Group, which is headquartered in Zurich, Switzerland, comprises Swiss Re Ltd (the parent company) and its subsidiaries (collectively, the "Swiss Re Group" or the "Group"). The Swiss Re Group is a wholesale provider of reinsurance, insurance and other insurance-based forms of risk transfer. Working through brokers and a network of offices around the globe, the Group serves a client base made up of insurance companies, mid-to-large-sized corporations and public-sector clients.

### 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) and comply with Swiss law. All significant intra-group transactions and balances have been eliminated on consolidation.

### Principles of consolidation

The Group's financial statements include the consolidated financial statements of Swiss Re Ltd and its subsidiaries. Voting entities which Swiss Re Ltd 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 Swiss Re 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 Swiss Re 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 Swiss Re Group's liabilities for unpaid claims and claim adjustment expenses and policy benefits for life and health include estimates for premium, claim and benefit data not received from ceding companies at the date of the financial statements. In addition, the Group uses certain financial instruments and invests in securities of certain entities for which exchange trading does not exist. The Group determines these estimates based on historical information, actuarial 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 shareholders' 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 shareholders' equity.

## Financial statements

### Notes to the Group financial statements

#### Valuation of financial assets

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

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

For assets or derivative structures at fair value, the Group uses market prices or inputs derived from market prices. A separate internal price verification process, independent of the trading function, provides an additional control over the market prices or market input used to determine the fair values of such assets. Although management considers that appropriate values have been ascribed to such assets, there is always a level of uncertainty and judgement over these valuations. Subsequent valuations could differ significantly from the results of the process described above. The Group may become aware of counterparty valuations, either directly through the exchange of information or indirectly, for example, through collateral demands. Any implied differences are considered in the independent price verification process and may result in adjustments to initially indicated valuations. As of 31 December 2017, the Group has not provided any collateral on financial instruments in excess of its own market value estimates.

#### Investments

The Group's investments in fixed income and equity securities are classified as available-for-sale (AFS) or trading. Fixed income securities AFS and equity securities AFS are carried at fair value, based on quoted market prices, with the difference between the applicable measure of cost and fair value being recognised in shareholders' 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.

The cost of equity securities AFS is reduced to fair value, with a corresponding charge to realised investment losses if the decline in value, expressed in functional currency terms, is other-than-temporary. Subsequent recoveries of previously recognised impairments are not recognised in earnings.

For fixed income securities AFS that are other-than-temporary impaired and for which there is not an intention to sell, the impairment is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. The estimated credit loss amount is recognised in earnings, with the remainder of the loss amount recognised in other comprehensive income. In cases where there is an intention or requirement to sell, the accounting of the other-than-temporary impairment is the same as for equity securities AFS described above.

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

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

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

## Financial statements

### Notes to the Group financial statements

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 affiliated companies, equity accounted companies, derivative financial instruments, collateral receivables, securities purchased under agreement to resell, deposits and time deposits, and investments without readily determinable fair value (including limited partnership investments). 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 shareholders' equity.

The Group enters into securities lending arrangements under which it loans certain securities in exchange for collateral and receives securities lending fees. The Group's policy is to require collateral, consisting of cash or securities, equal to at least 102% of the carrying value of the securities loaned. In certain arrangements, the Group may accept collateral of less than 102% if the structure of the overall transaction offers an equivalent level of security. Cash received as collateral is recognised along with an obligation to return the cash. Securities received as collateral that can be sold or repledged are also recognised along with an obligation to return those securities. Securities lending fees are recognised over the term of the related loans.

### Derivative financial instruments and hedge accounting

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

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

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

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

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

### Cash and cash equivalents

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

### Deferred acquisition costs

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

Deferred acquisition costs for short-duration contracts are amortised in proportion to premiums earned. Future investment income is considered in determining the recoverability of deferred acquisition costs for short-duration contracts. Deferred acquisition costs for long-duration contracts are amortised over the life of underlying contracts. Deferred acquisition costs for universal-life and similar products are amortised based on the present value of estimated gross profits. Estimated gross profits are updated quarterly.

## Financial statements

Notes to the Group financial statements

### Modifications of insurance and reinsurance contracts

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

### Business combinations

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

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

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

### Acquired present value of future profits

The acquired present value of future profits (PVFP) of business in force is recorded in connection with the acquisition of life and 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 deferred expenses on retroactive reinsurance, prepaid reinsurance premiums, receivables related to investing activities, real estate for own use, other classes of property, plant and equipment, accrued income, certain intangible assets and prepaid assets.

The excess of estimated liabilities for claims and claim adjustment expenses payable over consideration received in respect of retroactive property and casualty reinsurance contracts is recorded as a deferred expense. The deferred expense on retroactive reinsurance contracts is amortised through earnings over the expected claims-paying period.

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 cost 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 asset may not be realised.

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### Notes to the Group financial statements

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.

#### Unpaid claims and claim adjustment expenses

Liabilities for unpaid claims and claim adjustment expenses for property and casualty and life and health insurance and reinsurance contracts are accrued when insured events occur and are based on the estimated ultimate cost of settling the claims, using reports and individual case estimates received from ceding companies. 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 liabilities arising from prospective property and casualty insurance and reinsurance contracts, including liabilities which are discounted for US statutory reporting purposes. Liabilities arising from property and casualty insurance and reinsurance contracts acquired in a business combination are initially recognised at fair value in accordance with the acquisition method of accounting. The Group does not discount life and health claim reserves except for disability income claims in payment which are recognised at the estimated present value of the remaining ultimate net costs of the incurred claims.

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

#### Liabilities for life and health policy benefits

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

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

#### Policyholder account balances

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

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

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

Amounts assessed against policyholders for mortality, administration and surrender are shown as fee income. Amounts credited to policyholders are shown as interest credited to policyholders. Investment income and realised investment gains and losses allocable to policyholders are 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 7.

#### Funds held assets and liabilities

On the asset side, funds held by ceding companies consist mainly of amounts retained by the ceding company for business written on a funds withheld basis. In addition, the account also includes amounts arising from the application of the deposit method of accounting to ceded retrocession or reinsurance contracts.

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### Notes to the Group financial statements

On the liability side, funds held under reinsurance treaties consist mainly of amounts arising from the application of the deposit method of accounting to inward insurance and reinsurance contracts. In addition, the account also includes amounts retained from ceded business written on a funds withheld basis.

Funds withheld assets are assets that would normally be paid to the Group but are withheld by the cedent to reduce a potential credit risk or to retain control over investments. In case of funds withheld liabilities, it is the Group that withholds assets related to ceded business in order to reduce its credit risk or retain control over the investments.

The deposit method of accounting is applied to insurance and reinsurance contracts that do not indemnify the ceding company or the Group against loss or liability relating to insurance risk. Under the deposit method of accounting, the deposit asset or liability is initially measured based on the consideration paid or received. For contracts that transfer neither significant timing nor underwriting risk, and contracts that transfer only significant timing risk, changes in estimates of the timing or amounts of cash flows are accounted for by recalculating the effective yield. The deposit is then adjusted to the amount that would have existed had the new effective yield been applied since the inception of the contract. The revenue and expense recorded for such contracts is included in net investment income. For contracts that transfer only significant underwriting risk, once a loss is incurred, the deposit is adjusted by the present value of the incurred loss. At each subsequent balance sheet date, the portion of the deposit attributable to the incurred loss is recalculated by discounting the estimated future cash flows. The resulting changes in the carrying amount of the deposit are recognised in claims and claim adjustment expenses.

Funds withheld balances are presented together with assets and liabilities arising from the application of the deposit method because of their common deposit-type character.

### Shadow adjustments

Shadow adjustments are recognised in other comprehensive income reflecting the offset of adjustments to deferred acquisition costs and PVFP, typically related to universal-life-type contracts, and policyholder liabilities. The purpose is to reflect the fact that certain amounts recorded as unrealised investment gains and losses within shareholders' equity will ultimately accrue to policyholders and not shareholders.

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

Property and casualty reinsurance premiums are recorded when written and include an estimate for written premiums receivable at period end. Premiums earned are generally recognised in income over the contract period in proportion to the amount of reinsurance provided. Unearned premiums consist of the unexpired portion of reinsurance provided. Life reinsurance premiums are earned when due. Related policy benefits are recorded in relation to the associated premium or gross profits so that profits are recognised over the expected lives of the contracts.

Life and health reinsurance premiums for group coverages are generally earned over the term of the coverage. For group contracts that allow experience adjustments to premiums, such premiums are recognised as the related experience emerges.

Reinstatement premiums are due where coverage limits for the remaining life of the contract are reinstated under pre-defined contract terms. The recognition of reinstatement premiums as written depends on individual contract features. Reinstatement premiums are either recognised as written at the time a loss event occurs or in line with the recognition pattern of premiums written of the underlying contract. The accrual of reinstatement premiums is based on actuarial estimates of ultimate losses. Reinstatement premiums are generally earned in proportion to the amount of reinsurance provided.

### Insurance and reinsurance 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 reinsurance assumed. The ceding of risks to retrocessionaires does not relieve the Group of its obligations to its ceding companies. 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.



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### Notes to the Group financial statements

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.

#### Share-based payment transactions

As of 31 December 2017, the Group has a Leadership Performance Plan, restricted shares, and a Global Share Participation Plan. These plans are described in more detail in Note 15. The Group accounts for share-based payment transactions with employees using the fair value method. Under the fair value method, the fair value of the awards is recognised in earnings over the vesting period.

For share-based compensation plans which are settled in cash, compensation costs are recognised as liabilities, whereas for equity-settled plans, compensation costs are recognised as an accrual to additional paid-in capital within shareholders' equity.

#### Treasury shares

Treasury shares are reported at cost in shareholders' equity.

#### Earnings per common share

Basic earnings per common share are determined by dividing net income available to shareholders by the weighted average number of common shares entitled to dividends during the year. Diluted earnings per common share reflect the effect on earnings and average common shares outstanding associated with dilutive securities.

#### Subsequent events

Subsequent events for the current reporting period have been evaluated up to 14 March 2018. This is the date on which the financial statements are available to be issued.

#### Recent accounting guidance

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers", which creates topic 606, "Revenue from Contracts with Customers". ASU 2014-09 outlines the principles that an entity should follow to provide useful information about the amount, timing and uncertainty of revenue and cash flows arising from contracts with its customers. The standard requires an entity to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Insurance contracts and financial instruments are not in the scope of the new standard. The Group will adopt ASU 2014-09 on 1 January 2018. It is expected that the adoption will not have a material impact on the Group's financial statements.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities", an update to subtopic 825-10, "Financial Instruments – Overall". The ASU requires an entity to carry investments in equity securities, including partnerships, unincorporated joint ventures and limited liability companies at fair value through net income, with the exception of equity method investments, investments that result in consolidation or investments for which the entity has elected the measurement alternative. For financial liabilities to which the fair value option has been applied, the ASU also requires an entity to separately present the change in fair value attributable to instrument-specific credit risk in other comprehensive income rather than in net income. In addition, the ASU requires an entity to assess whether a valuation allowance is needed on a deferred tax asset (DTA) related to fixed income securities available-for-sale in combination with the entity's other DTAs rather than separately from other DTAs. The Group will adopt ASU 2016-01 on 1 January 2018. The expected main impact from the adoption is a reclassification within shareholders' equity from net unrealised gains, net of tax, to retained earnings of USD 0.3 billion.

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



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### Notes to the Group financial statements

annual and interim periods beginning after 15 December 2018. Early application of the ASU is permitted. The Group is currently assessing the impact of the new requirements.

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

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

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

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

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

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

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

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

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment", an update to topic 350, "Intangibles – Goodwill and Other". This ASU simplifies the subsequent measurement of goodwill and eliminates Step 2 from the

## Financial statements

### Notes to the Group financial statements

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

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## 2 Information on business segments

The Group provides reinsurance and insurance throughout the world through its business segments. The business segments are determined by the organisational structure and by the way in which management reviews the operating performance of the Group.

The Group presents four core operating business segments: Property & Casualty Reinsurance, Life & Health Reinsurance, Corporate Solutions and Life Capital. The presentation of each segment's balance sheet is closely aligned to the segment legal entity structure. The assignment of assets and liabilities for entities that span more than one segment is determined by considering local statutory requirements, legal and other constraints, the economic view of duration and currency requirements of the reinsurance business written and the capacity of the segments to absorb risks. Interest expense is based on the segment's capital funding position. The tax impact of a segment is derived from the legal entity tax obligations and the segmentation of the pre-tax result. While most of the tax items can be directly attributed to individual segments, the tax which impacts two or more segments is allocated to the segments on a reasonable basis. Property & Casualty Reinsurance and Life & Health Reinsurance share the same year-to-date effective tax rate as both business segments belong to the Reinsurance Business Unit.

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 operating segments are outlined below.

### Property & Casualty Reinsurance and Life & Health Reinsurance

Reinsurance consists of two segments, Property & Casualty and Life & Health. The Reinsurance Business Unit operates globally, both through brokers and directly with clients, and provides a large range of solutions for risk and capital management. Clients include stock and mutual insurance companies as well as public sector and governmental entities. In addition to traditional reinsurance solutions, Reinsurance offers insurance-linked securities and other insurance-related capital market products in both Property & Casualty and Life & Health.

Property & Casualty includes the business lines property, casualty (including motor) and specialty. Life & Health includes the life and health lines of business.

### Corporate Solutions

Corporate Solutions offers innovative insurance capacity to mid-sized and large multinational corporations across the globe. Offerings range from standard risk transfer covers and multi-line programmes to customised solutions tailored to the needs of clients. Corporate Solutions serves customers from over 50 offices worldwide.

### Life Capital

Life Capital manages Swiss Re's primary life and health business. It encompasses the closed and open life and health insurance books, including the ReAssure business and the primary life and health insurance business comprising elipsLife and iptiQ. Through ReAssure, Swiss Re acquires closed blocks of inforce life and health insurance business, either through reinsurance or corporate acquisition, 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. In the open books business, elipsLife, the Group life and health insurance business, offers solutions to pension funds, corporates and affinity groups through an intermediated business to business ("B2B") model. The iptiQ business, primarily the individual life and health business, partners with distributors and enables individuals to address their protection needs on a white labelled basis.

### Group items

Items not allocated to the business segments are included in the "Group items" column, which encompasses Swiss Re Ltd, the Group's ultimate parent company, the former Legacy business in run-off, Principal Investments and certain Treasury units. Swiss Re Ltd charges trademark licence fees to the business segments which are reported as other revenues. Certain administrative expenses of the corporate centre functions that are not recharged to the operating segments are reported as Group items.

### Consolidation

Segment information is presented net of external and internal retrocession and other intra-group arrangements. The Group total is obtained after elimination of intra-group transactions in the "Consolidation" column. This includes significant intra-group reinsurance arrangements, recharge of trademark licence fees and intersegmental funding.

## Financial statements

Notes to the Group financial statements

### a) Business segments – income statement

For the year ended 31 December

2016 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Life Capital	Group items	Consolidation	Total
<b>Revenues</b>							
Gross premiums written	18 149	12 801	4 155	1 489		-972	35 622
Net premiums written	17 768	11 459	3 662	681			33 570
Change in unearned premiums	-760	27	-159	13			-879
<b>Premiums earned</b>	17 008	11 486	3 503	694			32 691
Fee income from policyholders		41		499			540
Net investment income – non-participating business	985	1 279	138	1 256	101	-98	3 661
Net realised investment gains/losses – non-participating business	770	232	51	503	-72		1 484
Net investment result – unit-linked and with-profit business		15		5 367			5 382
Other revenues	37	5	5	1	346	-366	28
<b>Total revenues</b>	18 800	13 058	3 697	8 320	375	-464	43 786
<b>Expenses</b>							
Claims and claim adjustment expenses	-10 301		-2 263				-12 564
Life and health benefits		-8 963		-1 896			-10 859
Return credited to policyholders		-39		-5 060			-5 099
Acquisition costs	-4 405	-1 943	-517	-63			-6 928
Operating expenses	-1 204	-763	-760	-503	-473	345	-3 358
<b>Total expenses before interest expenses</b>	-15 910	-11 708	-3 540	-7 522	-473	345	-38 808
<b>Income/loss before interest and income tax expense/benefit</b>							
	2 890	1 350	157	798	-98	-119	4 978
Interest expenses	-293	-301	-23	-29	-79	119	-606
<b>Income/loss before income tax expense/benefit</b>	2 597	1 049	134	769	-177	0	4 372
Income tax expense/benefit	-479	-193	-1	-131	55		-749
<b>Net income/loss before attribution of non-controlling interests</b>	2 118	856	133	638	-122	0	3 623
Income/loss attributable to non-controlling interests	1		2				3
<b>Net income/loss after attribution of non-controlling interests</b>	2 119	856	135	638	-122	0	3 626
Interest on contingent capital instruments, net of tax	-19	-49					-68
<b>Net income/loss attributable to common shareholders</b>	2 100	807	135	638	-122	0	3 558
Claims ratio in %	60.5		64.6				61.2
Expense ratio in %	33.0		36.5				33.6
Combined ratio in %	93.5		101.1				94.8
Management expense ratio in %		6.0					
Net operating margin in %	15.4	10.4	4.2	27.0	-26.1		13.0

## Business segments – income statement

For the year ended 31 December

2017 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Life Capital	Group items	Consolidation	Total
<b>Revenues</b>							
Gross premiums written	16 544	13 313	4 193	1 761		-1 036	34 775
Net premiums written	16 031	11 826	3 600	859			32 316
Change in unearned premiums	636	25	51	91			803
<b>Premiums earned</b>	<b>16 667</b>	<b>11 851</b>	<b>3 651</b>	<b>950</b>			<b>33 119</b>
Fee income from policyholders		129		457			586
Net investment income – non-participating business	1 017	1 308	161	1 193	184	-155	3 708
Net realised investment gains – non-participating business	613	591	128	133	262		1 727
Net investment result – unit-linked and with-profit business		81		3 234			3 315
Other revenues	48	3	5	2	359	-385	32
<b>Total revenues</b>	<b>18 345</b>	<b>13 963</b>	<b>3 945</b>	<b>5 969</b>	<b>805</b>	<b>-540</b>	<b>42 487</b>
<b>Expenses</b>							
Claims and claim adjustment expenses	-13 172		-3 558				-16 730
Life and health benefits		-9 211		-1 872			-11 083
Return credited to policyholders		-119		-3 179			-3 298
Acquisition costs	-4 253	-2 064	-554	-106			-6 977
Operating expenses	-1 159	-754	-759	-514	-474	352	-3 308
<b>Total expenses before interest expenses</b>	<b>-18 584</b>	<b>-12 148</b>	<b>-4 871</b>	<b>-5 671</b>	<b>-474</b>	<b>352</b>	<b>-41 396</b>
<b>Income/loss before interest and income tax expense/benefit</b>							
	<b>-239</b>	<b>1 815</b>	<b>-926</b>	<b>298</b>	<b>331</b>	<b>-188</b>	<b>1 091</b>
Interest expenses	-280	-315	-23	-35	-101	188	-566
<b>Income/loss before income tax expense/benefit</b>	<b>-519</b>	<b>1 500</b>	<b>-949</b>	<b>263</b>	<b>230</b>	<b>0</b>	<b>525</b>
Income tax expense/benefit	125	-360	203	-102	2		-132
<b>Net income/loss before attribution of non-controlling interests</b>	<b>-394</b>	<b>1 140</b>	<b>-746</b>	<b>161</b>	<b>232</b>	<b>0</b>	<b>393</b>
Income/loss attributable to non-controlling interests			5				5
<b>Net income/loss after attribution of non-controlling interests</b>	<b>-394</b>	<b>1 140</b>	<b>-741</b>	<b>161</b>	<b>232</b>	<b>0</b>	<b>398</b>
Interest on contingent capital instruments, net of tax	-19	-48					-67
<b>Net income/loss attributable to common shareholders</b>	<b>-413</b>	<b>1 092</b>	<b>-741</b>	<b>161</b>	<b>232</b>	<b>0</b>	<b>331</b>
Claims ratio in %	79.0		97.4				82.3
Expense ratio in %	32.5		36.0				33.1
Combined ratio in %	111.5		133.4				115.4
Management expense ratio in %		5.7					
Net operating margin in %	-1.3	13.1	-23.5	10.9	41.1		2.8

## Financial statements

Notes to the Group financial statements

### Business segments – balance sheet

As of 31 December

2016 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Life Capital	Group items	Consolidation	Total
<b>Assets</b>							
Fixed income securities	31 574	29 980	6 361	25 350	11		93 276
Equity securities	1 292	867	539		737		3 435
Other investments	11 962	3 355	141	2 421	4 785	-7 446	15 218
Short-term investments	4 672	2 558	1 272	1 456	951		10 909
Investments for unit-linked and with-profit business		548		31 630			32 178
Cash and cash equivalents	4 922	410	472	2 636	571		9 011
Deferred acquisition costs	2 280	3 465	444	11			6 200
Acquired present value of future profits		966		1 037			2 003
Reinsurance recoverable	2 449	1 580	5 698	2 210		-4 476	7 461
Other reinsurance assets	9 620	6 369	2 616	3 949	4	-1 104	21 454
Goodwill	1 852	1 810	173	130			3 965
Other	8 640	4 049	1 279	1 470	1 181	-6 664	9 955
<b>Total assets</b>	<b>79 263</b>	<b>55 957</b>	<b>18 995</b>	<b>72 300</b>	<b>8 240</b>	<b>-19 690</b>	<b>215 065</b>
<b>Liabilities</b>							
Unpaid claims and claim adjustment expenses	39 753	10 288	10 271	1 498		-4 455	57 355
Liabilities for life and health policy benefits		15 431	268	25 499		-22	41 176
Policyholder account balances		1 566		32 788			34 354
Other reinsurance liabilities	10 816	1 709	4 310	684	2	-1 435	16 086
Short-term debt	1 202	5 221		80	431	-5 370	1 564
Long-term debt	3 307	5 074	497	1 465	80	-636	9 787
Other	11 124	9 106	1 370	3 014	2 183	-7 770	19 027
<b>Total liabilities</b>	<b>66 202</b>	<b>48 395</b>	<b>16 716</b>	<b>65 028</b>	<b>2 696</b>	<b>-19 688</b>	<b>179 349</b>
<b>Shareholders' equity</b>	<b>13 040</b>	<b>7 562</b>	<b>2 218</b>	<b>7 272</b>	<b>5 544</b>	<b>-2</b>	<b>35 634</b>
Non-controlling interests	21		61				82
<b>Total equity</b>	<b>13 061</b>	<b>7 562</b>	<b>2 279</b>	<b>7 272</b>	<b>5 544</b>	<b>-2</b>	<b>35 716</b>
<b>Total liabilities and equity</b>	<b>79 263</b>	<b>55 957</b>	<b>18 995</b>	<b>72 300</b>	<b>8 240</b>	<b>-19 690</b>	<b>215 065</b>

## Business segments – balance sheet

As of 31 December

2017 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Life Capital	Group items	Consolidation	Total
<b>Assets</b>							
Fixed income securities	34 189	32 642	8 356	26 528	71		101 786
Equity securities	1 893	945	455	32	540		3 865
Other investments	14 460	3 212	191	2 697	5 530	-9 856	16 234
Short-term investments	1 608	996	482	1 711	49		4 846
Investments for unit-linked and with-profit business		585		34 581			35 166
Cash and cash equivalents	1 334	1 595	654	2 959	264		6 806
Deferred acquisition costs	2 146	4 234	454	37			6 871
Acquired present value of future profits		921		1 068			1 989
Reinsurance recoverable	2 541	4 638	5 737	5 200		-10 174	7 942
Other reinsurance assets	10 293	10 669	2 477	7 666	2	-8 118	22 989
Goodwill	1 944	1 873	213	142			4 172
Other	10 067	2 249	1 717	2 100	1 819	-8 092	9 860
<b>Total assets</b>	<b>80 475</b>	<b>64 559</b>	<b>20 736</b>	<b>84 721</b>	<b>8 275</b>	<b>-36 240</b>	<b>222 526</b>
<b>Liabilities</b>							
Unpaid claims and claim adjustment expenses	45 276	12 129	11 818	2 308		-4 736	66 795
Liabilities for life and health policy benefits		18 230	279	29 491		-5 439	42 561
Policyholder account balances		1 574		35 963			37 537
Other reinsurance liabilities	10 245	5 528	4 177	4 410	2	-8 448	15 914
Short-term debt	807	4 766		904	60	-6 104	433
Long-term debt	3 500	6 914	497	1 603		-2 366	10 148
Other	9 891	7 197	1 411	2 954	2 538	-9 147	14 844
<b>Total liabilities</b>	<b>69 719</b>	<b>56 338</b>	<b>18 182</b>	<b>77 633</b>	<b>2 600</b>	<b>-36 240</b>	<b>188 232</b>
<b>Shareholders' equity</b>							
<b>Shareholders' equity</b>	<b>10 755</b>	<b>8 221</b>	<b>2 385</b>	<b>7 088</b>	<b>5 675</b>	<b>0</b>	<b>34 124</b>
Non-controlling interests	1		169				170
<b>Total equity</b>	<b>10 756</b>	<b>8 221</b>	<b>2 554</b>	<b>7 088</b>	<b>5 675</b>	<b>0</b>	<b>34 294</b>
<b>Total liabilities and equity</b>	<b>80 475</b>	<b>64 559</b>	<b>20 736</b>	<b>84 721</b>	<b>8 275</b>	<b>-36 240</b>	<b>222 526</b>

## Financial statements

Notes to the Group financial statements

### b) Property & Casualty Reinsurance business segment – by line of business

For the year ended 31 December

2016 USD millions	Property	Casualty	Specialty	Unallocated	Total
<b>Revenues</b>					
Gross premiums written	6 794	8 874	2 481		18 149
Net premiums written	6 499	8 833	2 436		17 768
Change in unearned premiums	153	-830	-83		-760
<b>Premiums earned</b>	<b>6 652</b>	<b>8 003</b>	<b>2 353</b>		<b>17 008</b>
Net investment income				985	985
Net realised investment gains/losses				770	770
Other revenues				37	37
<b>Total revenues</b>	<b>6 652</b>	<b>8 003</b>	<b>2 353</b>	<b>1 792</b>	<b>18 800</b>
<b>Expenses</b>					
Claims and claim adjustment expenses	-3 745	-5 466	-1 090		-10 301
Acquisition costs	-1 351	-2 468	-586		-4 405
Operating expenses	-665	-385	-154		-1 204
<b>Total expenses before interest expenses</b>	<b>-5 761</b>	<b>-8 319</b>	<b>-1 830</b>	<b>0</b>	<b>-15 910</b>
<b>Income/loss before interest and income tax expense</b>	<b>891</b>	<b>-316</b>	<b>523</b>	<b>1 792</b>	<b>2 890</b>
Interest expenses				-293	-293
<b>Income/loss before income tax expense</b>	<b>891</b>	<b>-316</b>	<b>523</b>	<b>1 499</b>	<b>2 597</b>
Claims ratio in %	56.3	68.3	46.4		60.5
Expense ratio in %	30.3	35.6	31.4		33.0
Combined ratio in %	86.6	103.9	77.8		93.5



## Property & Casualty Reinsurance business segment – by line of business

For the year ended 31 December

2017 USD millions	Property	Casualty	Specialty	Unallocated	Total
<b>Revenues</b>					
Gross premiums written	6 505	7 715	2 324		16 544
Net premiums written	6 115	7 665	2 251		16 031
Change in unearned premiums	140	435	61		636
<b>Premiums earned</b>	<b>6 255</b>	<b>8 100</b>	<b>2 312</b>		<b>16 667</b>
Net investment income				1 017	1 017
Net realised investment gains/losses				613	613
Other revenues				48	48
<b>Total revenues</b>	<b>6 255</b>	<b>8 100</b>	<b>2 312</b>	<b>1 678</b>	<b>18 345</b>
<b>Expenses</b>					
Claims and claim adjustment expenses	-5 635	-6 041	-1 496		-13 172
Acquisition costs	-1 228	-2 414	-611		-4 253
Operating expenses	-636	-356	-167		-1 159
<b>Total expenses before interest expenses</b>	<b>-7 499</b>	<b>-8 811</b>	<b>-2 274</b>	<b>0</b>	<b>-18 584</b>
<b>Income/loss before interest and income tax expense</b>	<b>-1 244</b>	<b>-711</b>	<b>38</b>	<b>1 678</b>	<b>-239</b>
Interest expenses				-280	-280
<b>Income/loss before income tax expense</b>	<b>-1 244</b>	<b>-711</b>	<b>38</b>	<b>1 398</b>	<b>-519</b>
Claims ratio in %	90.1	74.6	64.7		79.0
Expense ratio in %	29.8	34.2	33.7		32.5
Combined ratio in %	119.9	108.8	98.4		111.5

## Financial statements

Notes to the Group financial statements

### c) Life & Health Reinsurance business segment – by line of business

For the year ended 31 December

2016 USD millions	Life	Health	Unallocated	Total
<b>Revenues</b>				
Gross premiums written	9 026	3 775		12 801
Net premiums written	7 773	3 686		11 459
Change in unearned premiums	5	22		27
<b>Premiums earned</b>	<b>7 778</b>	<b>3 708</b>		<b>11 486</b>
Fee income from policyholders	41			41
Net investment income – non-participating business <sup>1</sup>	912	367		1 279
Net realised investment gains/losses – non-participating business	21	-4	215	232
Net investment result – unit-linked and with-profit business	15			15
Other revenues	5			5
<b>Total revenues</b>	<b>8 772</b>	<b>4 071</b>	<b>215</b>	<b>13 058</b>
<b>Expenses</b>				
Life and health benefits	-6 093	-2 870		-8 963
Return credited to policyholders	-39			-39
Acquisition costs	-1 237	-706		-1 943
Operating expenses	-536	-227		-763
<b>Total expenses before interest expenses</b>	<b>-7 905</b>	<b>-3 803</b>	<b>0</b>	<b>-11 708</b>
<b>Income before interest and income tax expense</b>	<b>867</b>	<b>268</b>	<b>215</b>	<b>1 350</b>
Interest expenses			-301	-301
<b>Income/loss before income tax expense</b>	<b>867</b>	<b>268</b>	<b>-86</b>	<b>1 049</b>
Management expense ratio in %	6.1	5.6		6.0
Net operating margin <sup>2</sup> in %	9.9	6.6		10.4

<sup>1</sup> The Group revised the methodology for allocating investment return to lines of business. Comparative information for 2016 has been adjusted accordingly.

<sup>2</sup> Net operating margin is calculated as "Income before interest and income tax expense" divided by "Total revenues" excluding "Net investment result – unit-linked and with-profit business".

## Life & Health Reinsurance business segment – by line of business

For the year ended 31 December

2017 USD millions	Life	Health	Unallocated	Total
<b>Revenues</b>				
Gross premiums written	9 525	3 788		13 313
Net premiums written	8 138	3 688		11 826
Change in unearned premiums	79	-54		25
<b>Premiums earned</b>	8 217	3 634		11 851
Fee income from policyholders	129			129
Net investment income – non-participating business	1 023	285		1 308
Net realised investment gains/losses – non-participating business	57	-1	535	591
Net investment result – unit-linked and with-profit business	81			81
Other revenues	3			3
<b>Total revenues</b>	<b>9 510</b>	<b>3 918</b>	<b>535</b>	<b>13 963</b>
<b>Expenses</b>				
Life and health benefits	-6 491	-2 720		-9 211
Return credited to policyholders	-119			-119
Acquisition costs	-1 432	-632		-2 064
Operating expenses	-533	-221		-754
<b>Total expenses before interest expenses</b>	<b>-8 575</b>	<b>-3 573</b>	<b>0</b>	<b>-12 148</b>
<b>Income before interest and income tax expense</b>	<b>935</b>	<b>345</b>	<b>535</b>	<b>1 815</b>
Interest expenses			-315	-315
<b>Income before income tax expense</b>	<b>935</b>	<b>345</b>	<b>220</b>	<b>1 500</b>
Management expense ratio in %	5.7	5.6		5.7
Net operating margin <sup>1</sup> in %	9.9	8.8		13.1

<sup>1</sup> Net operating margin is calculated as "Income before interest and income tax expense" divided by "Total revenues" excluding "Net investment result – unit-linked and with-profit business".

## Financial statements

Notes to the Group financial statements

### d) Net premiums earned and fee income from policyholders by geography

Net premiums earned and fee income from policyholders by region for the years ended 31 December

USD millions	2016	2017
Americas	15 102	16 101
Europe (including Middle East and Africa)	10 928	10 546
Asia-Pacific	7 201	7 058
<b>Total</b>	<b>33 231</b>	<b>33 705</b>

Net premiums earned and fee income from policyholders by country for the years ended 31 December

USD millions	2016	2017
United States	12 401	13 509
United Kingdom	3 759	3 382
Australia	1 919	2 095
China	2 425	1 933
Germany	1 200	1 258
Japan	1 105	1 168
Canada	1 107	1 137
Switzerland	902	886
France	733	730
Ireland	754	673
Spain	472	524
Other	6 454	6 410
<b>Total</b>	<b>33 231</b>	<b>33 705</b>

Net premiums earned and fee income from policyholders are allocated by country, based on the underlying contract.

## 3 Insurance information

### Premiums earned and fees assessed against policyholders

For the years ended 31 December

2016 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Life Capital	Total
<b>Premiums earned, thereof:</b>					
Direct		45	2 879	1 293	4 217
Reinsurance	17 166	12 204	968	173	30 511
Intra-group transactions (assumed and ceded)	113	594	-113	-594	0
<b>Premiums earned before retrocession to external parties</b>					
	17 279	12 843	3 734	872	34 728
Retrocession to external parties	-271	-1 357	-231	-178	-2 037
<b>Net premiums earned</b>	<b>17 008</b>	<b>11 486</b>	<b>3 503</b>	<b>694</b>	<b>32 691</b>
<b>Fee income from policyholders, thereof:</b>					
Direct				410	410
Reinsurance		40		89	129
<b>Gross fee income before retrocession to external parties</b>					
		40		499	539
Retrocession to external parties		1			1
<b>Net fee income</b>	<b>0</b>	<b>41</b>	<b>0</b>	<b>499</b>	<b>540</b>

2017 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Life Capital	Total
<b>Premiums earned, thereof:</b>					
Direct		55	3 229	1 465	4 749
Reinsurance	16 901	12 829	862	128	30 720
Intra-group transactions (assumed and ceded)	137	315	-137	-315	0
<b>Premiums earned before retrocession to external parties</b>					
	17 038	13 199	3 954	1 278	35 469
Retrocession to external parties	-371	-1 348	-303	-328	-2 350
<b>Net premiums earned</b>	<b>16 667</b>	<b>11 851</b>	<b>3 651</b>	<b>950</b>	<b>33 119</b>
<b>Fee income from policyholders, thereof:</b>					
Direct				362	362
Reinsurance		130		95	225
<b>Gross fee income before retrocession to external parties</b>					
		130		457	587
Retrocession to external parties		-1			-1
<b>Net fee income</b>	<b>0</b>	<b>129</b>	<b>0</b>	<b>457</b>	<b>586</b>

## Financial statements

Notes to the Group financial statements

### Claims and claim adjustment expenses

For the year ended 31 December

2016 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Life Capital	Total
<b>Claims paid, thereof:</b>					
Gross claims paid to external parties	-8 546	-10 032	-2 563	-3 384	-24 525
Intra-group transactions (assumed and ceded)	-502	-477	502	477	0
<b>Claims before receivables from retrocession to external parties</b>					
Retrocession to external parties	342	1 205	223	227	1 997
<b>Net claims paid</b>	<b>-8 706</b>	<b>-9 304</b>	<b>-1 838</b>	<b>-2 680</b>	<b>-22 528</b>
<b>Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:</b>					
Gross – with external parties	-2 014	392	257	833	-532
Intra-group transactions (assumed and ceded)	702	-34	-702	34	0
<b>Unpaid claims and claim adjustment expenses; life and health benefits before impact of retrocession to external parties</b>					
Retrocession to external parties	-283	-17	20	-83	-363
<b>Net unpaid claims and claim adjustment expenses; life and health benefits</b>	<b>-1 595</b>	<b>341</b>	<b>-425</b>	<b>784</b>	<b>-895</b>
<b>Claims and claim adjustment expenses; life and health benefits</b>	<b>-10 301</b>	<b>-8 963</b>	<b>-2 263</b>	<b>-1 896</b>	<b>-23 423</b>

### Acquisition costs

For the year ended 31 December

2016 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Life Capital	Total
<b>Acquisition costs, thereof:</b>					
Gross acquisition costs with external parties	-4 458	-2 094	-589	-137	-7 278
Intra-group transactions (assumed and ceded)	-16	-59	16	59	0
<b>Acquisition costs before impact of retrocession to external parties</b>					
Retrocession to external parties	69	210	56	15	350
<b>Net acquisition costs</b>	<b>-4 405</b>	<b>-1 943</b>	<b>-517</b>	<b>-63</b>	<b>-6 928</b>

## Claims and claim adjustment expenses

For the year ended 31 December

2017 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Life Capital	Total
<b>Claims paid, thereof:</b>					
Gross claims paid to external parties	-9 866	-9 505	-2 571	-3 170	-25 112
Intra-group transactions (assumed and ceded)	-177	-226	177	226	0
<b>Claims before receivables from retrocession to external parties</b>	-10 043	-9 731	-2 394	-2 944	-25 112
Retrocession to external parties	279	1 162	192	357	1 990
<b>Net claims paid</b>	<b>-9 764</b>	<b>-8 569</b>	<b>-2 202</b>	<b>-2 587</b>	<b>-23 122</b>
<b>Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:</b>					
Gross – with external parties	-3 791	-533	-1 016	727	-4 613
Intra-group transactions (assumed and ceded)	365	-53	-365	53	0
<b>Unpaid claims and claim adjustment expenses; life and health benefits before impact of retrocession to external parties</b>	-3 426	-586	-1 381	780	-4 613
Retrocession to external parties	18	-56	25	-65	-78
<b>Net unpaid claims and claim adjustment expenses; life and health benefits</b>	<b>-3 408</b>	<b>-642</b>	<b>-1 356</b>	<b>715</b>	<b>-4 691</b>
<b>Claims and claim adjustment expenses; life and health benefits</b>	<b>-13 172</b>	<b>-9 211</b>	<b>-3 558</b>	<b>-1 872</b>	<b>-27 813</b>

## Acquisition costs

For the year ended 31 December

2017 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Life Capital	Total
<b>Acquisition costs, thereof:</b>					
Gross acquisition costs with external parties	-4 297	-2 277	-621	-155	-7 350
Intra-group transactions (assumed and ceded)	-19	-12	19	12	0
<b>Acquisition costs before impact of retrocession to external parties</b>	-4 316	-2 289	-602	-143	-7 350
Retrocession to external parties	63	225	48	37	373
<b>Net acquisition costs</b>	<b>-4 253</b>	<b>-2 064</b>	<b>-554</b>	<b>-106</b>	<b>-6 977</b>

## Financial statements

Notes to the Group financial statements

### Reinsurance recoverable on unpaid claims and policy benefits

As of 31 December 2016 and 2017, the Group had a reinsurance recoverable of USD 7 461 million and USD 7 942 million, respectively. The concentration of credit risk is regularly monitored and evaluated. The reinsurance programme with Berkshire Hathaway and subsidiaries accounted for 40% and 34% of the Group's reinsurance recoverable as of year-end 2016 and 2017, respectively.

### Reinsurance receivables

Reinsurance receivables as of 31 December were as follows:

USD millions	2016	2017
Premium receivables invoiced	1 717	3 135
Receivables invoiced from ceded re/insurance business	177	427
Assets arising from the application of the deposit method of accounting and meeting the definition of financing receivables	141	147
Recognised allowance	-60	-71

### Policyholder dividends

Policyholder dividends are recognised as an element of policyholder benefits. The relative percentage of participating insurance of the life and health policy benefits in 2016 and 2017 was 10% and 10%, respectively. The amount of policyholder dividend expense in 2016 and 2017 was USD 279 million and USD 146 million, respectively.



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## 4 Premiums written

For the years ended 31 December

2016 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Life Capital	Consolidation	Total
<b>Gross premiums written, thereof:</b>						
Direct		45	3 056	1 317		4 418
Reinsurance	17 862	12 210	960	172		31 204
Intra-group transactions (assumed)	287	546	139		-972	0
<b>Gross premiums written</b>	<b>18 149</b>	<b>12 801</b>	<b>4 155</b>	<b>1 489</b>	<b>-972</b>	<b>35 622</b>
Intra-group transactions (ceded)	-139		-287	-546	972	0
<b>Gross premiums written before retrocession to external parties</b>	<b>18 010</b>	<b>12 801</b>	<b>3 868</b>	<b>943</b>		<b>35 622</b>
Retrocession to external parties	-242	-1 342	-206	-262		-2 052
<b>Net premiums written</b>	<b>17 768</b>	<b>11 459</b>	<b>3 662</b>	<b>681</b>	<b>0</b>	<b>33 570</b>

2017 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Life Capital	Consolidation	Total
<b>Gross premiums written, thereof:</b>						
Direct		55	3 279	1 489		4 823
Reinsurance	16 290	12 732	802	128		29 952
Intra-group transactions (assumed)	254	526	112	144	-1 036	0
<b>Gross premiums written</b>	<b>16 544</b>	<b>13 313</b>	<b>4 193</b>	<b>1 761</b>	<b>-1 036</b>	<b>34 775</b>
Intra-group transactions (ceded)	-112	-144	-254	-526	1 036	0
<b>Gross premiums written before retrocession to external parties</b>	<b>16 432</b>	<b>13 169</b>	<b>3 939</b>	<b>1 235</b>		<b>34 775</b>
Retrocession to external parties	-401	-1 343	-339	-376		-2 459
<b>Net premiums written</b>	<b>16 031</b>	<b>11 826</b>	<b>3 600</b>	<b>859</b>	<b>0</b>	<b>32 316</b>

## 5 Unpaid claims and claim adjustment expenses

A reconciliation of the opening and closing reserve balances for unpaid claims and claim adjustment expenses for the years ended 31 December is presented as follows:

USD millions	2016	2017
Balance as of 1 January	55 518	57 355
Reinsurance recoverable	-4 265	-4 044
Deferred expense on retroactive reinsurance	-340	-211
<b>Net balance as of 1 January</b>	<b>50 913</b>	<b>53 100</b>
Incurring related to:		
Current year	25 825	28 923
Prior year	-810	-630
Amortisation of deferred expense on retroactive reinsurance and impact of commutations	-26	-5
<b>Total incurred</b>	<b>24 989</b>	<b>28 288</b>
Paid related to:		
Current year	-9 720	-8 859
Prior year	-12 808	-14 263
<b>Total paid</b>	<b>-22 528</b>	<b>-23 122</b>
Foreign exchange	-1 317	2 653
Effect of acquisitions, disposals, new retroactive reinsurance and other items	1 043	1 178
<b>Net balance as of period end</b>	<b>53 100</b>	<b>62 097</b>
Reinsurance recoverable	4 044	4 458
Deferred expense on retroactive reinsurance	211	240
<b>Balance as of period end</b>	<b>57 355</b>	<b>66 795</b>

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### Prior-year development

Non-life claims development during 2017 on prior years continued to be driven by favourable experience on most lines of business. Property was mainly driven by positive claims development across the most recent accident years. Casualty includes adverse development on motor. Within specialty, the main reserve releases came from marine and engineering business lines, partially offset with adverse credit and surety experience.

For life and health lines of business, claims development on prior-year business was driven by adverse claim experience across a number of lines of business and geographies. In particular, the UK critical illness and US life portfolios strengthened reserves following adverse trends. This was partially offset by positive experience in Continental Europe, in particular in German disability and life portfolios. Claims development related to prior years also includes an element of interest accretion for unpaid claims reported at the estimated present value.

A summary of prior-year net claims and claim adjustment expenses development by lines of business for the years ended 31 December is shown below:

USD millions	2016	2017
Line of business:		
Property	-335	-555
Casualty	-249	-67
Specialty	-357	-178
Life and health	131	170
<b>Total</b>	<b>-810</b>	<b>-630</b>

### **US asbestos and environmental claims exposure**

The Group's obligation for claims payments and claims settlement charges also includes obligations for long-latent injury claims arising out of policies written prior to 1986, in particular in the area of US asbestos and environmental liability.

At the end of 2017, the Group carried net reserves for US asbestos and environmental liabilities equal to USD 1 830 million. During 2017, the Group incurred net losses of USD 45 million and paid net against these liabilities of USD 192 million.

Estimating ultimate asbestos and environmental liabilities is particularly complex for a number of reasons, relating in part to the long period between exposure and manifestation of claims and in part to other factors, which include risks and lack of predictability inherent in complex litigation, changes in projected costs to resolve and in the projected number of asbestos and environmental claims, the effect of bankruptcy protection, insolvencies and changes in the legal, legislative and regulatory environment. As a result, the Group believes that projection of exposures for asbestos and environmental claims is subject to far less predictability relative to non-environmental and non-asbestos exposures. Management believes that its reserves for asbestos and environmental claims are appropriately established based upon known facts and the current state of the law. However, reserves are subject to revision as new information becomes available and as claims develop. Additional liabilities may arise for amounts in excess of reserves, and the Group's estimate of claims and claim adjustment expenses may change. Any such additional liabilities or increases in estimates cannot be reasonably estimated in advance but could result in charges that could be material to operating results.

#### Short duration contract unpaid claims and claim adjustment expenses

##### Basis of presentation for claims development information

This section of the note provides claims development information on an accident year basis.

Claims development information and information on reserves for claims relating to insured events that have occurred but have not yet been reported or not enough reported ("IBNR") are generally presented by line of business for individually significant categories. Starting from a line of business split, additional aggregation or disaggregation is provided where appropriate, necessary and practicable ("disaggregation categories"). For instance, Reinsurance liability and motor lines of business are further disaggregated into proportional and non-proportional treaty types to provide more specific information on claims development, whereas specialty is shown as one distinct category.

In the Property & Casualty Reinsurance and Corporate Solutions segments, all contracts that transfer significant insurance risk are included in scope to the extent they can be allocated to a disaggregation category. For many reinsurance contracts, proportional contracts in particular, ceding companies do not report losses by accident year. In these cases, the Group has allocated reported losses by underwriting year to accident year to produce the accident year tables. Similarly, IBNR is calculated on an underwriting year basis and then the liabilities are allocated to accident year.

In the Life & Health Reinsurance segment, contracts classified as short duration include group life business, certain types of disability and long-term care contracts, group accident, health coverage including critical illness and medical expenses. The Group provides claims development information for Life & Health Reinsurance where reported accident year information is available and there is potential for claims development. This primarily applies to the Group's disability lines classified as short duration. This business is generally considered to have relatively higher claims estimation uncertainty than other life and health lines such as group life, due to longer claims development periods.

In the Life Capital segment, short duration contracts include mainly disability medical expenses business. The Group provides no claims development information for Life Capital as its short duration reserves are not material.

Amounts shown in the claims development tables are net of external retrocession and retrocession between business segments to the extent a retrocession program can be allocated to a disaggregation category. Ceded retroactive reinsurance is not included in the claims development table if it cannot be allocated on a reasonable basis to the disaggregation categories used to present claims development information.

Claims development information and information on IBNR reserves are shown on a nominal basis, also for cases where the Group discounts claims liabilities for measurement under US GAAP. Information is shown per accident year and by reporting period. The number of years shown in the claims development tables differs by business segment:

For Property & Casualty Reinsurance and for Life & Health Reinsurance long-tail, the Group discloses data for ten accident years and reporting periods.

The Corporate Solutions business segment was created in 2012. Therefore, six accident years and reporting periods are shown for this business unit. All but an immaterial portion of claims arising from accident years prior to 2012 relate to accident years which are over ten years ago and therefore out of the required range of disclosure. Business ceded to Property & Casualty Reinsurance prior to 2012 is included in the net claims development information reported by this segment.

The current reporting period estimate of net claims liabilities for accident years older than the number of years shown in the claims development tables is presented as a total after disclosure of cumulative paid claims.

The information presented in claims development tables is presented at current balance sheet foreign exchange rates as of the date of these financial statements to permit an analysis of claims development excluding the impact of foreign exchange movements.

Some of the information provided in the following tables, is Required Supplementary Information (RSI) under US GAAP. Therefore it does not form part of these consolidated audited financial statements. Claims development information for all periods except the current reporting period and any information derived from it – including average annual percentage payout of claims incurred – is considered RSI and is identified as RSI in the tables presented.

### **Methodology for determining the presented amounts of liabilities for IBNR claims**

The liability for unpaid claims and claim adjustment expenses is based on an estimate of the ultimate cost of settling the claims based on both information reported to us by ceding companies and internal estimates.

#### **Non-life re/insurance contracts**

For reinsurance business, cedents report their case reserves and their estimated IBNR to the Group. The Group develops and recognises its own estimate of IBNR claims, which includes circumstances in which the cedent has not reported any claims to the Group or where the Group's estimate of reserves needed to cover reported claims differs from the amounts reported by cedents. Reserving for insurance business is performed similarly, except that the Group estimates case reserves as well. Reserving is done on portfolio or contract level depending on the features of the contract:

For business reviewed on a portfolio level, the expected ultimate losses are set for most lines and types of business based on analysis performed using standard actuarial techniques. In general, contracts are aggregated into portfolios by combining contracts with similar features.

In most cases, these standard actuarial techniques encompass a number of loss development factor techniques applied to claim tables of paid and reported losses. Other actuarial techniques may be applicable to specific categories. For instance, the analysis of frequency and severity could be applied in all disaggregation categories. Life contingency techniques for projecting regular payments related to bodily injury claims are applied to motor proportional, motor non-proportional, liability proportional, liability non-proportional, accident and health and similar Corporate Solutions lines, where the information is available. In some cases, techniques specific to the projection of future payments for specific risks such as asbestos or pollution claims are applied to both proportional and non-proportional liability claims, also in Corporate Solutions (see also separate section "US asbestos and environmental claims exposure" on page 217).

Contract-level reserving is based on standard actuarial techniques but requires more detailed contract, pricing, claim and exposure information than required for the business reviewed on a portfolio level.

In addition, the following applies to all non-life re/insurance business:

- For the most recent underwriting years, reliance may be made on the Group's costing and underwriting functions for the initial estimates of claims, although the initial reserving estimates may differ from these pricing estimates if there is good reason to believe losses are likely to emerge higher or lower, and in light of the limited claims experience to date. Reviews of those initial estimates are performed regularly, forming a basis for adjustments on both the current and prior underwriting years.
- The reserving process considers any information available in respect of either a specific case or a large loss event and the impact of any unusual features in the technical accounting of information provided by cedents.

#### **Life and health re/insurance contracts**

For the Life & Health Reinsurance long tail business, the liability for IBNR claims includes provision for "not yet reported claims" expected to have been incurred in respect of both already processed and not yet processed reinsurance accounts and generally includes provisions for the cost of claims on disability contracts that currently are within their deferred period. The IBNR reserving calculations have been made using appropriate techniques, such as chain ladder and/or Bornhuetter-Ferguson approaches, depending upon the level of detail available and the assumed level of development of the claim. For certain lines of business, IBNR claims reserves include reported but not admitted claims, allowing for expected rates of decline for these claims.

#### **Claims frequency information**

Claims frequency information is not available for the disaggregation categories of Property & Casualty Reinsurance, as cedents do not report claims frequency information to the Group for most of the assumed reinsurance contract types. These contracts are to be found in all disaggregation categories presented.

Life & Health Reinsurance reports claims frequency information based on individual incidence. The number of reported claims is the actual number of claims booked. For Group income protection business, claims with multiple payments in a year are counted as one claim with the corresponding amount annualised. Claims that are reported but not admitted are included in the claim count.

For Corporate Solutions, claims frequency is displayed for direct business only, as individual claims information is generally not available for assumed and ceded business. Claims are counted individually per contract to produce the claims frequency table. For some direct business, summary reports are received and multiple claims are booked under a single claim code; this is usually done at a program, policy year, state, country and/or line of business level of detail. This approach may be applied to business which has a high volume of claim counts, but with only minor claims dollars associated with each claim.

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### Property & Casualty Reinsurance – Property

Incurred claims and allocated claim adjustment expenses, net of reinsurance

USD millions		Reporting year									
Accident year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	thereof IBNR
2008	2 715	2 286	2 150	2 068	2 065	2 087	2 078	2 078	2 076	2 073	16
2009		2 427	2 442	2 320	2 276	2 255	2 252	2 250	2 252	2 220	4
2010			2 639	2 575	2 446	2 472	2 562	2 606	2 720	2 692	-70
2011				4 433	4 497	4 313	4 377	4 329	4 325	4 344	122
2012					2 772	2 600	2 396	2 352	2 322	2 307	-3
2013						3 269	3 281	3 100	3 012	2 988	4
2014							2 831	2 666	2 483	2 448	11
2015								2 940	2 870	2 697	112
2016		<i>RSI</i>							4 055	3 773	378
2017										6 166	3 387
<b>Total</b>										<b>31 708</b>	<b>3 961</b>

Cumulative claims paid and allocated claim adjustment expenses, net of reinsurance

USD millions		Reporting year									
Accident year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
2008	600	1 433	1 751	1 877	2 007	2 041	2 056	2 062	2 063	2 071	
2009		583	1 666	1 996	2 103	2 154	2 177	2 187	2 198	2 180	
2010			409	1 576	1 890	2 006	2 216	2 375	2 526	2 572	
2011				688	2 465	3 297	3 756	4 056	4 164	4 289	
2012					251	1 640	2 043	2 167	2 211	2 231	
2013						562	2 085	2 613	2 815	2 877	
2014							481	1 770	2 168	2 300	
2015								483	1 717	2 257	
2016		<i>RSI</i>							659	2 295	
2017										1 017	
<b>Total</b>										<b>24 089</b>	
All liabilities before 2008											153
<b>Liabilities for claims and claim adjustment expenses, net of reinsurance</b>											<b>7 772</b>

Average annual percentage payout of incurred claims by age, net of reinsurance

Years	1	2	3	4	5	6	7	8	9	10
Property (RSI)	18.7%	47.4%	16.6%	6.2%	4.5%	2.4%	2.4%	0.8%	-0.4%	0.4%

The liability for unpaid claims and claim adjustment expenses for property in Property & Casualty Reinsurance shows positive development on most recent accident years. Claims in accident year 2011 were at a high level due to several large natural catastrophes including the earthquake and tsunami in Japan, the earthquakes in Christchurch, New Zealand, and floods in Thailand. The 2017 claims incurred are higher due to natural catastrophes, mainly stemming from Cyclone Debbie, hurricanes Harvey, Irma and Maria in the Americas, the two earthquakes in Mexico and the wildfires in California.

Negative IBNRs can be a feature for claims arising from property exposure, due to overstated case reserves. The IBNR reserves for 2010 and 2011 are affected by allocations of IBNR for proportional treaty business in respect of several natural catastrophe events that occurred in those years.



## Property & Casualty Reinsurance – Liability, proportional

Incurred claims and allocated claim adjustment expenses, net of reinsurance

USD millions		Reporting year									
Accident year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	thereof IBNR
2008	1 140	1 164	1 234	1 306	1 196	1 094	1 156	1 155	1 172	1 162	55
2009		730	865	989	945	941	920	932	942	936	60
2010			843	991	931	910	907	910	899	863	105
2011				648	706	729	676	635	631	608	103
2012					529	612	568	539	511	513	98
2013						738	762	769	764	768	173
2014							1 007	997	1 010	993	386
2015								1 279	1 327	1 411	736
2016									1 730	1 759	1 097
2017										1 983	1 569
Total										10 996	4 382

Cumulative claims paid and allocated claim adjustment expenses, net of reinsurance

USD millions		Reporting year									
Accident year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
2008	56	175	323	490	577	696	806	925	979	1 021	
2009		-66	85	239	364	479	588	639	686	722	
2010			29	161	321	413	523	618	668	688	
2011				2	110	184	254	340	386	403	
2012					13	119	186	246	300	332	
2013						14	130	238	353	423	
2014							24	162	298	404	
2015								35	214	404	
2016									48	227	
2017										51	
Total										4 675	
All liabilities before 2008											606
<b>Liabilities for claims and claim adjustment expenses, net of reinsurance</b>											<b>6 927</b>

Average annual percentage payout of incurred claims by age, net of reinsurance

Years	1	2	3	4	5	6	7	8	9	10
Liability, proportional (RSI)	1.6%	14.7%	14.3%	12.5%	11.1%	9.3%	5.9%	5.9%	4.2%	3.6%

The increase in the incurred losses for accident years 2013 to 2017 is driven by volume increases of business being written. The increases in the incurred losses in reporting year 2017 for accident years 2015 and 2016 are driven by US business.

In line with the Group's policy, cash flows under loss portfolio transfers are reported through claims paid. For longer-tailed lines and depending on the business volume written, timing of cash flows can lead to net inward payments across the whole portfolio in the first development year of the contract for some accident years.

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### Property & Casualty Reinsurance – Liability, non-proportional

Incurred claims and allocated claim adjustment expenses, net of reinsurance

USD millions		Reporting year									
Accident year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	thereof IBNR
2008	697	739	685	557	512	478	446	420	398	390	55
2009		521	532	440	438	399	365	339	325	323	34
2010			536	449	412	386	364	343	334	320	49
2011				412	441	479	439	394	361	347	64
2012					337	355	315	287	265	258	72
2013						417	398	362	306	276	112
2014							442	447	414	370	200
2015								1 843	1 884	1 852	260
2016		<i>RSI</i>							597	560	298
2017										502	424
Total										<b>5 198</b>	<b>1 568</b>

Cumulative claims paid and allocated claim adjustment expenses, net of reinsurance

USD millions		Reporting year									
Accident year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
2008	-9	27	100	130	165	192	234	254	283	297	
2009		-14	12	33	56	96	161	184	192	202	
2010			1	11	36	53	88	106	125	161	
2011				1	10	66	114	140	148	172	
2012					-4	11	35	53	85	108	
2013						-2	11	37	60	83	
2014							-2	8	40	74	
2015								0	94	203	
2016		<i>RSI</i>							14	158	
2017										-2	
Total										<b>1 456</b>	
All liabilities before 2008											5 768
<b>Liabilities for claims and claim adjustment expenses, net of reinsurance</b>											<b>9 510</b>

Average annual percentage payout of incurred claims by age, net of reinsurance

Years	1	2	3	4	5	6	7	8	9	10
Liability, non-proportional ( <i>RSI</i> )	-0.7%	7.4%	10.3%	8.4%	10.1%	8.8%	7.7%	6.3%	5.3%	3.6%

The increase in incurred losses for accident year 2015 compared to other years is due to an increase in volume of business written. Liabilities before 2008 include reserves for historic US Asbestos and Environmental losses.

In line with the Group's policy, cash flows under loss portfolio transfers are reported through claims paid. For longer-tailed lines and depending on the business volume written, timing of cash flows can lead to net inward payments across the whole portfolio in the first development year of the contract for some accident years.

## Property & Casualty Reinsurance – Accident & Health

Incurred claims and allocated claim adjustment expenses, net of reinsurance

USD millions		Reporting year										
Accident year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	thereof IBNR	
2008	385	423	412	423	432	421	419	418	423	425	88	
2009		352	375	352	346	342	333	328	320	315	26	
2010			276	228	234	222	219	221	213	208	28	
2011				231	252	247	239	242	236	236	32	
2012					334	344	328	319	315	309	34	
2013						352	358	345	334	327	52	
2014							306	340	331	320	77	
2015								439	437	414	91	
2016		<i>RSI</i>							597	631	149	
2017										737	277	
Total										<b>3 922</b>	<b>854</b>	

Cumulative claims paid and allocated claim adjustment expenses, net of reinsurance

USD millions		Reporting year									
Accident year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
2008	51	160	214	254	271	281	290	297	302	306	
2009		32	138	194	219	237	250	256	261	266	
2010			25	85	116	131	140	147	150	158	
2011				48	121	143	154	163	167	177	
2012					81	184	211	227	237	246	
2013						55	143	184	208	221	
2014							30	105	147	175	
2015								63	140	193	
2016		<i>RSI</i>							75	180	
2017										96	
Total										<b>2 018</b>	
All liabilities before 2008										2 896	
<b>Liabilities for claims and claim adjustment expenses, net of reinsurance</b>										<b>4 800</b>	

Average annual percentage payout of incurred claims by age, net of reinsurance

Years	1	2	3	4	5	6	7	8	9	10
Accident & Health <b>(RSI)</b>	14.7%	26.4%	12.7%	7.2%	4.2%	2.9%	2.4%	2.4%	1.4%	0.9%

The increase in incurred losses from accident year 2015 onwards is due to an increase in the volume of workers' compensation written on a proportional basis. The 2008 and prior accident years include the run-off of business written by entities acquired as part of the acquisition of General Electric Insurance Solutions during 2006. This business which generally had a longer payment pattern was not renewed.

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### Property & Casualty Reinsurance – Motor, proportional

Incurred claims and allocated claim adjustment expenses, net of reinsurance

USD millions		Reporting year									
Accident year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	thereof IBNR
2008	787	669	667	744	776	750	741	738	738	737	33
2009		685	679	747	772	759	755	757	755	754	-15
2010			621	682	723	729	727	729	729	727	-2
2011				1 046	1 041	1 010	966	968	967	965	-21
2012					1 565	1 555	1 537	1 525	1 515	1 513	37
2013						1 625	1 598	1 604	1 577	1 570	19
2014							2 088	2 048	2 048	2 030	1
2015								1 989	1 992	1 996	60
2016									2 580	2 698	205
2017										2 453	1 202
<b>Total</b>										<b>15 443</b>	<b>1 519</b>

Cumulative claims paid and allocated claim adjustment expenses, net of reinsurance

USD millions		Reporting year									
Accident year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
2008	340	586	667	639	651	649	670	673	676	678	
2009		149	405	615	650	662	716	726	727	731	
2010			208	475	562	599	681	691	700	704	
2011				278	702	893	927	946	956	964	
2012					500	1 164	1 332	1 383	1 416	1 437	
2013						599	1 224	1 414	1 461	1 492	
2014							773	1 536	1 793	1 872	
2015								826	1 495	1 748	
2016									853	1 889	
2017										785	
<b>Total</b>										<b>12 300</b>	
All liabilities before 2008											321
<b>Liabilities for claims and claim adjustment expenses, net of reinsurance</b>											<b>3 464</b>

Average annual percentage payout of incurred claims by age, net of reinsurance

Years	1	2	3	4	5	6	7	8	9	10
Motor, proportional (RSI)	33.8%	37.9%	14.9%	2.8%	3.4%	2.1%	1.6%	0.4%	0.5%	0.3%

The increase in the incurred losses from accident year 2010 onwards is driven by new business volume across all regions. Proportional motor business includes both longer-tailed liability business and shorter-tailed hull business. The increase in incurred claims and claim adjustment expenses in reporting year 2017 for accident year 2016 is due to US business.

The negative IBNRs are due to overstated case reserves, mainly on the German business, and accident year 2011 includes the effects of an outwards proportional contract in inwards non-proportional business.

## Property & Casualty Reinsurance – Motor, non-proportional

Incurred claims and allocated claim adjustment expenses, net of reinsurance

USD millions		Reporting year									
Accident year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	thereof IBNR
2008	425	497	438	335	350	348	341	337	331	329	54
2009		389	405	295	297	282	287	281	278	270	71
2010			336	300	294	280	273	265	256	252	38
2011				424	465	444	442	427	420	409	96
2012					346	364	342	326	326	309	66
2013						451	474	475	457	443	79
2014							423	457	452	451	123
2015								400	423	459	170
2016									485	605	276
2017										599	388
Total										<b>4 126</b>	<b>1 361</b>

Cumulative claims paid and allocated claim adjustment expenses, net of reinsurance

USD millions		Reporting year									
Accident year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
2008	16	90	129	133	156	174	186	196	206	210	
2009		2	41	60	72	86	100	111	121	126	
2010			6	23	49	68	85	102	115	123	
2011				-11	21	58	82	106	121	137	
2012					2	25	50	86	112	139	
2013						7	88	154	200	225	
2014							4	62	107	147	
2015								-1	34	94	
2016									9	67	
2017										9	
Total										<b>1 277</b>	
All liabilities before 2008											2 978
<b>Liabilities for claims and claim adjustment expenses, net of reinsurance</b>											<b>5 827</b>

Average annual percentage payout of incurred claims by age, net of reinsurance

Years	1	2	3	4	5	6	7	8	9	10
Motor, non-proportional (RSI)	1.1%	11.9%	10.5%	7.1%	6.5%	6.0%	4.2%	3.3%	2.4%	1.2%

Claims development in non-proportional motor business is considered long-tailed as it is dominated by liability exposures leading to bodily injury claims which pay out for the lifetime of the claimant.

For accident year 2011, negative claims paid in the first year are due to the commutation of an external retrocession on acquired retroactive business. The increase in claims incurred in reporting year 2017 for accident years 2015 and 2016 are due to an adverse development on the US business and to the Ogden discount changes on the UK business. These developments also affected accident year 2017.

In line with the Group's policy, cash flows under loss portfolio transfers are reported through claims paid. For longer-tailed lines and depending on the business volume written, timing of cash flows can lead to net inward payments across the whole portfolio in the first development year of the contract for some accident years.

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### Property & Casualty Reinsurance – Specialty

Incurred claims and allocated claim adjustment expenses, net of reinsurance

USD millions		Reporting year									
Accident year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	thereof IBNR
2008	2 141	2 136	2 063	2 019	1 970	1 936	1 916	1 925	1 910	1 899	14
2009		1 586	1 717	1 522	1 451	1 420	1 396	1 381	1 364	1 337	3
2010			1 258	1 268	1 213	1 188	1 168	1 136	1 114	1 115	21
2011				1 319	1 297	1 213	1 130	1 178	1 174	1 189	28
2012					985	1 047	1 066	1 048	1 047	1 033	36
2013						1 128	1 054	1 012	975	964	48
2014							1 141	1 135	1 031	1 003	91
2015								1 265	1 255	1 241	195
2016									1 325	1 313	457
2017										1 648	1 063
<b>Total</b>										<b>12 742</b>	<b>1 956</b>

Cumulative claims paid and allocated claim adjustment expenses, net of reinsurance

USD millions		Reporting year									
Accident year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
2008	259	847	1 356	1 508	1 623	1 690	1 734	1 763	1 792	1 809	
2009		214	676	932	1 036	1 112	1 171	1 210	1 235	1 248	
2010			201	479	675	778	857	973	995	1 014	
2011				169	573	796	900	952	989	1 054	
2012					131	456	697	790	848	891	
2013						153	431	619	732	788	
2014							182	423	610	710	
2015								140	399	712	
2016									148	491	
2017										185	
<b>Total</b>										<b>8 902</b>	
All liabilities before 2008											678
<b>Liabilities for claims and claim adjustment expenses, net of reinsurance</b>											<b>4 518</b>

Average annual percentage payout of incurred claims by age, net of reinsurance

Years	1	2	3	4	5	6	7	8	9	10
Specialty (RSI)	14.2%	28.4%	21.1%	9.2%	5.8%	5.1%	3.2%	1.7%	1.2%	0.9%

This category includes credit and surety business, which was adversely affected by the financial crisis in 2007–2008. The category also contains several individual large losses on marine, aviation and space lines, including the Costa Concordia event in accident year 2012. The 2017 claims are higher due to natural catastrophes mainly stemming from hurricanes Harvey, Irma and Maria in the Americas.

## Corporate Solutions

Incurred claims and allocated claim adjustment expenses, net of reinsurance

USD millions		Reporting year							
Accident year	2012	2013	2014	2015	2016	2017	thereof IBNR	Cumulative number of reported claims (in nominals)	
2012	1 311	1 237	1 162	1 129	1 126	1 170	75	12 677	
2013		1 612	1 592	1 523	1 440	1 425	154	25 654	
2014			1 854	1 798	1 728	1 699	286	20 739	
2015				1 910	2 075	2 113	400	16 245	
2016	<i>RSI</i>				2 054	2 264	680	14 477	
2017						3 040	2 026	10 363	
Total						11 711	3 621	100 155	

Cumulative claims paid and allocated claim adjustment expenses, net of reinsurance

USD millions		Reporting year					
Accident year	2012	2013	2014	2015	2016	2017	
2012	184	562	725	820	909	980	
2013		275	674	947	1 106	1 174	
2014			276	840	1 136	1 273	
2015				354	921	1 311	
2016	<i>RSI</i>				379	1 219	
2017						389	
Total						6 346	
All liabilities before 2012						570	
<b>Liabilities for claims and claim adjustment expenses, net of reinsurance</b>						<b>5 935</b>	

Average annual percentage payout of incurred claims by age, net of reinsurance

Years	1	2	3	4	5	6
Corporate Solutions ( <i>RSI</i> )	16.3%	31.5%	17.2%	9.1%	6.2%	6.1%

The claims incurred increased due to general volume growth for accident years 2012 to 2016. Incurred claims on accident years 2012, 2015 and 2016 increased due to large loss development. Current accident year was significantly impacted by hurricanes Harvey, Irma and Maria, as well as the California wildfires and an earthquake in Mexico.

Change in claim counts in 2013 and 2014 relate mostly to agriculture business written in 2013, leading to high claim counts in those years.

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### Life & Health Reinsurance, long tail

Incurred claims and allocated claim adjustment expenses, net of reinsurance

USD millions	Reporting year										2017	thereof IBNR	Cumulative number of reported claims (in nominals)
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017			
<b>Accident year</b>													
2008	98	96	95	95	98	111	114	111	118		116	14	3 139
2009		164	170	161	162	162	187	185	187		180	18	4 203
2010			203	205	200	226	226	239	211		207	20	4 599
2011				232	243	307	320	335	311		305	36	6 389
2012					288	385	388	414	376		379	44	8 759
2013						519	509	507	469		467	44	11 076
2014							508	462	440		442	58	12 386
2015								433	469		452	107	14 254
2016									454		471	202	9 779
2017											463	364	4 144
<b>Total</b>											<b>3 482</b>	<b>907</b>	<b>78 728</b>

Cumulative claims paid and allocated claim adjustment expenses, net of reinsurance

USD millions	Reporting year										2017
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
<b>Accident year</b>											
2008	5	23	41	53	62	70	74	78	83		86
2009		8	39	60	74	83	91	98	106		113
2010			9	43	67	87	101	113	123		132
2011				20	66	107	133	155	177		194
2012					29	93	149	190	225		249
2013						40	130	198	262		306
2014							34	115	211		277
2015								38	113		201
2016									14		92
2017											13
<b>Total</b>											<b>1 663</b>
All liabilities before 2008											273
<b>Liabilities for claims and claim adjustment expenses, net of reinsurance</b>											<b>2 092</b>

Average annual percentage payout of incurred claims by age, net of reinsurance

Years	1	2	3	4	5	6	7	8	9	10
Life & Health Reinsurance, long tail (RSI)	5.8%	16.9%	15.3%	10.8%	7.6%	6.1%	4.4%	4.1%	4.1%	2.6%

In the reporting year 2013, the Group significantly strengthened IBNR claims liabilities in Australia for some lines of business. In addition, for 2009, 2013 and 2014 the effect of business volume increases is discernible as well.



**Reconciliation of gross liability for unpaid claims and claim adjustment expenses**

The following table reconciles the Group's net outstanding liabilities to the gross liabilities for unpaid claims and claim adjustment expenses.

The net outstanding liabilities correspond to the total liabilities for unpaid claims and claim adjustment expenses, net of reinsurance for each disaggregation category.

Other short duration contract lines includes reserves for business that is not material to the Group and where accident year information is not available. For Life & Health Reinsurance, in certain markets, cedents do not provide sufficient information to reinsurers to split claims incurred and claims paid by accident year. This is based on existing market practice. For these markets, an assessment of available information from other sources was made along with investigating approximations that could be used to provide claims development information by accident year. However, these alternate sources and estimates, based on currently available data and methods, could not be used to generate meaningful and representative accident year information and therefore have been excluded from disclosure. Other short duration contract lines also contain other treaties from Property & Casualty Reinsurance and Corporate Solutions which could not be allocated on a consistent basis to disaggregation categories or specific accident years.

Unallocated reinsurance recoverable on unpaid claims includes reinsurance recoverable which cannot be allocated on a reasonable basis to disaggregation categories used to present claims development information.

For details on consolidation please refer to Note 2.

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For the year ended 31 December

USD millions	2017
<b>Net outstanding liabilities</b>	
Property & Casualty Reinsurance	
Property	7 772
Liability, proportional	6 927
Liability, non-proportional	9 510
Accident & Health	4 800
Motor, proportional	3 464
Motor, non-proportional	5 827
Specialty	4 518
Corporate Solutions	5 935
Life & Health Reinsurance, long tail	2 092
<b>Total net undiscounted outstanding liabilities excluding other short duration contract lines and before unallocated reinsurance recoverable</b>	<b>50 845</b>
Discounting impact on (Life & Health Reinsurance) short duration contracts	-291
Impact of acquisition accounting	-627
<b>Total net discounted outstanding liabilities excluding other short duration contract lines and before unallocated reinsurance recoverable</b>	<b>49 927</b>
Other short duration contract lines	2 714
Unallocated reinsurance recoverable on unpaid claims	-411
<b>Total net discounted outstanding short duration liabilities</b>	<b>52 230</b>
Allocated reinsurance recoverables on unpaid claims:	
Property & Casualty Reinsurance	
Property	596
Liability, proportional	373
Liability, non-proportional	337
Accident & Health	238
Motor, proportional	83
Motor, non-proportional	248
Specialty	214
Corporate Solutions	5 013
Consolidation	-3 865
Impact of acquisition accounting	-132
Other short duration contract lines	634
Unallocated reinsurance recoverable on unpaid claims	411
<b>Total short duration reinsurance recoverable on outstanding liabilities</b>	<b>4 150</b>
Exclusions:	
Unallocated claim adjustment expenses	966
Long duration contracts	9 449
<b>Total other reconciling items</b>	<b>10 415</b>
<b>Total unpaid claims and claim adjustment expenses</b>	<b>66 795</b>

### Discounting information

The following disclosure covers the discounting impact for the disaggregation categories included in the claims development information. Discounting information for Life & Health Reinsurance long tail as of 31 December was as follows:

USD millions	2016	2017
Carrying amount of discounted claims	1 117	1 262
Aggregate amount of the discount	-241	-291
Interest accretion <sup>1</sup>	27	28
Range of interest rates	3.1% -3.6%	2.9% -3.6%

<sup>1</sup> Interest accretion is shown as part of "Life and health benefits" in the income statement.

Please refer to Note 1 for more details about the Group's discounting approach for unpaid claims and claim adjustment expenses.

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

As of 31 December, the DAC were as follows:

2016 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Life Capital	Total
Opening balance as of 1 January	2 051	3 020	387	13	5 471
Deferred	4 629	893	571	34	6 127
Amortisation	-4 379	-312	-513	-36	-5 240
Effect of foreign currency translation	-21	-136	-1		-158
<b>Closing balance</b>	<b>2 280</b>	<b>3 465</b>	<b>444</b>	<b>11</b>	<b>6 200</b>

2017 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Life Capital	Total
Opening balance as of 1 January	2 280	3 465	444	11	6 200
Deferred	4 068	1 294	553	71	5 986
Effect of acquisitions/disposals and retrocessions		-5	2	5	2
Amortisation	-4 255	-508	-549	-67	-5 379
Effect of foreign currency translation and other changes	53	-12	4	17	62
<b>Closing balance</b>	<b>2 146</b>	<b>4 234</b>	<b>454</b>	<b>37</b>	<b>6 871</b>

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

As of 31 December, the PVFP was as follows:

2016 USD millions	Life & Health Reinsurance	Life Capital		Total
		Positive PVFP	Negative PVFP	
Opening balance as of 1 January	1 134	1 830	0	2 964
Effect of acquisitions/disposals and retrocessions			-603	-603
Amortisation	-132	-198	51	-279
Interest accrued on unamortised PVFP	36	130	-19	147
Effect of change in unrealised gains/losses		1		1
Effect of foreign currency translation	-72	-205	50	-227
<b>Closing balance</b>	<b>966</b>	<b>1 558</b>	<b>-521</b>	<b>2 003</b>

2017 USD millions	Life & Health Reinsurance	Life Capital		Total
		Positive PVFP	Negative PVFP	
Opening balance as of 1 January	<b>966</b>	1 558	-521	<b>2 003</b>
Amortisation	<b>-135</b>	-143	45	<b>-233</b>
Interest accrued on unamortised PVFP	<b>52</b>	102	-17	<b>137</b>
Effect of change in unrealised gains/losses		-1		<b>-1</b>
Effect of foreign currency translation	<b>38</b>	96	-51	<b>83</b>
<b>Closing balance</b>	<b>921</b>	<b>1 612</b>	<b>-544</b>	<b>1 989</b>

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 2016, the Group's Business Unit Life Capital acquired Guardian Holdings Europe Limited, the holding company for operations trading under the name Guardian Financial Services ("Guardian"), and recognised negative PVFP. Upon acquisition, PVFP is calculated as the difference between the estimated fair value and established reserves, which is in line with US GAAP accounting policies and assumptions of the Group. The product mix of Guardian is weighted towards annuity business, for which the fair value of insurance and investment contract liabilities significantly exceeds the established US GAAP reserves. This excess is mainly due to differences in discount rates and risk weightings between fair value and US GAAP estimates. Overall, the excess on the annuity business outweighs the estimated future gross profits of other business and synergy expectations included in the fair value of insurance and investment contract liabilities for the business as a whole, resulting in a negative PVFP.

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

The percentage of PVFP which is expected to be amortised in each of the next five years is 12%, 13%, 12%, 11% and 11%.

## 7 Investments

### Investment income

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

USD millions	2016	2017
Fixed income securities	2 806	2 778
Equity securities	98	79
Policy loans, mortgages and other loans	156	148
Investment real estate	184	200
Short-term investments	54	65
Other current investments	153	118
Share in earnings of equity-accounted investees	41	100
Cash and cash equivalents	28	25
Net result from deposit-accounted contracts	118	127
Deposits with ceding companies	441	457
<b>Gross investment income</b>	<b>4 079</b>	<b>4 097</b>
Investment expenses	-397	-380
Interest charged for funds held	-21	-9
<b>Net investment income – non-participating business</b>	<b>3 661</b>	<b>3 708</b>

Dividends received from investments accounted for using the equity method were USD 176 million and USD 170 million for 2016 and 2017, respectively.

Share in earnings of equity-accounted investees included impairments of the carrying amount of equity-accounted investees of USD 66 million and USD 46 million for 2016 and 2017, respectively.

### Realised gains and losses

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

USD millions	2016	2017
Fixed income securities available-for-sale:		
Gross realised gains	789	748
Gross realised losses	-202	-148
Equity securities available-for-sale:		
Gross realised gains	371	959
Gross realised losses	-122	-28
Other-than-temporary impairments	-88	-46
Net realised investment gains/losses on trading securities	110	27
Change in net unrealised investment gains/losses on trading securities	-14	3
Net realised/unrealised gains/losses on other investments	118	-8
Net realised/unrealised gains/losses on insurance-related activities	344	99
Foreign exchange gains/losses	178	121
<b>Net realised investment gains/losses – non-participating business</b>	<b>1 484</b>	<b>1 727</b>

Net realised/unrealised gains/losses on insurance-related activities included impairments of USD 11 million for 2017.

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

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

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

USD millions	2016		2017	
	Unit-linked	With-profit	Unit-linked	With-profit
Investment income – fixed income securities	100	134	69	120
Investment income – equity securities	735	69	705	69
Investment income – other	28	13	20	11
<b>Total investment income – unit-linked and with-profit business</b>	<b>863</b>	<b>216</b>	<b>794</b>	<b>200</b>
Realised gains/losses – fixed income securities	135	174	-12	12
Realised gains/losses – equity securities	3 631	321	2 094	191
Realised gains/losses – other	53	-11	28	8
<b>Total realised gains/losses – unit-linked and with-profit business</b>	<b>3 819</b>	<b>484</b>	<b>2 110</b>	<b>211</b>
<b>Total net investment result – unit-linked and with-profit business</b>	<b>4 682</b>	<b>700</b>	<b>2 904</b>	<b>411</b>

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

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

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

A reconciliation of other-than-temporary impairments related to credit losses recognised in earnings was as follows:

USD millions	2016	2017
Balance as of 1 January	136	97
Credit losses for which an other-than-temporary impairment was not previously recognised	13	14
Reductions for securities sold during the period	-48	-24
Increase of credit losses for which an other-than-temporary impairment has been recognised previously, when the Group does not intend to sell, or more likely than not will not be required to sell before recovery	8	4
Impact of increase in cash flows expected to be collected	-7	-4
Impact of foreign exchange movements	-5	4
<b>Balance as of 31 December</b>	<b>97</b>	<b>91</b>

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#### Investments available-for-sale

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

2016 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Other-than-temporary impairments recognised in other comprehensive income	Estimated fair value
Debt securities issued by governments and government agencies:					
US Treasury and other US government corporations and agencies	13 162	481	-179		13 464
US Agency securitised products	3 415	22	-53		3 384
States of the United States and political subdivisions of the states	1 411	59	-20		1 450
United Kingdom	8 005	1 293	-97		9 201
Canada	3 916	517	-35		4 398
Germany	2 906	325	-15		3 216
France	1 931	277	-10		2 198
Australia	1 967	17	-5		1 979
Other	6 355	287	-96		6 546
<b>Total</b>	<b>43 068</b>	<b>3 278</b>	<b>-510</b>		<b>45 836</b>
Corporate debt securities	37 203	2 733	-181		39 755
Mortgage- and asset-backed securities	4 900	125	-30	-5	4 990
<b>Fixed income securities available-for-sale</b>	<b>85 171</b>	<b>6 136</b>	<b>-721</b>	<b>-5</b>	<b>90 581</b>
<b>Equity securities available-for-sale</b>	<b>2 897</b>	<b>561</b>	<b>-83</b>		<b>3 375</b>

2017 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Other-than-temporary impairments recognised in other comprehensive income	Estimated fair value
Debt securities issued by governments and government agencies:					
US Treasury and other US government corporations and agencies	14 397	273	-152		14 518
US Agency securitised products	5 884	18	-66		5 836
States of the United States and political subdivisions of the states	1 620	108	-7		1 721
United Kingdom	8 699	1 378	-31		10 046
Canada	3 969	543	-30		4 482
Germany	3 193	239	-22		3 410
France	2 015	252	-10		2 257
Australia	2 065	16	-4		2 077
Other	7 655	318	-76		7 897
<b>Total</b>	<b>49 497</b>	<b>3 145</b>	<b>-398</b>		<b>52 244</b>
Corporate debt securities	39 510	3 218	-136		42 592
Mortgage- and asset-backed securities	4 271	162	-19	-2	4 412
<b>Fixed income securities available-for-sale</b>	<b>93 278</b>	<b>6 525</b>	<b>-553</b>	<b>-2</b>	<b>99 248</b>
<b>Equity securities available-for-sale</b>	<b>3 544</b>	<b>365</b>	<b>-47</b>		<b>3 862</b>

The "Other-than-temporary impairments recognised in other comprehensive income" column includes only securities with a credit-related loss recognised in earnings. Subsequent recovery in fair value of securities previously impaired in other comprehensive income is also presented in the "Other-than-temporary impairments recognised in other comprehensive income" column.



## Investments trading

The carrying amounts of fixed income securities and equity securities classified as trading (excluding unit-linked and with-profit business) as of 31 December were as follows:

USD millions	2016	2017
Debt securities issued by governments and government agencies	2 538	2 414
Corporate debt securities	45	38
Mortgage- and asset-backed securities	112	86
<b>Fixed income securities trading – non-participating business</b>	<b>2 695</b>	<b>2 538</b>
<b>Equity securities trading – non-participating business</b>	<b>60</b>	<b>3</b>

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

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

USD millions	2016		2017	
	Unit-linked	With-profit	Unit-linked	With-profit
Fixed income securities trading	2 379	2 774	2 105	3 104
Equity securities trading	23 859	1 948	26 582	2 201
Investment real estate	580	298	543	281
Other	265	75	286	64
<b>Total investments for unit-linked and with-profit business</b>	<b>27 083</b>	<b>5 095</b>	<b>29 516</b>	<b>5 650</b>

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

The amortised cost or cost and estimated fair values of investments in fixed income securities available-for-sale by remaining maturity are shown below. Fixed maturity investments are assumed not to be called for redemption prior to the stated maturity date. As of 31 December 2016 and 2017, USD 14 640 million and USD 17 742 million, respectively, of fixed income securities available-for-sale were callable.

USD millions	2016		2017	
	Amortised cost or cost	Estimated fair value	Amortised cost or cost	Estimated fair value
Due in one year or less	6 607	6 650	7 399	7 410
Due after one year through five years	19 180	19 623	29 459	29 724
Due after five years through ten years	19 240	20 079	15 921	16 652
Due after ten years	35 564	39 562	36 550	41 370
Mortgage- and asset-backed securities with no fixed maturity	4 580	4 667	3 949	4 092
<b>Total fixed income securities available-for-sale</b>	<b>85 171</b>	<b>90 581</b>	<b>93 278</b>	<b>99 248</b>

## Assets pledged

As of 31 December 2017, investments with a carrying value of USD 7 384 million were on deposit with regulatory agencies in accordance with local requirements, and investments with a carrying value of USD 12 209 million were placed on deposit or pledged to secure certain reinsurance liabilities, including pledged investments in subsidiaries.

As of 31 December 2016 and 2017, securities of USD 16 059 million and USD 15 740 million, respectively, were transferred to third parties under securities lending transactions and repurchase agreements on a fully collateralised basis. Corresponding liabilities of USD 1 010 million and USD 989 million, respectively, were recognised in accrued expenses and other liabilities for the obligation to return collateral that the Group has the right to sell or repledge.

As of 31 December 2017, a real estate portfolio with a carrying value of USD 192 million serves as collateral for a credit facility, allowing the Group to withdraw funds up to CHF 500 million.

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

As of 31 December 2016 and 2017, the fair value of the equity securities, government and corporate debt securities received as collateral was USD 7 666 million and USD 7 476 million, respectively. Of this, the amount that was sold or repledged as of 31 December 2016 and 2017 was USD 3 469 million and USD 1 981 million, respectively. The sources of the collateral are securities borrowing, reverse repurchase agreements and derivative transactions.

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### Offsetting of derivatives, financial assets and financial liabilities

Offsetting of derivatives, financial assets and financial liabilities as of 31 December was as follows:

2016 USD millions	Gross amounts of recognised financial assets	Collateral set-off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related financial instruments not set-off in the balance sheet	Net amount
Derivative financial instruments – assets	2 801	–1 580	1 221		1 221
Reverse repurchase agreements	7 040	–3 986	3 054	–3 054	0
Securities borrowing	483	–314	169	–169	0
<b>Total</b>	<b>10 324</b>	<b>–5 880</b>	<b>4 444</b>	<b>–3 223</b>	<b>1 221</b>

2016 USD millions	Gross amounts of recognised financial liabilities	Collateral set-off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related financial instruments not set-off in the balance sheet	Net amount
Derivative financial instruments – liabilities	–2 610	1 568	–1 042	8	–1 034
Repurchase agreements	–3 991	3 461	–530	527	–3
Securities lending	–1 319	839	–480	454	–26
<b>Total</b>	<b>–7 920</b>	<b>5 868</b>	<b>–2 052</b>	<b>989</b>	<b>–1 063</b>

2017 USD millions	Gross amounts of recognised financial assets	Collateral set-off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related financial instruments not set-off in the balance sheet	Net amount
Derivative financial instruments – assets	1 710	–1 176	534		<b>534</b>
Reverse repurchase agreements	6 053	–2 995	3 058	–3 058	<b>0</b>
Securities borrowing	1 589	–524	1 065	–1 065	<b>0</b>
<b>Total</b>	<b>9 352</b>	<b>–4 695</b>	<b>4 657</b>	<b>–4 123</b>	<b>534</b>

2017 USD millions	Gross amounts of recognised financial liabilities	Collateral set-off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related financial instruments not set-off in the balance sheet	Net amount
Derivative financial instruments – liabilities	–1 924	1 342	–582	49	<b>–533</b>
Repurchase agreements	–2 631	2 471	–160	160	<b>0</b>
Securities lending	–1 878	1 049	–829	765	<b>–64</b>
<b>Total</b>	<b>–6 433</b>	<b>4 862</b>	<b>–1 571</b>	<b>974</b>	<b>–597</b>

Collateral pledged or received between two counterparties with a master netting arrangement in place, but not subject to balance sheet netting, is disclosed at fair value. The fair values represent the gross carrying value amounts at the reporting date for each financial instrument received or pledged by the Group. Management believes that master netting agreements provide for legally enforceable set-off in the event of default, which substantially reduces credit exposure. Upon occurrence of an event of default, the non-defaulting party may set off the obligation against collateral received regardless if it has been offset on balance sheet prior to the defaulting event. The net amounts of the financial assets and liabilities presented on the balance sheet were recognised in “Other invested assets”, “Investments for unit-linked and with-profit business” and “Accrued expenses and other liabilities”.

### Recognised gross liability for the obligation to return collateral that the Group has the right to sell or repledge

As of 31 December 2016 and 2017, the gross amounts of liabilities related to repurchase agreements and securities lending by the class of securities transferred to third parties and by the remaining maturity are shown below. The liabilities are recognised for the obligation to return collateral that the Group has the right to sell or repledge.

2016 USD millions	Remaining contractual maturity of the agreements				
	Overnight and continuous	Up to 30 days	30–90 days	Greater than 90 days	Total
<b>Repurchase agreements</b>					
Debt securities issued by governments and government agencies	219	3 023	415	334	3 991
<b>Total repurchase agreements</b>	<b>219</b>	<b>3 023</b>	<b>415</b>	<b>334</b>	<b>3 991</b>
<b>Securities lending</b>					
Debt securities issued by governments and government agencies	237	367	258	426	1 288
Corporate debt securities	13				13
Equity securities	18				18
<b>Total securities lending</b>	<b>268</b>	<b>367</b>	<b>258</b>	<b>426</b>	<b>1 319</b>
Gross amount of recognised liabilities for repurchase agreements and securities lending					5 310

2017 USD millions	Remaining contractual maturity of the agreements				
	Overnight and continuous	Up to 30 days	30–90 days	Greater than 90 days	Total
<b>Repurchase agreements</b>					
Debt securities issued by governments and government agencies	31	2 091	354	139	2 615
Corporate debt securities		16			16
<b>Total repurchase agreements</b>	<b>31</b>	<b>2 107</b>	<b>354</b>	<b>139</b>	<b>2 631</b>
<b>Securities lending</b>					
Debt securities issued by governments and government agencies	244	567	614	442	1 867
Corporate debt securities	6				6
Equity securities	5				5
<b>Total securities lending</b>	<b>255</b>	<b>567</b>	<b>614</b>	<b>442</b>	<b>1 878</b>
Gross amount of recognised liabilities for repurchase agreements and securities lending					4 509

The programme is structured in a conservative manner within a clearly defined risk framework. Yield enhancement is conducted on a non-cash basis, thereby taking no re-investment risk.

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### Notes to the Group financial statements

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

The following table shows the fair value and unrealised losses of the Group's fixed income securities, aggregated by investment category and length of time that individual securities were in a continuous unrealised loss position as of 31 December 2016 and 2017. As of 31 December 2016 and 2017, USD 62 million and USD 40 million, respectively, of the gross unrealised loss on equity securities available-for-sale relates to declines in value for less than 12 months and USD 21 million and USD 7 million, respectively, to declines in value for more than 12 months.

2016 USD millions	Less than 12 months		12 months or more		Total	
	Fair value	Unrealised losses	Fair value	Unrealised losses	Fair value	Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	6 709	179			6 709	179
US Agency securitised products	2 594	53	14	0	2 608	53
States of the United States and political subdivisions of the states	494	18	8	2	502	20
United Kingdom	1 762	87	56	10	1 818	97
Canada	1 759	26	40	9	1 799	35
Germany	1 337	15	100	0	1 437	15
France	703	10			703	10
Australia	461	2	132	3	593	5
Other	2 554	78	247	18	2 801	96
<b>Total</b>	<b>18 373</b>	<b>468</b>	<b>597</b>	<b>42</b>	<b>18 970</b>	<b>510</b>
Corporate debt securities	6 859	172	143	9	7 002	181
Mortgage- and asset-backed securities	1 599	26	147	9	1 746	35
<b>Total</b>	<b>26 831</b>	<b>666</b>	<b>887</b>	<b>60</b>	<b>27 718</b>	<b>726</b>

2017 USD millions	Less than 12 months		12 months or more		Total	
	Fair value	Unrealised losses	Fair value	Unrealised losses	Fair value	Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	9 742	113	1 825	39	11 567	152
US Agency securitised products	3 773	37	1 029	29	4 802	66
States of the United States and political subdivisions of the states	304	4	120	3	424	7
United Kingdom	1 161	18	301	13	1 462	31
Canada	1 766	29	276	1	2 042	30
Germany	722	19	44	3	766	22
France	214	8	7	2	221	10
Australia	1 118	3	74	1	1 192	4
Other	2 813	54	451	22	3 264	76
<b>Total</b>	<b>21 613</b>	<b>285</b>	<b>4 127</b>	<b>113</b>	<b>25 740</b>	<b>398</b>
Corporate debt securities	6 299	102	1 040	34	7 339	136
Mortgage- and asset-backed securities	1 617	14	421	7	2 038	21
<b>Total</b>	<b>29 529</b>	<b>401</b>	<b>5 588</b>	<b>154</b>	<b>35 117</b>	<b>555</b>

### Mortgages, loans and real estate

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

USD millions	2016		2017	
	Carrying value	Fair value	Carrying value	Fair value
Policy loans	95	95	94	94
Mortgage loans	2 401	2 411	2 665	2 674
Other loans	1 186	1 202	1 351	1 367
Investment real estate	1 925	3 576	2 220	4 099

Depreciation expense related to income-producing properties was USD 42 million and USD 49 million for 2016 and 2017, respectively. Accumulated depreciation on investment real estate totalled USD 525 million and USD 585 million as of 31 December 2016 and 2017, respectively.

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

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## 8 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 private equity, less liquid corporate debt securities and certain asset-backed 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. Pursuant to the election of the fair value option, the Group classifies certain liabilities for life and health policy benefits in level 3 of the fair value hierarchy. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads, and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

The fair values of assets are adjusted to incorporate the counterparty risk of non-performance. Similarly, the fair values of liabilities reflect the risk of non-performance of the Group, captured by the Group's credit spread. These valuation adjustments from assets and liabilities measured at fair value using significant unobservable inputs are recognised in net realised gains and losses. For 2017, these adjustments were not material. Whenever the underlying assets or liabilities are reported in a specific business segment, the valuation adjustment is allocated accordingly. Valuation adjustments not attributable to any business segment are reported in Group items.

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

## Valuation techniques

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

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

Values of mortgage- and asset-backed securities are obtained both from third-party pricing vendors and through quoted prices, some of which may be based on the prices of comparable securities with similar structural and collateral features. Values of certain asset-backed securities (ABS) for which there are no significant observable inputs are developed using benchmarks to similar transactions or indices. For both residential mortgage-backed securities (RMBS) and 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 RMBS and 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, compared to RMBS. 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. Mortgage- and asset-backed securities also includes debt securitised by credit card, student loan and auto loan receivables. Pricing inputs for these securities also focus on capturing, where relevant, collateral quality and performance, payment patterns and delinquencies.

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.

Equity securities held by the Group for proprietary investment purposes are mainly classified in level 1. Securities classified in level 1 are traded on public stock exchanges for which quoted prices are readily available.

The category "Other invested assets" includes the Group's private equity and hedge fund investments which are made directly or via ownership of funds. Valuation of direct private equity investments requires significant management judgement due to the absence of quoted market prices and the lack of liquidity. Initial valuation is based on the acquisition cost, and is further refined based on the available market information for the public companies that are considered comparable to the Group's holdings in the private companies being valued, and the private company-specific performance indicators, both historic and projected. Subsequent valuations also reflect business or asset appraisals, as well as market transaction data for private and public benchmark companies and the actual companies being valued, such as financing rounds and mergers and acquisitions activity. The Group's holdings in private equity and hedge funds are generally valued utilising net asset values (NAV), subject to adjustments, as deemed necessary, for restrictions on redemption (lock-up periods and amount limitations on redemptions). These investments are included under investments measured at net asset value as a practical expedient.

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 the internal models, which are consistent with industry standards and practices, and use both observable (dealer, broker or market consensus prices, spot and forward rates, interest rate and credit curves and volatility indices) and unobservable inputs (adjustments for liquidity, inputs derived from the observable data based on the Group's judgements and assumptions).

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### Notes to the Group financial statements

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

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

The Group's investments in equity derivatives primarily include OTC equity option contracts on single or baskets of market indices and equity options on individual or baskets of equity securities, which are valued using internally developed models (such as the Black-Scholes type option pricing model and various simulation models) calibrated with the inputs, which include underlying spot prices, dividend curves, volatility surfaces, yield curves and correlations between underlying assets.

The Group's OTC credit derivatives can include index and single-name credit default swaps, as well as more complex structured credit derivatives. Plain vanilla credit derivatives, such as index and single-name credit default swaps, are valued by the Group based on the models consistent with the industry valuation standards for these credit contracts, and primarily utilise observable inputs published by market data sources, such as credit spreads and recovery rates. These valuation techniques warrant classification of plain vanilla OTC derivatives as level 2 financial instruments in the fair value hierarchy.

### Governance around level 3 fair valuation

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

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

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

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



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

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

2016 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impact of netting <sup>1</sup>	Investments measured at net asset value as practical expedient	Total
<b>Assets</b>						
Fixed income securities held for proprietary investment purposes	13 078	79 016	1 182			93 276
Debt securities issued by US government and government agencies	13 078	2 076				15 154
US Agency securitised products		3 423				3 423
Debt securities issued by non-US governments and government agencies		29 797				29 797
Corporate debt securities		38 625	1 175			39 800
Mortgage- and asset-backed securities		5 095	7			5 102
Fixed income securities backing unit-linked and with-profit business		5 153				5 153
Equity securities held for proprietary investment purposes	3 426	5	4			3 435
Equity securities backing unit-linked and with-profit business	25 807					25 807
Short-term investments held for proprietary investment purposes	5 409	5 500				10 909
Short-term investments backing unit-linked and with-profit business		6				6
Derivative financial instruments	30	2 310	461	-1 580		1 221
Interest rate contracts	14	1 044				1 058
Foreign exchange contracts		765				765
Equity contracts	4	433	341			778
Other contracts		5	120			125
Contracts backing unit-linked and with-profit business	12	63				75
Investment real estate			209			209
Other invested assets	266	183	496		937	1 882
Other investments backing unit-linked and with-profit business		42				42
Funds held by ceding companies		225				225
<b>Total assets at fair value</b>	<b>48 016</b>	<b>92 440</b>	<b>2 352</b>	<b>-1 580</b>	<b>937</b>	<b>142 165</b>
<b>Liabilities</b>						
Derivative financial instruments	-5	-1 941	-664	1 568		-1 042
Interest rate contracts	-3	-709				-712
Foreign exchange contracts		-591				-591
Equity contracts	-1	-569	-39			-609
Other contracts		-5	-625			-630
Contracts backing unit-linked and with-profit business	-1	-67				-68
Liabilities for life and health policy benefits			-144			-144
Accrued expenses and other liabilities	-384	-4 084				-4 468
<b>Total liabilities at fair value</b>	<b>-389</b>	<b>-6 025</b>	<b>-808</b>	<b>1 568</b>		<b>-5 654</b>

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

2017 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impact of netting <sup>1</sup>	Investments measured at net asset value as practical expedient	Total
<b>Assets</b>						
Fixed income securities held for proprietary investment purposes	14 013	86 420	1 353			101 786
Debt securities issued by US government and government agencies	14 013	2 392				16 405
US Agency securitised products		5 965				5 965
Debt securities issued by non-US governments and government agencies		32 285	3			32 288
Corporate debt securities		41 287	1 343			42 630
Mortgage- and asset-backed securities		4 491	7			4 498
Fixed income securities backing unit-linked and with-profit business		5 209				5 209
Equity securities held for proprietary investment purposes	3 856	5	4			3 865
Equity securities backing unit-linked and with-profit business	28 770	13				28 783
Short-term investments held for proprietary investment purposes	1 021	3 825				4 846
Short-term investments backing unit-linked and with-profit business		59				59
Derivative financial instruments	50	1 274	386	-1 176		534
Interest rate contracts	4	511	5			520
Foreign exchange contracts		307				307
Equity contracts	43	451	283			777
Credit contracts		1				1
Other contracts			98			98
Contracts backing unit-linked and with-profit business	3	4				7
Investment real estate			198			198
Other invested assets	765	12	509		828	2 114
Funds held by ceding companies		206				206
<b>Total assets at fair value</b>	<b>48 475</b>	<b>97 023</b>	<b>2 450</b>	<b>-1 176</b>	<b>828</b>	<b>147 600</b>
<b>Liabilities</b>						
Derivative financial instruments	-22	-1 423	-479	1 342		-582
Interest rate contracts	-2	-395	-1			-398
Foreign exchange contracts		-321				-321
Equity contracts	-19	-622	-31			-672
Credit contracts		-79				-79
Other contracts			-447			-447
Contracts backing unit-linked and with-profit business	-1	-6				-7
Liabilities for life and health policy benefits			-126			-126
Accrued expenses and other liabilities	-939	-1 785				-2 724
<b>Total liabilities at fair value</b>	<b>-961</b>	<b>-3 208</b>	<b>-605</b>	<b>1 342</b>		<b>-3 432</b>

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

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### Notes to the Group financial statements

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

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

2016 USD millions	Fixed income securities	Equity securities	Derivative assets	Investment real estate	Other invested assets	Total assets	Derivative liabilities	Liabilities for life and health policy benefits	Total liabilities
<b>Assets and liabilities</b>									
Balance as of 1 January	393	34	447		1 595	2 469	-581	-165	-746
Impact of Accounting Standards Updates <sup>1</sup>				274	-1 120	-846	-207		-207
Realised/unrealised gains/losses:									
Included in net income	3		58	32	-20	73	188	20	208
Included in other comprehensive income	24	1			6	31			0
Purchases	577		2		43	622	4		4
Issuances						0	-141		-141
Sales	-37		-13	-59	-3	-112	101		101
Settlements	-59		-39			-98	-52		-52
Transfers into level 3 <sup>2</sup>	302		6		12	320	-5		-5
Transfers out of level 3 <sup>2</sup>	-6	-29				-35			0
Impact of foreign exchange movements	-15	-2		-38	-17	-72	29	1	30
<b>Closing balance as of 31 December</b>	<b>1 182</b>	<b>4</b>	<b>461</b>	<b>209</b>	<b>496</b>	<b>2 352</b>	<b>-664</b>	<b>-144</b>	<b>-808</b>

<sup>1</sup> Impact of ASU 2015-02 (Investment real estate and Derivative liabilities) and ASU 2015-07 (Other invested assets). Please refer to Note 1 of the 2016 Annual Report.

<sup>2</sup> Transfers are recognised at the date of the event or change in circumstances that caused the transfer.

2017 USD millions	Fixed income securities	Equity securities	Derivative assets	Investment real estate	Other invested assets	Total assets	Derivative liabilities	Liabilities for life and health policy benefits	Total liabilities
<b>Assets and liabilities</b>									
Balance as of 1 January	1 182	4	461	209	496	2 352	-664	-144	-808
Realised/unrealised gains/losses:									
Included in net income	-8	-2	23	19	34	66	202	19	221
Included in other comprehensive income	13	4			16	33			0
Purchases	264		26			290			0
Issuances						0	-84		-84
Sales	-59		-45	-49	-44	-197	83		83
Settlements	-84		-79		-6	-169	-1		-1
Transfers into level 3 <sup>1</sup>	45					45			0
Transfers out of level 3 <sup>1</sup>	-89	-2				-91			0
Impact of foreign exchange movements	89			19	13	121	-15	-1	-16
<b>Closing balance as of 31 December</b>	<b>1 353</b>	<b>4</b>	<b>386</b>	<b>198</b>	<b>509</b>	<b>2 450</b>	<b>-479</b>	<b>-126</b>	<b>-605</b>

<sup>1</sup> Transfers are recognised at the date of the event or change in circumstances that caused the transfer.

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

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

USD millions	2016	2017
Gains/losses included in net income for the period	281	287
Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date	134	226

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

In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsections of FASB Codification Subtopic 360-10, other assets with a carrying amount of USD 21 million were written down to their fair value of USD 17 million, resulting in a loss of USD 4 million, which was included in earnings for the period in "Operating expenses". This non-recurring fair value measurement was based on level 3 unobservable inputs using a discounted cash flow approach.

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### Quantitative information about level 3 fair value measurements

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

USD millions	2016 Fair value	2017 Fair value	Valuation technique	Unobservable input	Range (weighted average)
<b>Assets</b>					
Corporate debt securities	1 175	<b>1 343</b>			
Infrastructure loans	486	778	Discounted Cash Flow Model	Valuation spread	73 bps–232 bps (165 bps)
Private placement corporate debt	506	428	Corporate Spread Matrix	Credit spread	37 bps–246 bps (162 bps)
Private placement credit tenant leases	48	46	Discounted Cash Flow Model	Illiquidity premium	75 bps–175 bps (133 bps)
Derivative equity contracts	341	<b>283</b>			
OTC equity option referencing correlated equity indices	341	283	Proprietary Option Model	Correlation	–45%–100% (27.5%) <sup>1</sup>
Investment real estate	209	<b>198</b>	Discounted Cash Flow Model	Discount rate	5% per annum
<b>Liabilities</b>					
Derivative equity contracts	–39	<b>–31</b>			
OTC equity option referencing correlated equity indices	–39	–31	Proprietary Option Model	Correlation	–45%–100% (27.5%) <sup>1</sup>
Other derivative contracts and liabilities for life and health policy benefits	–769	<b>–573</b>			
Variable annuity and fair valued GMDB contracts	–500	–325	Discounted Cash Flow Model	Risk margin Volatility Lapse Mortality adjustment Withdrawal rate	4% (n.a.) 4%–42% 0.5%–33% –10%–0% 0%–90%
Swap liability referencing real estate investments	–161	–150	Discounted Cash Flow Model	Discount rate	5% per annum
Weather contracts	–41	–35	Proprietary Option Model	Risk margin Correlation Volatility (power/gas) Volatility (temperature) Index value (temperature)	8%–11% (10.9%) –69%–52% (–53.1%) 27%–110% (98.2%) 146–467 (199) HDD/CAT <sup>2</sup> 1769–4159 (3638) HDD/CAT <sup>2</sup>

<sup>1</sup> Represents average input value for the reporting period.

<sup>2</sup> Heating Degree Days (HDD); Cumulative Average Temperature (CAT).

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

The significant unobservable input used in the fair value measurement of the Group's infrastructure loans is valuation spread. A significant increase (decrease) in this input in isolation would result in a significantly lower (higher) fair value measurement. The significant unobservable input used in the fair value measurement of the Group's private placement corporate debt securities is credit spread. A significant increase (decrease) in this input in isolation would result in a significantly lower (higher) fair value measurement. The significant unobservable input used in the fair value measurement of the Group's private placement credit tenant leases is illiquidity premium. 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 OTC equity option referencing correlated equity indices is correlation. Where the Group is long correlation risk, a significant increase (decrease) in this input in isolation would result in a significantly higher (lower) fair value measurement. Where the Group is short correlation risk, a significant increase (decrease) in this input in isolation would result in a significantly lower (higher) fair value measurement.

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

The significant unobservable inputs used in the fair value measurement of the Group's variable annuity and fair valued guaranteed minimum death benefit (GMDB) contracts are: risk margin, volatility, lapse, mortality adjustment rate and withdrawal rate. A significant increase (decrease) in isolation in each of the following inputs: risk margin, volatility and withdrawal rate would result in a significantly higher (lower) fair value of the Group's obligation. A significant increase (decrease) in isolation in a lapse rate for in-the-money contracts would result in a significantly lower (higher) fair value of the Group's obligation, whereas for out-of-the-money contracts, an isolated increase (decrease) in a lapse assumption would increase (decrease) fair value of the Group's obligation. Changes in the mortality adjustment rate impact the fair value of the Group's obligation differently for living-benefit products, compared to death-benefit products. For the former, a significant increase (decrease) in the mortality adjustment rate (ie increase (decrease) in mortality, respectively) in isolation would result in a decrease (increase) in fair value of the Group's liability. For the latter, a significant increase (decrease) in the mortality adjustment rate in isolation would result in an increase (decrease) in fair value of the Group's liability.

The significant unobservable inputs used in the fair value measurement of the Group's weather contracts are risk margin, correlation, volatility and index value. Where the Group has a long position, a significant increase (decrease) in the risk margin input in isolation would result in a significantly higher (lower) fair value measurement. Where the Group has a long volatility or correlation position, a significant increase (decrease) in the correlation and volatility inputs would result in a significantly higher (lower) fair value measurement. Where the Group has a long index position, an increase (decrease) in the index value input in isolation would result in a significantly higher (lower) fair value measurement. Where the Group has a short position, a significant increase (decrease) in the risk margin input in isolation would result in a significantly lower (higher) fair value measurement. Where the Group has a short volatility or correlation position, a significant increase (decrease) in the correlation and volatility inputs would result in a significantly lower (higher) fair value measurement. Where the Group has a short index position, an increase (decrease) in the index value input in isolation would result in a significantly lower (higher) fair value measurement.

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### Other invested assets measured at net asset value

Other invested assets measured at net asset value as of 31 December were as follows:

USD millions	2016 Fair value	2017 Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Private equity funds	562	511	104	non-redeemable	n.a.
Hedge funds	106	128		redeemable <sup>1</sup>	45–95 days <sup>2</sup>
Private equity direct	80	92		non-redeemable	n.a.
Real estate funds	189	97	32	non-redeemable	n.a.
<b>Total</b>	<b>937</b>	<b>828</b>	<b>136</b>		

<sup>1</sup> The redemption frequency varies by position.

<sup>2</sup> Cash distribution can be delayed for an extended period depending on the sale of the underlyings.

The hedge fund investments employ a variety of strategies, including global macro, relative value, event-driven and long/short equity across various asset classes.

The private equity direct portfolio consists of equity and equity-like investments directly in other companies. These investments have no contractual term and are generally held based on financial or strategic intent.

Private equity and real estate funds generally have limitations imposed on the amount of redemptions from the fund during the redemption period due to illiquidity of the underlying investments. Fees may apply for redemptions or transferring of interest to other parties. Distributions are expected to be received from these funds as the underlying assets are liquidated over the life of the fund, which is generally from 10 to 12 years.

The redemption frequency of hedge funds varies depending on the manager as well as the nature of the underlying product. Additionally, certain funds may impose lock-up periods and redemption gates as defined in the terms of the individual investment agreement.

### 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 invested assets

The Group elected the fair value option for certain investments classified as equity method investees within other invested assets in the balance sheet. The Group applied the fair value option, as the investments are managed on a fair value basis. The changes in fair value of these elected investments are recorded in earnings.

#### Funds held by ceding companies

For operational efficiencies, the Group elected the fair value option for funds held by the cedent under three of its reinsurance agreements. The assets are carried at fair value and changes in fair value are reported as a component of earnings.

#### 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".

#### Liabilities for life and health policy benefits

The Group elected the fair value option for existing GMDB reserves related to certain variable annuity contracts which are classified as universal-life-type contracts. The Group has applied the fair value option, as the equity risk associated with those contracts is managed on a fair value basis and it is economically hedged with derivative options in the market.

#### Other derivative liabilities

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



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

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

USD millions	2016	2017
<b>Assets</b>		
Other invested assets	9 611	9 904
of which at fair value pursuant to the fair value option	442	446
Funds held by ceding companies	8 184	9 155
of which at fair value pursuant to the fair value option	225	206
Investments for unit-linked and with-profit business	32 178	35 166
of which at fair value pursuant to the fair value option	42	
<b>Liabilities</b>		
Liabilities for life and health policy benefits	-41 176	-42 561
of which at fair value pursuant to the fair value option	-144	-126
Accrued expenses and other liabilities	-9 811	-7 190
of which at fair value pursuant to the fair value option	-161	-150

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

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

USD millions	2016	2017
Other invested assets	-19	36
Funds held by ceding companies	6	
Investments for unit-linked and with-profit business	9	
Liabilities for life and health policy benefits	20	19
Accrued expenses and other liabilities	17	20
<b>Total</b>	<b>33</b>	<b>75</b>

Fair value changes from other invested assets and funds held by ceding companies are reported in "Net investment income – non-participating business". Fair value changes from investments for unit-linked and with-profit business are reported in "Net investment result – unit-linked and with-profit business". Fair value changes from accrued expenses and other liabilities are reported in "Net realised investment gains/losses – non-participating business". Fair value changes from the GMDB reserves are shown in "Life and health benefits".

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

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

2016 USD millions	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
<b>Assets</b>			
Policy loans		95	95
Mortgage loans		2 411	2 411
Other loans		1 202	1 202
Investment real estate		3 367	3 367
<b>Total assets</b>	<b>0</b>	<b>7 075</b>	<b>7 075</b>
<b>Liabilities</b>			
Debt	-8 201	-4 938	-13 139
<b>Total liabilities</b>	<b>-8 201</b>	<b>-4 938</b>	<b>-13 139</b>

2017 USD millions	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
<b>Assets</b>			
Policy loans		94	94
Mortgage loans		2 674	2 674
Other loans		1 367	1 367
Investment real estate		3 901	3 901
<b>Total assets</b>	<b>0</b>	<b>8 036</b>	<b>8 036</b>
<b>Liabilities</b>			
Debt	-7 607	-5 074	-12 681
<b>Total liabilities</b>	<b>-7 607</b>	<b>-5 074</b>	<b>-12 681</b>

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

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

Debt positions, which are fair valued based on executable broker quotes or based on the discounted cash flow method using observable inputs, are classified as level 2 measurements. Fair value of the majority 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.

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## 9 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.

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

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

2016 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
<b>Derivatives not designated as hedging instruments</b>				
Interest rate contracts	42 622	1 120	-780	340
Foreign exchange contracts	19 138	350	-574	-224
Equity contracts	12 512	788	-609	179
Credit contracts				0
Other contracts	16 226	125	-630	-505
<b>Total</b>	<b>90 498</b>	<b>2 383</b>	<b>-2 593</b>	<b>-210</b>
<b>Derivatives designated as hedging instruments</b>				
Foreign exchange contracts	9 303	418	-17	401
<b>Total</b>	<b>9 303</b>	<b>418</b>	<b>-17</b>	<b>401</b>
<b>Total derivative financial instruments</b>	<b>99 801</b>	<b>2 801</b>	<b>-2 610</b>	<b>191</b>
<b>Amount offset</b>				
Where a right of set-off exists		-1 122	1 122	
Due to cash collateral		-458	446	
<b>Total net amount of derivative financial instruments</b>		<b>1 221</b>	<b>-1 042</b>	<b>179</b>

2017 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
<b>Derivatives not designated as hedging instruments</b>				
Interest rate contracts	36 386	524	-404	120
Foreign exchange contracts	16 592	206	-137	69
Equity contracts	17 049	780	-673	107
Credit contracts	4 194	1	-79	-78
Other contracts	12 432	98	-447	-349
<b>Total</b>	<b>86 653</b>	<b>1 609</b>	<b>-1 740</b>	<b>-131</b>
<b>Derivatives designated as hedging instruments</b>				
Foreign exchange contracts	12 362	101	-184	-83
<b>Total</b>	<b>12 362</b>	<b>101</b>	<b>-184</b>	<b>-83</b>
<b>Total derivative financial instruments</b>	<b>99 015</b>	<b>1 710</b>	<b>-1 924</b>	<b>-214</b>
<b>Amount offset</b>				
Where a right of set-off exists		-801	801	
Due to cash collateral		-375	541	
<b>Total net amount of derivative financial instruments</b>		<b>534</b>	<b>-582</b>	<b>-48</b>

The notional amounts of derivative financial instruments give an indication of the Group's volume of derivative activity. The fair value assets are included in "Other invested assets" and "Investments for unit-linked and with-profit business", and the fair value liabilities are included in "Accrued expenses and other liabilities". The fair value amounts that were not offset were nil as of 31 December 2016 and 2017.

### Non-hedging activities

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

USD millions	2016	2017
<b>Derivatives not designated as hedging instruments</b>		
Interest rate contracts	391	43
Foreign exchange contracts	-116	301
Equity contracts	-217	-254
Credit contracts	-1	-25
Other contracts	181	287
<b>Total gains/losses recognised in income</b>	<b>238</b>	<b>352</b>

### Hedging activities

The Group designates certain derivative financial instruments as hedging instruments. The designation of derivative financial instruments is primarily used for overall portfolio and risk management strategies. As of 31 December 2016 and 2017, the following hedging relationships were outstanding:

#### Fair value hedges

The Group enters into foreign exchange swaps to reduce the exposure to foreign exchange volatility for certain fixed income securities. These derivative instruments are designated as hedging instruments in qualifying fair value hedges. Gains and losses on derivative financial instruments designated as fair value hedging instruments are recorded in "Net realised investment gains/losses — non-participating business" in the income statement. For the years ended 31 December, the gains and losses attributable to the hedged risks were as follows:

USD millions	2016		2017	
	Gains/losses on derivatives	Gains/losses on hedged items	Gains/losses on derivatives	Gains/losses on hedged items
<b>Fair value hedging relationships</b>				
Foreign exchange contracts	250	-250	-577	577
<b>Total gains/losses recognised in income</b>	<b>250</b>	<b>-250</b>	<b>-577</b>	<b>577</b>

#### Cash flow hedges

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

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

As of 31 December 2017, the maximum length of time over which the Group hedged its exposure to the variability in future cash flows for forecasted transactions, excluding those forecasted transactions related to the payment of variable interest on existing financial instruments, was nine years.

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

#### Hedges of the net investment in foreign operations

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

For the years ended 31 December 2016 and 2017, the Group recorded an accumulated net unrealised foreign currency remeasurement gain of USD 2 448 million and USD 1 552 million, respectively, in shareholders' equity. These offset translation gains and losses on the hedged net investment.

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### Maximum potential loss

In consideration of the rights of set-off and the qualifying master netting arrangements with various counterparties, the maximum potential loss as of 31 December 2016 and 2017 was approximately USD 1 679 million and USD 909 million, respectively. The maximum potential loss is based on the positive market replacement cost assuming non-performance of all counterparties, excluding cash collateral.

### Credit risk-related contingent features

Certain derivative instruments held by the Group contain provisions that require its debt to maintain an investment-grade credit rating. If the Group's credit rating were downgraded or no longer rated, the counterparties could request immediate payment, guarantee or an ongoing full overnight collateralisation on derivative instruments in net liability positions.

The total fair value of derivative financial instruments containing credit risk-related contingent features amounted to USD 107 million and USD 102 million as of 31 December 2016 and 2017, respectively. For derivative financial instruments containing credit risk-related contingent features, the Group posted collateral of nil as of 31 December 2016 and 2017, respectively. In the event of a reduction of the Group's credit rating to below investment grade, a fair value of USD 102 million additional collateral would have had to be posted as of 31 December 2017. The total equals the amount needed to settle the instruments immediately as of 31 December 2017.

## 10 Acquisitions

### Bradesco Seguros, S.A.

On 3 July 2017, the Group and Bradesco Seguros, S.A. (Bradesco) entered into a partnership combining the large Commercial Risk business of Bradesco with Swiss Re Corporate Solutions Brasil Seguros S.A. (SRCSB). Upon closing this transaction, SRCSB became one of the leading insurers in the commercial large-risk insurance market in Brazil. The acquisition cost was BRL 210 million paid in cash and 40% shares of SRCSB. The transaction includes Bradesco's related operations, its team of experts and a business portfolio, including existing, new and renewal business.

This transaction strengthens the Group's position in the Brazilian commercial insurance market by combining two diversified portfolios and securing a sustainable and large distribution channel.

Qualifying purchased intangible assets have been established. The following table presents details of acquired intangible assets subject to amortisation as of the date of acquisition:

USD millions	Weighted-average amortisation period	Carrying value
Distribution channels	11 years	72
Customer relationships	6 years	24
Other intangibles	2 years	6

In addition, the intangibles not subject to amortisation are licences of USD 29 million and goodwill of USD 38 million. The goodwill relates to the Corporate Solutions Business Unit and is not expected to be deductible for tax purposes.

### IHC Risk Solutions, LLC

On 31 March 2016, the Group acquired IHC Risk Solutions, LLC (IHC), a leading US employer stop loss company and the direct employer stop loss business of Independence Holding Company. The cost of the acquisition was USD 153 million. The transaction includes IHC's operations, its team of experts and business portfolio, including in-force, new and renewal business and is reflected in the Corporate Solutions Business Unit results. This acquisition broadens the Group's current employer stop loss capabilities in the small- and middle-market self-funded healthcare benefits segment.

### Guardian Holdings Europe Limited

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

Please refer to Note 10 of the 2016 Annual Report for further details on the Guardian Holdings Europe Limited's acquisition.

## 11 Debt and contingent capital instruments

The Group enters into long- and short-term debt arrangements to obtain funds for general corporate use and specific transaction financing. The Group defines short-term debt as debt having a maturity at the balance sheet date of not greater than one year and long-term debt as having a maturity of greater than one year. For subordinated debt positions, maturity is defined as the first optional redemption date (notwithstanding that optional redemption could be subject to regulatory consent). Interest expense is classified accordingly.

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

USD millions	2016	2017
Senior financial debt	590	433
Senior operational debt	431	
Subordinated financial debt	543	
<b>Short-term debt – financial and operational debt</b>	<b>1 564</b>	<b>433</b>
Senior financial debt	3 734	3 781
Senior operational debt	423	390
Subordinated financial debt	3 381	3 607
Subordinated operational debt	2 249	2 370
<b>Long-term debt – financial and operational debt</b>	<b>9 787</b>	<b>10 148</b>
<b>Total carrying value</b>	<b>11 351</b>	<b>10 581</b>
<b>Total fair value</b>	<b>13 139</b>	<b>12 681</b>

As of 31 December 2016 and 2017, operational debt, ie debt related to operational leverage, amounted to USD 3.1 billion (thereof USD 2.2 billion limited- or non-recourse) and USD 2.8 billion (thereof USD 2.4 billion limited- or non-recourse), respectively. Operational leverage is subject to asset/liability matching and is excluded from rating agency financial leverage calculations.

### Maturity of long-term debt

As of 31 December, long-term debt as reported above had the following maturities:

USD millions	2016	2017
Due in 2018	0	0
Due in 2019	2 367	2 341
Due in 2020	195	197
Due in 2021	209	213
Due in 2022	771	845
Due after 2022	6 245	6 552
<b>Total carrying value</b>	<b>9 787</b>	<b>10 148</b>



## Senior long-term debt

Maturity	Instrument	Issued in	Currency	Nominal in millions	Interest rate	Book value in USD millions
2019	Syndicated senior bank loans	2014	GBP	475	variable	642
2019	Senior notes <sup>1</sup>	1999	USD	234	6.45%	245
2022	Senior notes	2012	USD	250	2.88%	249
2023	Senior notes	2016	EUR	750	1.38%	895
2024	EMTN	2014	CHF	250	1.00%	255
2026	Senior notes <sup>1</sup>	1996	USD	397	7.00%	486
2027	EMTN	2015	CHF	250	0.75%	257
2030	Senior notes <sup>1</sup>	2000	USD	193	7.75%	262
2042	Senior notes	2012	USD	500	4.25%	490
Various	Payment undertaking agreements	various	USD	338	various	390
<b>Total senior long-term debt as of 31 December 2017</b>						<b>4 171</b>
Total senior long-term debt as of 31 December 2016						4 157

<sup>1</sup> Assumed in the acquisition of GE Insurance Solutions.

## Subordinated long-term debt

Maturity	Instrument	Issued in	Currency	Nominal in millions	Interest rate	First call in	Book value in USD millions
2024	Subordinated contingent write-off loan note	2013	USD	750	6.38%	2019	778
2042	Subordinated fixed-to-floating rate loan note	2012	EUR	500	6.63%	2022	596
2044	Subordinated fixed rate resettable callable loan note	2014	USD	500	4.50%	2024	497
2045	Subordinated contingent write-off securities	2013	CHF	175	7.50%	2020	197
2057	Subordinated private placement (amortising, limited recourse)	2007	GBP	1 751	5.06%		2 370
	Subordinated perpetual loan note	2007	GBP	500	6.30%	2019	676
	Perpetual subordinated fixed-to-floating rate callable loan note	2015	EUR	750	2.60%	2025	863
<b>Total subordinated long-term debt as of 31 December 2017</b>						<b>5 977</b>	
Total subordinated long-term debt as of 31 December 2016						5 630	

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### Interest expense on long-term debt and contingent capital instruments

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

USD millions	2016	2017
Senior financial debt	121	114
Senior operational debt	10	11
Subordinated financial debt	179	166
Subordinated operational debt	122	114
<b>Total</b>	<b>432</b>	<b>405</b>

In addition to the above, interest expense on contingent capital instruments classified as equity was USD 68 million and USD 67 million for the years ended 31 December 2016 and 2017, respectively.

### Long-term debt issued in 2017

No long-term debt was issued in the year ended 31 December 2017.

### Perpetual subordinated debt facility established in 2017

In July 2017, Swiss Re Ltd established a subordinated debt facility with no fixed termination date. The facility allows Swiss Re Ltd to issue at any time subordinated fixed rate callable notes with a face value of up to USD 750 million, having a first optional redemption date of 15 August 2022 and additional optional redemption dates every five years thereafter. Swiss Re Ltd pays a fee of 2.77% per annum on the available commitment under the facility. Notes issued under the facility have a fixed coupon of 4.63% per annum until the first optional redemption date, which will be reset every five years to the prevailing five-year US Treasury rate plus the fixed-for-life spread of 2.76%.

In these financial statements, the facility fees are classified as interest expense. Notes, when issued under this facility, will be classified as subordinated debt. As of 31 December 2017, no notes have been issued under the facility.

### Contingent capital instruments

In March 2012, Swiss Reinsurance Company Ltd issued a perpetual subordinated capital instrument with stock settlement. The instrument has a face value of USD 750 million, with a fixed coupon of 8.25% per annum until the first optional redemption date (1 September 2018).

The instrument may be converted, at the option of the issuer, into Swiss Re Ltd shares at any time through "at market" conversion using the retrospective five-day volume weighted average share price with a 3% discount or within six months following a solvency event at a pre-set floor price of USD 32. The instrument is referred to in these financial statements as "contingent capital instrument".

In February 2012, Swiss Reinsurance Company Ltd issued a contingent capital instrument accounted for as equity with a face value of CHF 320 million and a fixed coupon at a rate of 7.25% per annum. This capital instrument was redeemed on 1 September 2017.

## 12 Earnings per share

All of the Group's companies prepare statutory financial statements based on local laws and regulations. Most jurisdictions require reinsurers to maintain a minimum amount of capital in excess of the statutory definition of net assets or maintain certain minimum capital and surplus levels. In addition, some jurisdictions place certain restrictions on amounts that may be loaned or transferred to the parent company. The Group's ability to pay dividends may be restricted by these requirements.

Dividends are declared in Swiss francs. During the years ended 31 December 2016 and 2017, the Group paid dividends per share of CHF 4.60 and CHF 4.85, respectively.

Earnings per share for the years ended 31 December were as follows:

USD millions (except share data)	2016	2017
<b>Basic earnings per share</b>		
Net income	3 623	393
Non-controlling interests	3	5
Interest on contingent capital instruments <sup>1</sup>	-68	-67
Net income attributable to common shareholders	3 558	<b>331</b>
Weighted average common shares outstanding	331 767 651	320 811 238
<b>Net income per share in USD</b>	10.72	<b>1.03</b>
<b>Net income per share in CHF<sup>2</sup></b>	10.55	<b>1.02</b>
<b>Effect of dilutive securities</b>		
Change in income available to common shares due to contingent capital instruments <sup>1</sup>	68	
Change in average number of shares due to contingent capital instruments	35 745 192	
Change in average number of shares due to employee options	1 768 217	514 803
<b>Diluted earnings per share</b>		
Net income assuming debt conversion and exercise of options	3 626	<b>331</b>
Weighted average common shares outstanding	369 281 060	321 326 041
<b>Net income per share in USD</b>	9.82	<b>1.03</b>
<b>Net income per share in CHF<sup>2</sup></b>	9.66	<b>1.01</b>

<sup>1</sup> Please refer to Note 11 "Debt and contingent capital instruments".

<sup>2</sup> The translation from USD to CHF is shown for informational purposes only and has been calculated using the Group's average exchange rates.

At the 152nd Annual General Meeting held on 22 April 2016 and at the 153rd Annual General Meeting held on 21 April 2017, the Group's shareholders authorised the Group Board of Directors to repurchase up to a maximum CHF 1 billion purchase value of the Group's own shares through public share buy-back programmes for cancellation purposes prior to the 2017 and 2018 Annual General Meetings, respectively.

The buy-back programme prior to the 153rd Annual General Meeting was completed as of 9 February 2017. The total number of shares repurchased amounted to 10.6 million, of which 5.5 million and 5.1 million shares were repurchased as of 31 December 2016 and between 1 January and 9 February 2017, respectively. The 153rd Annual General Meeting resolved the cancellation of the repurchased 10.6 million shares by way of share capital reduction. The shares were cancelled as of 25 July 2017, after completion of the procedure in respect of a share capital reduction as set forth in Article 732 et seqq. of the Swiss Code of Obligations. As of 31 December 2017, 6.3 million shares were repurchased through the buy-back programme launched on 3 November 2017.

Net of tax expense effects from contingent capital instruments, totalling USD 67 million in 2017, and the potential impact of these instruments on the weighted average number of shares, of 31 642 628 shares, have not been included in the diluted earnings per share calculation because the impact of such an inclusion was antidilutive.

## 13 Income taxes

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

USD millions	2016	2017
Current taxes	728	727
Deferred taxes	21	-595
<b>Income tax expense</b>	<b>749</b>	<b>132</b>

### Tax rate reconciliation

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

USD millions	2016	2017
Income tax at the Swiss statutory tax rate of 21.0%	918	110
Increase (decrease) in the income tax charge resulting from:		
Foreign income taxed at different rates	191	11
Impact of foreign exchange movements	-5	71
Tax exempt income/dividends received deduction	-44	-51
Change in valuation allowance	-256	-77
Non-deductible expenses	65	57
Change in statutory rate	6	-60
Change in liability for unrecognised tax benefits including interest and penalties	-116	13
Other, net <sup>1</sup>	-10	58
<b>Total</b>	<b>749</b>	<b>132</b>

<sup>1</sup> Other, net includes tax return to tax provision adjustments from various jurisdictions.

For the year ended 31 December 2017, the Group reported a tax charge of USD 132 million on a pre-tax income of USD 525 million, compared to a charge of USD 749 million on a pre-tax income of USD 4 372 million for 2016. This translates into an effective tax rate in the current and prior-year reporting periods of 25.1% and 17.1%, respectively.

For the year ended 31 December 2017, the tax rate was largely driven by profits earned in higher-tax jurisdictions, tax charges from foreign currency translation differences between statutory and US GAAP accounts and expenses not allowed for local tax purposes, partially offset by tax benefits from US tax law changes. The lower rate in the year ended 31 December 2016, was largely driven by benefits from the effective settlement of tax audits in certain jurisdictions and releases of valuation allowance on net operating losses partially offset by tax on profits earned in higher-tax jurisdictions.

At 31 December 2017, the tax rate includes a tax benefit of USD 93 million from US tax reform impact. The impact is included within the change in statutory rate and change in valuation allowance components of the tax rate reconciliation. The benefit arises from revaluing the US deferred tax assets and liabilities to the new US statutory tax rate of 21% (from 35%).

## Deferred and other non-current taxes

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

USD millions	2016	2017
<b>Deferred tax assets</b>		
Income accrued/deferred	354	259
Technical provisions	640	488
Pension provisions	378	313
Benefit on loss carryforwards	2 914	2 296
Currency translation adjustments	339	490
Unrealised gains in income	424	487
Other	1 381	981
<b>Gross deferred tax asset</b>	<b>6 430</b>	<b>5 314</b>
Valuation allowance	-505	-475
Unrecognised tax benefits offsetting benefits on loss carryforwards	-23	-22
<b>Total deferred tax assets</b>	<b>5 902</b>	<b>4 817</b>
<b>Deferred tax liabilities</b>		
Present value of future profits	-336	-322
Income accrued/deferred	-600	-473
Bond amortisation	-124	-241
Deferred acquisition costs	-961	-918
Technical provisions	-3 547	-2 191
Unrealised gains on investments	-1 072	-984
Untaxed realised gains	-393	-294
Foreign exchange provisions	-527	-507
Other	-778	-807
<b>Total deferred tax liabilities</b>	<b>-8 338</b>	<b>-6 737</b>
Liability for unrecognised tax benefits including interest and penalties	-245	-238
<b>Total deferred and other non-current tax liabilities</b>	<b>-8 583</b>	<b>-6 975</b>
<b>Net deferred and other non-current taxes</b>	<b>-2 681</b>	<b>-2 158</b>

As previously noted in the tax rate reconciliation, a tax benefit of USD 93 million arises from revaluing the US deferred tax assets and liabilities to the new US tax rate of 21% (from 35%). Accordingly, the revaluing reduced the US deferred tax assets by USD 1 220 million and the US deferred tax liabilities by USD 1 313 million (net USD 93 million).

As of 31 December 2017, the aggregate amount of temporary differences associated with investment in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised amount to approximately USD 3.2 billion. In the remote scenario in which these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

As of 31 December 2017, the Group had USD 9 705 million net operating tax loss carryforwards, expiring as follows: USD 19 million in 2018, USD 47 million in 2019, USD 14 million in 2020, USD 11 million in 2021, USD 8 502 million in 2022 and beyond, and USD 1 112 million never expire.

As of 31 December 2017, the Group had capital loss carryforwards of USD 1 096 million, expiring as follows: USD 4 million in 2020, USD 4 million in 2021, USD 6 million in 2022, and USD 1 082 million never expire.

For the year ended 31 December 2017, net operating tax losses of USD 1 036 million and net capital tax losses of USD 27 million were utilised.

Income taxes paid in 2016 and 2017 were USD 755 million and USD 720 million, respectively.

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### Notes to the Group financial statements

#### Unrecognised tax benefits

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

USD millions	2016	2017
Balance as of 1 January	343	216
Additions based on tax positions related to current year	37	24
Additions based on tax positions related to prior years	21	16
Current year acquisitions	24	
Reductions for tax positions of current year		-9
Reductions for tax positions of prior years	-106	-12
Statute expiration	-47	-9
Settlements	-53	-29
Other (including foreign currency translation)	-3	9
<b>Balance as of 31 December</b>	<b>216</b>	<b>206</b>

As of 31 December 2016 and 2017, the amount of gross unrecognised tax benefits within the tabular reconciliation that, if recognised, would affect the effective tax rate were approximately USD 216 million and USD 206 million, respectively.

Interest and penalties related to unrecognised tax benefits are recorded in income tax expense. For the years ended 31 December 2016 and 2017 such expenses were USD 21 million and USD 2 million, respectively. For the years ended 31 December 2016 and 2017, USD 52 million and USD 54 million, respectively, were accrued for the payment of interest (net of tax benefits) and penalties. The accrued interest balance as of 31 December 2017 is included within the deferred and other non-current taxes section reflected above and in the balance sheet.

The balance of gross unrecognised tax benefits as of 31 December 2017 presented in the table above excludes accrued interest and penalties (USD 54 million).

During the year, certain tax positions and audits in France and Switzerland were effectively settled.

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

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

Australia	2013–2017	Korea	2014–2017
Brazil	2011–2017	Luxembourg	2013–2017
Canada	2010–2017	Malaysia	2009–2017
China	2006–2017	Mexico	2012–2017
Colombia	2015–2017	Netherlands	2013–2017
Denmark	2011–2017	New Zealand	2012–2017
France	2015–2017	Singapore	2011–2017
Germany	2014–2017	Slovakia	2012–2017
Hong Kong	2009–2017	South Africa	2012–2017
India	2006–2017	Spain	2013–2017
Ireland	2012–2017	Switzerland	2014–2017
Israel	2013–2017	United Kingdom	2008, 2009, 2011–2017
Italy	2012–2017	United States	2011–2017
Japan	2010–2017		

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## 14 Benefit plans

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

The Group sponsors various funded defined benefit pension plans. Employer contributions to the plans are charged to income on a basis which recognises the costs of pensions over the expected service lives of employees covered by the plans. The Group's funding policy for these plans is to contribute annually at a rate that is intended to maintain a level percentage of compensation for the employees covered. A full valuation is prepared at least every three years.

The Group also provides certain healthcare and life insurance benefits for retired employees and their dependants. Employees become eligible for these benefits when they become eligible for pension benefits.

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### Notes to the Group financial statements

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

2016 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Benefit obligation as of 1 January	3 877	2 206	363	6 446
Service cost	113	8	5	126
Interest cost	31	76	10	117
Actuarial gains/losses	71	349	9	429
Benefits paid	-140	-72	-16	-228
Employee contribution	25			25
Effect of settlement, curtailment and termination	1			1
Effect of foreign currency translation	-62	-209	-2	-273
<b>Benefit obligation as of 31 December</b>	<b>3 916</b>	<b>2 358</b>	<b>369</b>	<b>6 643</b>
Fair value of plan assets as of 1 January	3 479	2 235	0	5 714
Actual return on plan assets	128	256		384
Company contribution	95	62	16	173
Benefits paid	-140	-72	-16	-228
Employee contribution	25			25
Effect of settlement, curtailment and termination	1			1
Effect of foreign currency translation	-56	-224		-280
<b>Fair value of plan assets as of 31 December</b>	<b>3 532</b>	<b>2 257</b>	<b>0</b>	<b>5 789</b>
<b>Funded status</b>	<b>-384</b>	<b>-101</b>	<b>-369</b>	<b>-854</b>

2017 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Benefit obligation as of 1 January	3 916	2 358	369	6 643
Service cost	111	8	4	123
Interest cost	24	69	9	102
Amendments	-55		-3	-58
Actuarial gains/losses	-57	-48	42	-63
Benefits paid	-185	-78	-17	-280
Employee contribution	26			26
Effect of settlement, curtailment and termination	2	-20		-18
Effect of foreign currency translation	166	175	9	350
<b>Benefit obligation as of 31 December</b>	<b>3 948</b>	<b>2 464</b>	<b>413</b>	<b>6 825</b>
Fair value of plan assets as of 1 January	3 532	2 257	0	5 789
Actual return on plan assets	264	167		431
Company contribution	95	61	17	173
Benefits paid	-185	-78	-17	-280
Employee contribution	26			26
Effect of settlement, curtailment and termination	2	-20		-18
Effect of foreign currency translation	153	178		331
<b>Fair value of plan assets as of 31 December</b>	<b>3 887</b>	<b>2 565</b>	<b>0</b>	<b>6 452</b>
<b>Funded status</b>	<b>-61</b>	<b>101</b>	<b>-413</b>	<b>-373</b>



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

2016 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Non-current assets		140		140
Current liabilities		-2	-15	-17
Non-current liabilities	-384	-239	-354	-977
<b>Net amount recognised</b>	<b>-384</b>	<b>-101</b>	<b>-369</b>	<b>-854</b>

2017 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Non-current assets		278		278
Current liabilities		-3	-18	-21
Non-current liabilities	-61	-174	-395	-630
<b>Net amount recognised</b>	<b>-61</b>	<b>101</b>	<b>-413</b>	<b>-373</b>

Amounts recognised in accumulated other comprehensive income, gross of tax, as of 31 December were as follows:

2016 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Net gain/loss	1 113	513	-30	1 596
Prior service cost/credit	-69	2	-58	-125
<b>Total</b>	<b>1 044</b>	<b>515</b>	<b>-88</b>	<b>1 471</b>

2017 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Net gain/loss	805	375	13	1 193
Prior service cost/credit	-115	2		-113
<b>Total</b>	<b>690</b>	<b>377</b>	<b>13</b>	<b>1 080</b>

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Notes to the Group financial statements

### Components of net periodic benefit cost

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

2016 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Service cost (net of participant contributions)	113	8	5	126
Interest cost	31	76	10	117
Expected return on assets	-113	-89		-202
Amortisation of:				
Net gain/loss	76	11	-4	83
Prior service cost	-9		-9	-18
Effect of settlement, curtailment and termination	1			1
<b>Net periodic benefit cost</b>	<b>99</b>	<b>6</b>	<b>2</b>	<b>107</b>

2017 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Service cost (net of participant contributions)	111	8	4	123
Interest cost	24	69	9	102
Expected return on assets	-90	-78		-168
Amortisation of:				
Net gain/loss	77	35	-1	111
Prior service cost	-9			-9
Effect of settlement, curtailment and termination	2		-61	-59
<b>Net periodic benefit cost</b>	<b>115</b>	<b>34</b>	<b>-49</b>	<b>100</b>

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

2016 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Net gain/loss	56	182	9	247
Prior service cost/credit				0
Amortisation of:				
Net gain/loss	-76	-11	4	-83
Prior service cost	9		9	18
Effect of settlement, curtailment and termination				0
Exchange rate gain/loss recognised during the year		-42		-42
<b>Total recognised in other comprehensive income, gross of tax</b>	<b>-11</b>	<b>129</b>	<b>22</b>	<b>140</b>
<b>Total recognised in net periodic benefit cost and other comprehensive income, gross of tax</b>	<b>88</b>	<b>135</b>	<b>24</b>	<b>247</b>

2017 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Net gain/loss	-231	-137	42	-326
Prior service cost/credit	-55		-3	-58
Amortisation of:				
Net gain/loss	-77	-35	1	-111
Prior service cost	9			9
Effect of settlement, curtailment and termination			61	61
Exchange rate gain/loss recognised during the year		34		34
<b>Total recognised in other comprehensive income, gross of tax</b>	<b>-354</b>	<b>-138</b>	<b>101</b>	<b>-391</b>
<b>Total recognised in net periodic benefit cost and other comprehensive income, gross of tax</b>	<b>-239</b>	<b>-104</b>	<b>52</b>	<b>-291</b>

The estimated net loss and prior service credit for the defined benefit pension plans that will be amortised from accumulated other comprehensive income into net periodic benefit cost in 2018 are USD 73 million and USD 15 million, respectively. The estimated net gain/loss and prior service cost/credit for the other defined post-retirement benefits that will be amortised from accumulated other comprehensive income into net periodic benefit cost in 2018 are nil.

The accumulated benefit obligation (the current value of accrued benefits excluding future salary increases) for pension benefits was USD 6 205 million and USD 6 335 million as of 31 December 2016 and 2017, respectively.

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

USD millions	2016	2017
Projected benefit obligation	5 478	5 071
Accumulated benefit obligation	5 441	5 025
Fair value of plan assets	4 854	4 834

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Notes to the Group financial statements

### Principal actuarial assumptions

	Swiss plan		Foreign plans weighted average		Other benefits weighted average	
	2016	2017	2016	2017	2016	2017
<b>Assumptions used to determine obligations at the end of the year</b>						
Discount rate	0.6%	0.6%	2.9%	2.8%	2.4%	2.1%
Rate of compensation increase	1.8%	1.8%	3.1%	3.0%	2.1%	2.1%
<b>Assumptions used to determine net periodic pension costs for the year ended</b>						
Discount rate	0.8%	0.6%	3.7%	2.9%	2.7%	2.4%
Expected long-term return on plan assets	3.3%	2.5%	4.1%	3.5%		
Rate of compensation increase	2.0%	1.8%	2.9%	3.1%	2.1%	2.1%
<b>Assumed medical trend rates at year end</b>						
Medical trend – initial rate					5.1%	5.6%
Medical trend – ultimate rate					3.8%	3.8%
Year that the rate reaches the ultimate trend rate					2021	2021

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

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one percentage point change in assumed healthcare cost trend rates would have had the following effects for 2017:

USD millions	1 percentage point increase	1 percentage point decrease
Effect on total of service and interest cost components	1	0
Effect on post-retirement benefit obligation	29	-25

### Plan asset allocation by asset category

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

Asset category	Swiss plan allocation			Foreign plans allocation		
	2016	2017	Target allocation	2016	2017	Target allocation
Equity securities	27%	29%	25%	23%	21%	21%
Debt securities	44%	41%	47%	51%	71%	73%
Real estate	22%	23%	20%	0%	0%	0%
Other	7%	7%	8%	26%	8%	6%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Actual asset allocation is determined by a variety of current economic and market conditions and considers specific asset class risks.

Equity securities include Swiss Re common stock of USD 7 million (0.1% of total plan assets) and USD 6 million (0.1% of total plan assets) as of 31 December 2016 and 2017, respectively.

The Group's pension plan investment strategy is to match the maturity profiles of the assets and liabilities in order to reduce the future volatility of pension expense and funding status of the plans. This involves balancing investment portfolios between equity and fixed income securities. Tactical allocation decisions that reflect this strategy are made on a quarterly basis.

### Assets measured at fair value

For a description of the different fair value levels and valuation techniques see Note 8 "Fair value disclosures".

Certain items reported as pension plan assets at fair value in the following table are not within the scope of Note 8, namely two positions: real estate and an insurance contract.

Real estate positions classified as level 1 and level 2 are exchange traded real estate funds where a market valuation is readily available. Real estate reported on level 3 is property owned by the pension funds. These positions are accounted for at the capitalised income value. The capitalisation based on sustainable recoverable earnings is conducted at interest rates that are determined individually for each property, based on the property's location, age and condition. If properties are intended for disposal, the estimated selling costs and taxes are recognised in provisions. Sales gains or losses are allocated to income from real estate when the contract is concluded.

The fair value of the insurance contract is based on the fair value of the assets backing the contract.

Other assets classified within level 3 mainly consist of private equity investments valued with the same methodology as mentioned in Note 8.

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

2016 USD millions	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments measured at net asset value as practical expedient	Total
<b>Assets</b>					
Fixed-income securities:					
Debt securities issued by the US government and government agencies	28	145			173
Debt securities issued by non-US governments and government agencies		348			348
Corporate debt securities		2 069	9		2 078
Residential mortgage-backed securities		26			26
Commercial mortgage-backed securities		4			4
Other asset-backed securities		6			6
Equity securities:					
Equity securities held for proprietary investment purposes	1 004	451	97		1 552
Derivative financial instruments		-6			-6
Real estate			612		612
Other assets		514		387	901
<b>Total assets at fair value</b>	<b>1 032</b>	<b>3 557</b>	<b>718</b>	<b>387</b>	<b>5 694</b>
Cash	97	-2			95
<b>Total plan assets</b>	<b>1 129</b>	<b>3 555</b>	<b>718</b>	<b>387</b>	<b>5 789</b>

2017 USD millions	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments measured at net asset value as practical expedient	Total
<b>Assets</b>					
Fixed-income securities:					
Debt securities issued by the US government and government agencies	30	681			711
Debt securities issued by non-US governments and government agencies		847			847
Corporate debt securities		1 723	10		1 733
Residential mortgage-backed securities		23			23
Commercial mortgage-backed securities		1			1
Other asset-backed securities		1			1
Equity securities:					
Equity securities held for proprietary investment purposes	1 141	414	103		1 658
Short-term investments		38			38
Derivative financial instruments		-13			-13
Real estate			692		692
Other assets		89		563	652
<b>Total assets at fair value</b>	<b>1 171</b>	<b>3 804</b>	<b>805</b>	<b>563</b>	<b>6 343</b>
Cash	109				109
<b>Total plan assets</b>	<b>1 280</b>	<b>3 804</b>	<b>805</b>	<b>563</b>	<b>6 452</b>

### Assets measured at fair value using significant unobservable inputs (Level 3)

For the years ended 31 December, the reconciliation of fair value of pension plan assets using significant unobservable inputs were as follows:

2016 USD millions	Real estate	Other assets	Total
Balance as of 1 January	596	142	738
Realised/unrealised gains/losses:			
Relating to assets still held at the reporting date	17	-14	3
Relating to assets sold during the period		13	13
Purchases, issuances and settlements	8	21	29
Transfers in and/or out of Level 3		-53	-53
Impact of foreign exchange movements	-9	-3	-12
<b>Closing balance as of 31 December</b>	<b>612</b>	<b>106</b>	<b>718</b>

2017 USD millions	Real estate	Other assets	Total
Balance as of 1 January	612	106	718
Realised/unrealised gains/losses:			
Relating to assets still held at the reporting date	34	-26	8
Relating to assets sold during the period		19	19
Purchases, issuances and settlements	19	11	30
Transfers in and/or out of Level 3			0
Impact of foreign exchange movements	27	3	30
<b>Closing balance as of 31 December</b>	<b>692</b>	<b>113</b>	<b>805</b>

### Expected contributions and estimated future benefit payments

The employer contributions expected to be made in 2018 to the defined benefit pension plans are USD 114 million and to the post-retirement benefit plan are USD 18 million.

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

USD millions	Swiss plan	Foreign plans	Other benefits	Total
2018	216	104	18	338
2019	208	108	19	335
2020	205	112	20	337
2021	201	115	20	336
2022	196	118	21	335
Years 2023-2027	932	632	110	1 674

### Defined contribution pension plans

The Group sponsors a number of defined contribution plans to which employees and the Group make contributions. The accumulated balances are paid as a lump sum at the earlier of retirement, termination, disability or death. The amount expensed in 2016 and in 2017 was USD 69 million and USD 81 million, respectively.

## 15 Share-based payments

As of 31 December 2016 and 2017, the Group had the share-based compensation plans as described below.

The total compensation cost for share-based compensation plans recognised in net income was USD 66 million and USD 55 million in 2016 and 2017, respectively. The related tax benefit was USD 14 million and USD 12 million, respectively.

### Restricted shares

The Group granted 47 795 and 29 914 restricted shares to selected employees in 2016 and 2017, respectively. Moreover, as an alternative to the Group's cash bonus programme, 300 382 and 276 483 shares were delivered during 2016 and 2017, respectively, which are generally not subject to forfeiture risk.

A summary of the movements in shares relating to outstanding awards granted under the restricted share plans for the year ended 31 December 2017 is as follows:

	Weighted average grant date fair value in CHF <sup>1</sup>	Number of shares
Non-vested at 1 January	86	528 672
Granted	90	306 397
Forfeited	90	-2 312
Vested	86	-348 913
<b>Outstanding as of 31 December</b>	<b>88</b>	<b>483 844</b>

<sup>1</sup> Equal to the market price of the shares on the date of grant.



## Leadership Performance Plan

The Leadership Performance Plan (LPP) awards are expected to be settled in shares, and the requisite service as well as the maximum contractual term are three years. For LPP 2014, LPP 2015, LPP 2016 and LPP 2017 awards, an additional two-year holding period applies for all members of the Group EC and other key executives. At grant date the award is split equally into two underlying components – Restricted Share Units (RSUs) and Performance Share Units (PSUs). The RSUs are measured against a ROE performance condition and will vest within a range of 0–100%. The PSUs are based on relative total shareholder return, measured against a pre-defined group of peers and will vest within a range of 0–200%. The fair values of both components are measured separately, based on stochastic models.

The fair value assumptions in the grant valuations include market estimates for dividends (and an additional special dividend of CHF 4.15 for the LPP 2014 and a special dividend of CHF 3.00 for the LPP 2015, respectively) and the risk-free rate based on the average of the 5-year US government bond rate (for LPP 2014 and LPP 2015) and the average of the 10-year US government bond rate (for LPP 2016 and LPP 2017) taken monthly over each year in the performance period. This resulted in risk-free rates between 1.8% and 3.1% for all LPP awards.

For the year ended 31 December 2017, the outstanding units were as follows:

<b>RSUs</b>	LPP 2014	LPP 2015	LPP 2016	LPP 2017
Non-vested at 1 January	349 960	320 805	360 787	
Granted				528 175
Forfeited	–1 650	–10 725	–12 448	–17 034
Vested	–348 310			
<b>Outstanding as of 31 December</b>	<b>0</b>	<b>310 080</b>	<b>348 339</b>	<b>511 141</b>
<b>Grant date fair value in CHF</b>	<b>60.85</b>	<b>67.65</b>	<b>67.91</b>	<b>47.41</b>

<b>PSUs</b>				
Non-vested at 1 January	353 670	353 785	489 519	
Granted				720 025
Forfeited	–1 670	–11 830	–16 891	–23 221
Vested	–352 000			
<b>Outstanding as of 31 December</b>	<b>0</b>	<b>341 955</b>	<b>472 628</b>	<b>696 804</b>
<b>Grant date fair value in CHF</b>	<b>60.21</b>	<b>61.37</b>	<b>50.04</b>	<b>34.78</b>

## Unrecognised compensation cost

As of 31 December 2017, the total unrecognised compensation cost (net of forfeitures) related to non-vested, share-based compensation awards was USD 54 million and the weighted average period over which that cost is expected to be recognised is 1.9 years.

The number of shares authorised for the Group's share-based payments to employees was 3 665 794 and 4 411 532 as of 31 December 2016 and 2017, respectively. The Group's policy is to ensure that sufficient treasury shares are available at all times to settle future share-based compensation plans.

## Global Share Participation Plan

In June 2013, Swiss Re introduced the Global Share Participation Plan, which is a share purchase plan that was rolled out for the benefit of employees of companies within the Group. Swiss Re makes a financial contribution to participants in the Plan, by matching the commitment that they make during the plan cycle with additional Swiss Re shares.

If the employee is still employed by Swiss Re at the end of a plan cycle, the employee will receive an additional number of shares equal to 30% of the total number of purchased and dividend shares held at that time. In 2016 and 2017, Swiss Re contributed USD 12 million and USD 11 million to the plans and authorised 178 233 and 162 487 shares as of 31 December 2016 and 2017, respectively.

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## 16 Compensation, participations and loans of members of governing bodies

The disclosure requirements under Swiss Law in respect of compensation and loans to the members of the Board of Directors and of the Group Executive Committee, as well as closely related persons, are detailed in the Compensation Report on pages 173–178 of the Financial Report of the Swiss Re Group.

The disclosure requirements under Swiss Law in respect of participations of members of the Board of Directors and the Group Executive Committee, as well as closely related persons, are detailed on pages 308–309 of the Annual Report of Swiss Re Ltd.

## 17 Related parties

The Group defines the following as related parties to the Group: subsidiaries of Swiss Re Ltd, entities in which the Group has significant influence, pension plans, members of the Board of Directors (BoD) and the Group Executive Committee (EC) and their close family members, and entities which are directly and indirectly controlled by members of governing bodies of the Group and their close family members.

As part of the consolidation process, transactions between Swiss Re Ltd and subsidiaries are eliminated in consolidation and are not disclosed in the notes.

As of 31 December 2016 and 2017, the Group's investment in mortgages and other loans included USD 292 million and USD 301 million, respectively, of loans due from employees, and USD 184 million and USD 181 million, respectively, due from officers. These loans generally consist of mortgages offered at variable and fixed interest rates.

Contributions made to defined benefit pension plans and post-retirement benefit plans are disclosed in Note 14 Benefit plans. Plan assets of the defined benefit pension plans include Swiss Re common stock of USD 7 million (0.1% of total plan assets) and USD 6 million (0.1% of total plan assets) as of 31 December 2016 and 2017, respectively.

The total number of shares, options and related instruments held by members of the BoD and the Group EC and persons closely related to, amounts to less than 1% of the shares issued by Swiss Re Ltd. None of the members of BoD and the Group EC has any significant business connection with Swiss Re Ltd or any of its Group companies. The Group BoD member Susan L. Wagner is also a board member of BlackRock, Inc. BlackRock, Inc is acting as external asset manager for the Group.

Share in earnings and dividends received from equity-accounted investees for the years ended 31 December, were as follows:

USD millions	2016	2017
Share in earnings of equity-accounted investees	41	100
Dividends received from equity-accounted investees	176	170

## 18 Commitments and contingent liabilities

### Leasing commitments

As part of its normal business operations, the Group enters into a number of lease agreements. As of 31 December, such agreements, which are operating leases, total the following obligations for the next five years and thereafter:

USD millions	2017
2018	128
2019	118
2020	100
2021	64
2022	57
After 2022	324
<b>Total operating lease commitments</b>	<b>791</b>
Less minimum non-cancellable sublease rentals	21
<b>Total net future minimum lease commitments</b>	<b>770</b>

Minimum rentals for all operating leases (except those with terms of one month or less that were not renewed) for the years ended 31 December 2016 and 2017 were USD 76 million and USD 94 million, respectively. Sublease rental income for the years ended 31 December 2016 and 2017 was nil and USD 2 million, respectively.

### Other commitments

As a participant in limited and other investment partnerships, the Group commits itself to making available certain amounts of investment funding, callable by the partnerships for periods of up to ten years. The total commitments remaining uncalled as of 31 December 2017 were USD 2 252 million.

In 2016, the Group entered into a real estate construction contract. Total commitments under the contract amount to USD 52 million over the next three years.

The Group enters into a number of contracts in the ordinary course of reinsurance and financial services business which, if the Group's credit rating and/or defined statutory measures decline to certain levels, would require the Group to post collateral or obtain guarantees. The contracts typically provide alternatives for recapture of the associated business.

### Legal proceedings

In the normal course of business operations, the Group is involved in various claims, lawsuits and regulatory matters. In the opinion of management, the disposition of these matters is not expected to have a material adverse effect on the Group's business, consolidated financial position, results of operations or cash flows.

## 19 Significant subsidiaries and equity investees

	Share capital (millions)	Affiliation in % as of 31.12.2017	Method of consolidation	
<b>Europe</b>				
<b>Germany</b>				
Swiss Re Germany GmbH, Munich	EUR	45	100	f
<b>Ireland</b>				
Ark Life Assurance Company dac, Dublin	EUR	19	100	f
<b>Jersey</b>				
ReAssure Holdings Limited, St Helier	GBP	0	100	f
ReAssure Jersey One Limited, St Helier	GBP	1	100	f
ReAssure Jersey Two Limited, St Helier	GBP	3	100	f
Swiss Re ReAssure Limited, St Helier	GBP	3	100	f
Swiss Re ReAssure Midco Limited, St Helier	GBP	0	100	f
<b>Liechtenstein</b>				
Elips Life AG, Triesen	CHF	12	100	f
Elips Versicherungen AG, Triesen	CHF	5	100	f
<b>Luxembourg</b>				
iptiQ Life S.A., Luxembourg	EUR	6	100	f
Swiss Re Europe Holdings S.A., Luxembourg	EUR	105	100	f
Swiss Re Europe S.A., Luxembourg	EUR	350	100	f
Swiss Re Finance (Luxembourg) S.A., Luxembourg	EUR	0	100	f
Swiss Re Funds (Lux) I, Senningerberg <sup>1</sup>	EUR	12 552	100	f
Swiss Re International SE, Luxembourg	EUR	182	100	f
<b>Switzerland</b>				
Swiss Pillar Investments Ltd, Zurich	CHF	0	100	f
Swiss Re Corporate Solutions Ltd, Zurich	CHF	100	100	f
Swiss Re Direct Investments Company Ltd, Zurich	CHF	0	100	f
Swiss Re Investments Company Ltd, Zurich	CHF	0	100	f
Swiss Re Investments Holding Company Ltd, Zurich	CHF	0	100	f
Swiss Re Investments Ltd, Zurich	CHF	1	100	f
Swiss Re Life Capital Ltd, Zurich	CHF	0	100	f
Swiss Re Life Capital Reinsurance Ltd, Zurich	CHF	10	100	f
Swiss Re Management Ltd, Adliswil	CHF	0	100	f
Swiss Re Principal Investments Company Ltd, Zurich	CHF	0	100	f
Swiss Re Reinsurance Holding Company Ltd, Zurich	CHF	0	100	f
Swiss Reinsurance Company Ltd, Zurich	CHF	34	100	f

### Method of consolidation

f full

e equity

fv fair value

<sup>1</sup> Net asset value instead of share capital

## Financial statements

### Notes to the Group financial statements

		Share capital (millions)	Affiliation in % as of 31.12.2017	Method of consolidation
<b>United Kingdom</b>				
IptiQ Holdings Limited, Shropshire	GBP	0	100	f
Pension Insurance Corporation Group Limited, London	GBP	1 000	4	fv
ReAssure FSH UK Limited, Shropshire	GBP	710	100	f
ReAssure Group Limited, Shropshire	GBP	0	100	f
ReAssure Limited, Shropshire	GBP	289	100	f
Swiss Re Capital Markets Limited, London	USD	60	100	f
Swiss Re Services Limited, London	GBP	2	100	f
Swiss Re Specialised Investments Holdings (UK) Limited, London	GBP	1	100	f
<b>Americas and Caribbean</b>				
<b>Barbados</b>				
European Finance Reinsurance Company Ltd., Bridgetown	USD	5	100	f
European International Reinsurance Company Ltd., Bridgetown	USD	1	100	f
Milvus I Reassurance Limited, Bridgetown	USD	481	100	f
Swiss Re (Barbados) Finance Limited, Bridgetown	GBP	0	100	f
<b>Bermuda</b>				
CORE Reinsurance Company Limited, Hamilton	USD	0	100	f
Swiss Re Global Markets Limited, Hamilton	USD	0	100	f
<b>Brazil</b>				
Sul America S.A., Rio de Janeiro	BRL	3 320	15	e
Swiss Re Brasil Resseguros S.A., São Paulo	BRL	295	100	f
Swiss Re Corporate Solutions Brasil Seguros S.A., São Paulo	BRL	318	60	f
<b>Cayman Islands</b>				
Ampersand Investments (UK) Limited, George Town	GBP	0	100	f
FWD Group Ltd, Grand Cayman	USD	1	15	e
PEP SR I Umbrella L.P., George Town	USD	595	100	f
Swiss Re Strategic Investments UK Limited, George Town	GBP	0	100	f
<b>Colombia</b>				
Compañía Aseguradora de Fianzas S.A. Confianza, Bogotá	COP	224 003	51	f

		Share capital (millions)	Affiliation in % as of 31.12.2017	Method of consolidation
<b>United States</b>				
Claret Re Inc., Burlington	USD	5	100	f
Facility Insurance Holding Corporation, Dallas	USD	0	100	f
First Specialty Insurance Corporation, Jefferson City	USD	5	100	f
North American Capacity Insurance Company, Manchester	USD	4	100	f
North American Elite Insurance Company, Manchester	USD	4	100	f
North American Specialty Insurance Company, Manchester	USD	5	100	f
Pecan Re Inc., Burlington	USD	5	100	f
Pillar RE Holdings LLC, Wilmington	USD	0	100	f
SR Corporate Solutions America Holding Corporation, Wilmington	USD	0	100	f
Sterling Re Inc., Burlington	USD	213	100	f
Swiss Re America Holding Corporation, Wilmington	USD	0	100	f
Swiss Re Capital Markets Corporation, New York	USD	0	100	f
Swiss Re Corporate Solutions Global Markets Inc., New York	USD	0	100	f
Swiss Re Financial Markets Corporation, Wilmington	USD	0	100	f
Swiss Re Financial Products Corporation, Wilmington <sup>2</sup>	USD	0	100	f
Swiss Re Life & Health America Holding Company, Wilmington	USD	0	100	f
Swiss Re Life & Health America Inc., Jefferson City	USD	4	100	f
Swiss Re Management (US) Corporation, Wilmington	USD	0	100	f
Swiss Re Risk Solutions Corporation, Wilmington	USD	0	100	f
Swiss Re Treasury (US) Corporation, Wilmington	USD	0	100	f
Swiss Reinsurance America Corporation, Armonk	USD	10	100	f
Washington International Insurance Company, Manchester	USD	4	100	f
Westport Insurance Corporation, Jefferson City	USD	6	100	f
<b>Africa</b>				
<b>South Africa</b>				
Swiss Re Life and Health Africa Limited, Cape Town	ZAR	2	100	f
<b>Asia-Pacific</b>				
<b>Australia</b>				
Swiss Re Australia Ltd, Sydney	AUD	845	100	f
Swiss Re Life & Health Australia Limited, Sydney	AUD	980	100	f
<b>China</b>				
Alltrust Insurance Company Limited, Shanghai	CNY	2 178	5	fv
Swiss Re Corporate Solutions Insurance China Ltd, Shanghai	CNY	500	100	f
<b>Singapore</b>				
Swiss Re Asia Pte. Ltd., Singapore	SGD	428	100	f
<b>Vietnam</b>				
Vietnam National Reinsurance Corporation, Hanoi	VND	1 310 759	25	e

<sup>2</sup> Between 2016 and 2017, share capital has been reclassified to share premiums

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## 20 Variable interest entities

The Group enters into arrangements with variable interest entities (VIEs) in the normal course of business. The involvement ranges from being a passive investor to designing, structuring and managing the VIEs. The variable interests held by the Group arise primarily as a result of the Group's involvement in certain insurance-linked securitisations, life and health funding transactions, swaps in trusts, debt financing, investment, senior commercial mortgage and infrastructure loans as well as other entities, which meet the definition of a VIE.

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

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

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

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

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

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

### Insurance-linked securitisations

The insurance-linked securitisations transfer pre-existing insurance risk to investors through the issuance of insurance-linked securities. In insurance-linked securitisations, the securitisation vehicle assumes the insurance risk from a sponsor through insurance or derivative contracts. The securitisation vehicle generally retains the issuance proceeds as collateral, which consists of investment-grade securities. The Group does not have potentially significant variable interest in these vehicles and therefore is not a primary beneficiary.

Typically, the variable interests held by the Group arise through ownership of insurance-linked securities, in which case the Group's maximum loss equals the principal amount of the securities held by the Group.

### Life and health funding vehicles

The Group participates in certain structured transactions that retrocede longevity and mortality risks to captive reinsurers with an aim to provide regulatory capital credit to a transaction sponsor through creation of funding notes by a separate funding vehicle which is generally considered a VIE. The Group's participation in these transactions is generally limited to providing contingent funding support via a financial contract with a funding vehicle, which represents a potentially significant variable interest in the funding vehicle. The Group does not have power to direct activities of the funding vehicles and therefore is not a primary beneficiary of the funding vehicles in these transactions. The Group's maximum exposure in these transactions equals either the total contract notional or outstanding balance of the funding notes issued by the vehicle, depending on the specific contractual arrangements.



### **Swaps in trusts**

The Group provides interest rate and foreign exchange risk hedges to certain asset securitisation trusts which qualify as VIEs. As the Group's involvement is limited to interest rate and foreign exchange derivatives, it does not have power to direct any activities of the trusts and therefore does not qualify as primary beneficiary of any of these trusts. These activities are in run-off.

### **Debt financing vehicles**

The Group consolidates a debt-financing vehicle created to collateralise reinsurance coverage provided by the Group. The Group manages the asset portfolio in the vehicle and absorbs the variability of the investment return of the vehicle's portfolio, thereby satisfying both criteria for a controlling financial interest: power over activities most significant to the vehicle's economic performance and significant economic interest.

### **Investment vehicles**

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

The Group's variable interests in investment partnerships arise through ownership of the limited partner interests. Many investment partnerships are VIEs because the limited partners as a group lack kick-out or participating rights. The Group does not hold the general partner interest in the limited partnerships and therefore does not direct investment activities of the entity. Therefore, the Group lacks power over the relevant activities of the vehicles and, consequently, does not qualify as the primary beneficiary. The Group is exposed to losses when the values of the investments held by the investment vehicles decrease. The Group's maximum exposure to loss equals the Group's share of the investment.

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

The Group consolidates an investment vehicle, because the Group holds the entire interest in the entity and makes investment decisions related to the entity. The investment vehicle is a VIE because it is structured as an umbrella company comprised of multiple sub-funds. The majority of the investments held in this vehicle are accounted for as available-for-sale and are disclosed in the investment note and not included in the tables below.

### **Investment vehicles for 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.

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Notes to the Group financial statements

### 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.

### Other

The Group consolidates a vehicle providing reinsurance to its members, because it serves as a decision maker over the entity's investment and underwriting activities, as well as provides retrocession for the majority of the vehicle's insurance risk and receives performance-based fees. Additionally, the Group is obligated to provide the vehicle with loans in case of a deficit. The vehicle is a VIE, primarily because its total equity investment at risk is insufficient and the members lack decision-making rights.

The Group did not provide financial or other support to any VIEs during 2017 that it was not previously contractually required to provide.

### Consolidated VIEs

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

USD millions	2016	2017
Fixed income securities available-for-sale	3 715	3 974
Investment real estate	209	198
Short-term investments	128	62
Cash and cash equivalents	42	14
Accrued investment income	33	34
Premiums and other receivables	33	29
Deferred acquisition costs	9	4
Deferred tax assets	94	41
Other assets	12	15
<b>Total assets</b>	<b>4 275</b>	<b>4 371</b>
Unpaid claims and claim adjustment expenses	65	84
Liabilities for life and health policy benefits		1
Unearned premiums	25	12
Reinsurance balances payable	6	17
Deferred and other non-current tax liabilities	213	133
Accrued expenses and other liabilities	178	174
Long-term debt	2 270	2 369
<b>Total liabilities</b>	<b>2 757</b>	<b>2 790</b>

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.

## Financial statements

Notes to the Group financial statements

### Non-consolidated VIEs

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

USD millions	2016	2017
Fixed income securities available-for-sale	525	587
Equity securities available-for-sale	492	700
Policy loans, mortgages and other loans	876	1 035
Other invested assets	2 387	1 831
Investments for unit-linked and with-profit business	8 770	9 223
Premiums and other receivables	3	
<b>Total assets</b>	<b>13 053</b>	<b>13 376</b>
Accrued expenses and other liabilities	78	67
<b>Total liabilities</b>	<b>78</b>	<b>67</b>

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

USD millions	Total assets	Total liabilities	2016 Maximum exposure to loss <sup>1</sup>	Total assets	Total liabilities	2017 Maximum exposure to loss <sup>1</sup>
Insurance-linked securitisations	336		331	311		314
Life and health funding vehicles	2	1	1 948	27	1	2 052
Swaps in trusts	164	77	- <sup>2</sup>	25	66	- <sup>2</sup>
Debt financing vehicles	302		22			
Investment vehicles	2 423		2 424	2 493		2 494
Investment vehicles for unit-linked business	8 770			9 223		
Senior commercial mortgage and infrastructure loans	1 053		1 053	1 297		1 297
Other	3		3			
<b>Total</b>	<b>13 053</b>	<b>78</b>	<b>-<sup>2</sup></b>	<b>13 376</b>	<b>67</b>	<b>-<sup>2</sup></b>

<sup>1</sup> 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.

<sup>2</sup> The maximum exposure to loss for swaps in trusts cannot be meaningfully quantified due to their derivative character.

The assets and liabilities for the swaps in trusts represent the positive and negative fair values of the derivatives the Group has entered into with the trusts.

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## 21 Subsequent events

### **Investment by MS&AD Insurance Group Holdings Inc into ReAssure**

In October 2017, Swiss Re reached an agreement with MS&AD Insurance Group Holdings Inc (MS&AD) for an investment of up to GBP 800 million into ReAssure, for up to a three-year period from closing and with a maximum shareholding of 15%.

On 23 January 2018, after ReAssure obtained regulatory approval for the transaction, MS&AD acquired a 5% stake in ReAssure (via a parent company) for GBP 175 million and subscribed for additional shares of GBP 330 million. On 28 February 2018, MS&AD subscribed for additional shares of GBP 82 million. These three investments now result in a total shareholding of ReAssure by MS&AD of 15%.

The Group financial statements and related notes presented in this report are not impacted.

### **Legal and General life policies**

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

# Report of the statutory auditor

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Report of the statutory auditor  
to the General Meeting of  
Swiss Re Ltd  
Zurich

## **Report of the statutory auditor on the consolidated financial statements**

As statutory auditor, we have audited the accompanying consolidated financial statements of Swiss Re Ltd and its subsidiaries (the 'Company'), which comprise the consolidated balance sheet as of 31 December 2017, and the related consolidated income statement, statement of comprehensive income, statement of shareholders' equity, statement of cash flows and notes for the year ended 31 December 2017.

## **Board of Directors' responsibility**

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

## **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company at 31 December 2017, the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America and comply with Swiss law.

## **Other matter**

Accounting principles generally accepted in the United States of America require that the supplementary information based on the requirements of ASU 2015-09, Disclosures about Short-Duration Contracts, on pages 220 to 228 be presented to supplement the consolidated financial statements. Such information, although not part of the consolidated financial statements, is required by the Financial Accounting Standards Board, which considers it an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Unobservable or interpolated inputs used for the valuation of certain level 2 and 3 investments

##### Key audit matter

Investment valuation continues to be an area with inherent risk for certain level 2 and 3 investments that have unobservable or interpolated inputs. The risk is not the same for all investment types and is greatest for those listed below. These investments are more difficult to value because quoted prices are not always available and valuation requires unobservable or interpolated inputs and complex valuation models:

- Fixed income securitised products
- Fixed income mortgage and asset-backed securities
- Private placements and infrastructure loans
- Private equities
- Derivatives
- Insurance-related financial products

##### How our audit addressed the key audit matter

We assessed and tested the design and operating effectiveness of selected key controls around the valuation models for level 2 and 3 investments, including the Company's independent price verification process. We also tested management's data integrity and change management controls relating to the valuation models.

In relation to the matters set out opposite, our substantive testing procedures included the following:

- Challenging the Company's methodology and assumptions, in particular, the yield curves, discounted cash flows, perpetual growth rates and liquidity premiums used in the valuation models.
- Comparing the assumptions used against appropriate benchmarks and investigating significant differences.
- Engaging our own valuation experts to perform independent valuations of selected investments.

On the basis of the work performed, we consider the assumptions used by management to be appropriate and that the investments classified as level 2 and 3 are properly valued as of 31 December 2017.

## Valuation of actuarially determined Property & Casualty ('P&C') loss reserves

### Key audit matter

Valuation of actuarially determined P&C loss reserves involves a high degree of subjectivity and complexity. Reserves for losses and loss adjustment expenses represent estimates of future payments of reported and unreported claims for losses and related expenses at a given date. The Company uses a range of actuarial methodologies and methods to estimate these reserves. Actuarially determined P&C loss reserves require significant judgement relating to certain factors and assumptions. Among the most significant reserving assumptions are the A-priori loss ratios, which typically drive the estimates of P&C loss reserves for the most recent contract years. Other key factors and assumptions include, but are not limited to, interest rates, inflation trends, claims trends, regulatory decisions, historical claims information and the growth of exposure.

In particular, loss reserves for 'long tail' lines of business (for example, the Liability, US Asbestos and Environmental, Motor Liability and Workers' Compensation portfolios) are generally more difficult to project. This is due to the protracted period over which claims can be reported as well as the fact that claim settlements are often less frequent but of higher magnitude. They are also subject to greater uncertainties than claims relating to 'short-tail' business. Long-tailed lines of business generally rely on many assumptions based on experts' judgement.

Moreover, not all natural catastrophe events and significant man-made losses can be modelled using traditional actuarial methodologies, which increases the degree of judgement needed in establishing reserves for these events.

### How our audit addressed the key audit matter

We assessed and tested the design and operating effectiveness of selected key controls relating to the application of the actuarial methodology, data collection and analysis, as well as the processes for determining the assumptions used by management in the valuation of actuarially determined P&C loss reserves.

In relation to the matters set out opposite, our substantive testing procedures included the following:

- Testing the completeness and accuracy of underlying data utilised by the Company's actuaries in estimating P&C loss reserves.
- Applying IT audit techniques to analyse claims through the recalculation of claims triangles.
- Involving PwC's internal actuarial specialists to independently test management's estimates of P&C loss reserves, and evaluate the reasonableness of the methodology and assumptions used by comparing them with recognised actuarial practices and by applying our industry knowledge and experience.
- Performing independent projections of selected product lines. For these product lines, we compared our calculations of projected reserves with those of the Company taking into account the available corroborating and contrary evidence and challenging management's assumptions as appropriate.
- Assessing the process and related judgements of management in relation to natural catastrophes and other large losses, including using our industry knowledge to assess the reasonableness of market loss estimates and other significant assumptions.
- Performing sensitivity tests to determine the impact of selected key assumptions.
- Evaluating the appropriateness of any significant adjustments made by management to P&C loss reserve estimates.

On the basis of the work performed, we consider that the methodology, assumptions and underlying data used in the valuation of actuarially determined P&C loss reserves to be reasonable and in line with financial reporting requirements and accepted industry practice.



## Valuation of actuarially determined Life & Health ('L&H') loss reserves

### Key audit matter

The Company's valuation of liabilities for L&H policy benefits and policyholder account balances involves complex judgements about future events affecting the business. Actuarial assumptions selected by the Company with respect to interest rates, investment returns, mortality, morbidity, lapse in coverage, longevity, persistency, expenses, stock market volatility and future policyholder behaviour may result in material impacts on the valuation of L&H reserves. The methodology and methods used can also have a material impact on the valuation of actuarially determined L&H reserves.

The valuation of actuarially determined L&H reserves depends on the use of complex models. The Company continues to migrate actuarial data and models from legacy systems and/or spreadsheets to new actuarial modelling systems. At the same time, management is validating models to ensure that new models are fit for use. Moving from one modelling platform to another is a complex and time-consuming process, frequently taking several years. Any resulting adjustments to reserves need to be assessed in terms of appropriateness and classified as changes in estimates or as an out-of-period adjustment.

### How our audit addressed the key audit matter

We assessed and tested the design and operating effectiveness of selected key controls relating to the application of actuarial methodology, data collection and analysis, as well as the processes for determining the assumptions used by management in the valuation of actuarially determined L&H reserves.

In relation to the matters set out opposite, our substantive testing procedures included the following:

- Testing the completeness and accuracy of the underlying data by vouching against the source documentation.
- Testing the migration of actuarial data from legacy systems and/or spreadsheets to the new actuarial systems for completeness and accuracy.
- Performing independent model validation procedures, including detailed testing of models, independent recalculations and back testing.
- Involving our own life insurance actuarial specialists to test the methodology and assumptions used by management, with particular consideration of industry studies, the Company's experience and management's liability adequacy test procedures.
- Challenging the Company's methodology and methods, focusing on changes to L&H actuarial methodology and methods during the year, by applying our industry knowledge and experience to check whether the methodology and methods are consistent with recognised actuarial practices and reporting requirements.

On the basis of the work performed, we consider that the methodology, methods, assumptions and underlying data used in the valuation of actuarially determined L&H reserves to be reasonable and in line with financial reporting requirements and accepted industry practice.

## Completeness and valuation of uncertain tax items

### Key audit matter

The Company is carrying a provision for uncertain tax items on its books. The valuations of these items are based on management's estimates and management's assessment whether deferred tax assets are more likely than not to be realised. In recent years there have been releases of uncertain tax positions as a result of the completion of audits by tax authorities. Changes in the estimates of uncertain tax items have an impact (through income tax expense) on the results.

### How our audit addressed the key audit matter

We assessed and tested the design and operating effectiveness of selected key controls in place to determine the completeness of the uncertain tax items and management's assessment of the items for recognition and valuation.

In relation to the matters set out opposite, our substantive testing procedures included the following:

- Involving our own tax specialists to critically review management's 'more likely than not' tax assessments to evaluate the Company's judgements and estimates of the probabilities and the amounts.
- Assessing how the Company had considered new information or changes in tax law or case law, and assessing the Company's judgement of how these impact the Company's position or measurement of the required provision.
- Examining tax audit documentation to validate the appropriateness of releases of uncertain tax provisions.

On the basis of the work performed, we consider management's assessment relating to the valuation of the uncertain tax items to be appropriate.

## Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd



**Alex Finn**  
Audit expert  
Auditor in charge



**Bret Griffin**

Zurich, 14 March 2018

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# Group financial years 2008–2017

USD millions	2008 <sup>1</sup>	2009 <sup>1</sup>	2010
<b>Income statement</b>			
<b>Revenues</b>			
Premiums earned	23 577	22 664	19 652
Fee income	746	847	918
Net investment income	7 331	6 399	5 422
Net realised investment gains/losses	-8 677	875	2 783
Other revenues	249	178	60
<b>Total revenues</b>	<b>23 226</b>	<b>30 963</b>	<b>28 835</b>
<b>Expenses</b>			
Claims and claim adjustment expenses	-9 222	-8 336	-7 254
Life and health benefits	-8 381	-8 639	-8 236
Return credited to policyholders	2 611	-4 597	-3 371
Acquisition costs	-4 950	-4 495	-3 679
Other operating costs and expenses	-4 358	-3 976	-3 620
<b>Total expenses</b>	<b>-24 300</b>	<b>-30 043</b>	<b>-26 160</b>
<b>Income/loss before income tax expense/benefit</b>	<b>-1 074</b>	<b>920</b>	<b>2 675</b>
Income tax expense/benefit	411	-221	-541
<b>Net income/loss before attribution of non-controlling interests</b>	<b>-663</b>	<b>699</b>	<b>2 134</b>
Income/loss attributable to non-controlling interests			-154
<b>Net income/loss after attribution of non-controlling interests</b>	<b>-663</b>	<b>699</b>	<b>1 980</b>
Interest on contingent capital instruments, net of tax		-203	-1 117
<b>Net income/loss attributable to common shareholders</b>	<b>-663</b>	<b>496</b>	<b>863</b>
<b>Balance sheet</b>			
<b>Assets</b>			
Investments	154 053	151 341	156 947
Other assets	71 322	81 407	71 456
<b>Total assets</b>	<b>225 375</b>	<b>232 748</b>	<b>228 403</b>
<b>Liabilities</b>			
Unpaid claims and claim adjustment expenses	70 944	68 412	64 690
Liabilities for life and health policy benefits	37 497	39 944	39 551
Unearned premiums	7 330	6 528	6 305
Other liabilities	73 366	73 336	72 524
Long-term debt	17 018	19 184	18 427
<b>Total liabilities</b>	<b>206 155</b>	<b>207 404</b>	<b>201 497</b>
<b>Shareholders' equity</b>	<b>19 220</b>	<b>25 344</b>	<b>25 342</b>
Non-controlling interests			1 564
<b>Total equity</b>	<b>19 220</b>	<b>25 344</b>	<b>26 906</b>
Earnings/losses per share in USD	-2.00	1.46	2.52
Earnings/losses per share in CHF	-2.61	1.49	2.64

<sup>1</sup> The Group changed its reporting currency from CHF into USD in 2010. Periods prior to 2010 have been translated to USD for informational purposes only based on the Group's average exchange rates for the income statements and year-end rates for the balance sheets.

<sup>2</sup> The Group updated its balance sheet presentation of deferred tax assets and liabilities. Deferred tax assets and liabilities are presented on a gross basis as per the first quarter 2013. The comparative period has been adjusted accordingly and is consistent with the relevant income tax disclosure in the notes to the financial statements in the prior year.

2011	2012 <sup>2</sup>	2013	2014	2015	2016	2017
21 300	24 661	28 276	30 756	29 751	32 691	<b>33 119</b>
876	785	542	506	463	540	<b>586</b>
5 469	5 302	4 735	4 992	4 236	4 740	<b>4 702</b>
388	2 688	3 325	1 059	1 220	5 787	<b>4 048</b>
50	188	24	34	44	28	<b>32</b>
28 083	33 624	36 902	37 347	35 714	43 786	<b>42 487</b>
-8 810	-7 763	-9 655	-10 577	-9 848	-12 564	<b>-16 730</b>
-8 414	-8 878	-9 581	-10 611	-9 080	-10 859	<b>-11 083</b>
-61	-2 959	-3 678	-1 541	-1 166	-5 099	<b>-3 298</b>
-4 021	-4 548	-4 895	-6 515	-6 419	-6 928	<b>-6 977</b>
-3 902	-3 953	-4 268	-3 876	-3 882	-3 964	<b>-3 874</b>
-25 208	-28 101	-32 077	-33 120	-30 395	-39 414	<b>-41 962</b>
2 875	5 523	4 825	4 227	5 319	4 372	<b>525</b>
-77	-1 125	-312	-658	-651	-749	<b>-132</b>
2 798	4 398	4 513	3 569	4 668	3 623	<b>393</b>
-172	-141	-2		-3	3	<b>5</b>
2 626	4 257	4 511	3 569	4 665	3 626	<b>398</b>
	-56	-67	-69	-68	-68	<b>-67</b>
2 626	4 201	4 444	3 500	4 597	3 558	<b>331</b>
162 224	152 812	150 075	143 987	137 810	155 016	<b>161 897</b>
63 675	68 691	63 445	60 474	58 325	60 049	<b>60 629</b>
225 899	221 503	213 520	204 461	196 135	215 065	<b>222 526</b>
64 878	63 670	61 484	57 954	55 518	57 355	<b>66 795</b>
39 044	36 117	36 033	33 605	30 131	41 176	<b>42 561</b>
8 299	9 384	10 334	10 576	10 869	11 629	<b>11 769</b>
65 850	62 020	57 970	53 670	55 033	59 402	<b>56 959</b>
16 541	16 286	14 722	12 615	10 978	9 787	<b>10 148</b>
194 612	187 477	180 543	168 420	162 529	179 349	<b>188 232</b>
29 590	34 002	32 952	35 930	33 517	35 634	<b>34 124</b>
1 697	24	25	111	89	82	<b>170</b>
31 287	34 026	32 977	36 041	33 606	35 716	<b>34 294</b>
7.68	11.85	12.97	10.23	13.44	10.72	<b>1.03</b>
6.79	11.13	12.04	9.33	12.93	10.55	<b>1.02</b>

# Annual Report

# Swiss Re Ltd

Swiss Re Ltd (the Company), domiciled in Zurich, Switzerland, is the ultimate holding company of the Swiss Re Group. Its principal activity is the holding of investments in Swiss Re Group companies.

## Income statement

Net income for 2017 amounted to CHF 4 043 million (2016: CHF 3 972 million) and was mostly driven by cash dividends from subsidiaries and affiliated companies of CHF 3 832 million.

The Company earned trademark licence fees of CHF 347 million and incurred administrative expenses of CHF 126 million, of which CHF 122 million were charges for services provided by Swiss Re Management Ltd, and other expenses of CHF 179 million, due to financing costs related to subordinated debt facilities of CHF 87 million, net realised foreign exchange losses of CHF 83 million and capital and indirect taxes of CHF 9 million.

## Assets

Total assets increased from CHF 23 173 million as of 31 December 2016 to CHF 24 971 million as of 31 December 2017.

Current assets increased by CHF 362 million to CHF 3 958 million as of 31 December 2017, mainly driven by an increase in loans to subsidiaries and affiliates companies and receivables from subsidiaries and affiliated companies, partially offset by a decrease in short-term investments due to funding of capital contributions to subsidiaries and share buy-back programmes.

Non-current assets increased from CHF 19 577 million as of 31 December 2016 to CHF 21 013 million as of 31 December 2017. Investments in subsidiaries and affiliated companies increased by CHF 1 441 million to CHF 20 915 million as of 31 December 2017 due to capital contributions to Swiss Re Corporate Solutions Ltd of CHF 1 001 million, Swiss Re Life Capital Ltd of CHF 306 million and Swiss Re Principal Investments Company Ltd of CHF 134 million.

## Liabilities

Total liabilities increased from CHF 352 million as of 31 December 2016 to CHF 726 million as of 31 December 2017.

Short-term liabilities increased by CHF 458 million to CHF 697 million as of 31 December 2017, mainly driven by an increase in loans from subsidiaries and affiliated companies of CHF 429 million.

Long-term liabilities decreased by CHF 84 million to CHF 29 million as of 31 December 2017, mainly due to a reduction in the provision for currency fluctuations of CHF 74 million and tax provision of CHF 10 million.

## Shareholders' equity

Shareholders' equity increased from CHF 22 821 million as of 31 December 2016 to CHF 24 245 million as of 31 December 2017, mainly due to net income of CHF 4 043 million, partially offset by dividends to shareholders of CHF 1 557 million and share buy-back programmes of CHF 1 064 million.

Share capital decreased by CHF 1 million to CHF 35 million as of 31 December 2017 and legal profit reserves decreased by CHF 980 million to CHF 7 285 million as of 31 December 2017 resulting from the cancellation of own shares.

Own shares (directly held by the Company) increased by CHF 81 million to CHF 1 636 million as of 31 December 2017 due to net purchases of own shares of CHF 17 million and share buy-back programmes of CHF 1 064 million, partially offset by the cancellation of own shares of CHF 1 000 million.

# Income statement

## Swiss Re Ltd

For the years ended 31 December

CHF millions	Notes	2016	2017
<b>Revenues</b>			
Investment income	2	3 613	4 018
Trademark licence fees		339	347
Other revenues		263	2
<b>Total revenues</b>		4 215	4 366
<b>Expenses</b>			
Administrative expenses	3	-147	-126
Investment expenses	2	-1	-2
Other expenses		-70	-179
<b>Total expenses</b>		-218	-307
<b>Income before income tax expense</b>		3 997	4 059
Income tax expense		-25	-16
<b>Net income</b>		3 972	4 043

The accompanying notes are an integral part of Swiss Re Ltd's financial statements.

# Balance sheet

## Swiss Re Ltd

As of 31 December

### Assets

CHF millions	Notes	2016	2017
<b>Current assets</b>			
Cash and cash equivalents		6	6
Short-term investments	4	1 158	3
Receivables from subsidiaries and affiliated companies		170	765
Other receivables and accrued income		2	5
Loans to subsidiaries and affiliated companies		2 260	3 179
<b>Total current assets</b>		3 596	3 958
<b>Non-current assets</b>			
Loans to subsidiaries and affiliated companies		103	98
Investments in subsidiaries and affiliated companies	5	19 474	20 915
<b>Total non-current assets</b>		19 577	21 013
<b>Total assets</b>		23 173	24 971

The accompanying notes are an integral part of Swiss Re Ltd's financial statements.



## Liabilities and shareholders' equity

CHF millions	Notes	2016	2017
<b>Liabilities</b>			
<b>Short-term liabilities</b>			
Payables to subsidiaries and affiliated companies		40	43
Other liabilities and accrued expenses		199	225
Loans from subsidiaries and affiliated companies		0	429
<b>Total short-term liabilities</b>		239	697
<b>Long-term liabilities</b>			
Provisions		113	29
<b>Total long-term liabilities</b>		113	29
<b>Total liabilities</b>		352	726
<b>Shareholders' equity</b>			
Share capital	7	36	35
<i>Legal reserves from capital contributions</i>		192	192
<i>Other legal capital reserves</i>		0	1
Legal capital reserves		192	193
Legal profit reserves		8 265	7 285
Reserve for own shares (indirectly held by subsidiaries)		17	16
Voluntary profit reserves		11 890	14 305
Retained earnings brought forward		4	4
Net income for the financial year		3 972	4 043
Own shares (directly held by the Company)	8	-1 555	-1 636
<b>Total shareholders' equity</b>		22 821	24 245
<b>Total liabilities and shareholders' equity</b>		23 173	24 971

The accompanying notes are an integral part of Swiss Re Ltd's financial statements.

# Notes

# Swiss Re Ltd

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## 1 Significant accounting principles

### **Basis of presentation**

The financial statements are prepared in accordance with Swiss Law.

### **Time period**

The financial year 2017 comprises the accounting period from 1 January 2017 to 31 December 2017.

### **Use of estimates in the preparation of annual accounts**

The preparation of the annual accounts requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the related disclosures. Actual results could differ from these estimates.

### **Foreign currency translation**

Assets and liabilities denominated in foreign currencies are converted into Swiss francs at year-end exchange rates with the exception of participations, which are maintained in Swiss francs at historical exchange rates. Income and expenses in foreign currencies are converted into Swiss francs at average exchange rates for the reporting year.

### **Cash and cash equivalents**

Cash and cash equivalents include cash at bank, short-term deposits and certain investments in money market funds with an original maturity of three months or less. Such current assets are held at nominal value.

### **Short-term investments**

Short-term investments contain investments with an original maturity between three months and one year. Such investments are carried at cost, less necessary and legally permissible depreciation.

### **Receivables from subsidiaries and affiliated companies/Other receivables**

These assets are carried at nominal value. Value adjustments are recorded where the expected recovery value is lower than the nominal value.

### **Accrued income**

Accrued income consists of both other expenditures incurred during the financial year but relating to a subsequent financial year, and revenues relating to the current financial year but receivable in a subsequent financial year.

### **Loans to subsidiaries and affiliated companies**

Loans to subsidiaries and affiliated companies are carried at nominal value. Value adjustments are recorded where the expected recovery value is lower than the nominal value.

### **Investments in subsidiaries and affiliated companies**

These assets are carried at cost, less necessary and legally permissible depreciation.

### **Payables to subsidiaries and affiliated companies/Other liabilities**

These liabilities are carried at nominal value.

### **Accrued expenses**

Accrued expenses consist of both income received before the balance sheet date but relating to a subsequent financial year, and charges relating to the current financial year but payable in a subsequent financial year.

### **Loans from subsidiaries and affiliated companies**

Loans from subsidiaries and affiliated companies are carried at nominal value.

## **Provisions**

Provisions contain provision for currency fluctuation and provision for taxation.

The provision for currency fluctuation comprises the net effect of foreign exchange gains and losses arising from the yearly revaluation of the opening balance sheet and the translation adjustment of the income statement from average to closing exchange rates at year-end. These net impacts are recognised in the income statement over a period of up to three years. Where the provision for currency fluctuation is insufficient to absorb net foreign exchange losses for the financial year, the provision for currency fluctuation is reduced to zero and the excess foreign exchange loss is recognised in the income statement.

The provision for taxation represents an estimate of taxes payable in respect of the reporting year.

## **Other legal capital reserves**

Other legal capital reserves reflect gains and losses from sale of own shares (directly held by the Company).

## **Reserve for own shares (indirectly held by subsidiaries)**

Reserve for own shares is accounted for at the book value of those shares in the statutory financial statements of the respective subsidiary.

## **Own shares (directly held by the Company)**

Own shares are carried at cost and presented as a deduction in shareholders' equity.

## **Foreign exchange transaction gains and losses**

Foreign exchange gains and losses arising from foreign exchange transactions are recognised in the income statement and reported in other expenses or other revenues, respectively.

## **Dividends from subsidiaries and affiliated companies**

Dividends from subsidiaries and affiliated companies are recognised as investment income in the year in which they are declared.

## **Trademark licence fees**

Trademark licence fees are charged by the Company to its direct and indirect subsidiaries and their branches that benefit from the use of the Swiss Re brand.

## **Capital and indirect taxes**

Capital and indirect taxes related to the financial year are included in other expenses. Value-added taxes are included in the respective expense lines in the income statement.

## **Income tax expense**

As a holding company incorporated in Switzerland, Swiss Re Ltd is exempt from income taxation at cantonal/communal level. On the federal level, dividends from subsidiaries and affiliated companies are indirectly exempt from income taxation (participation relief). However, income tax is payable on trademark licence fees charged to certain subsidiaries and affiliated companies.

## **Subsequent events**

Subsequent events for the current reporting period have been evaluated up to 14 March 2018. This is the date on which the financial statements are available to be issued.

## 2 Investment income and expenses

CHF millions	2016	2017
Cash dividends from subsidiaries and affiliated companies	3 517	<b>3 832</b>
Realised gains on sale of investments	7	<b>46</b>
Income from short-term investments	2	<b>6</b>
Income from loans to subsidiaries and affiliated companies	35	<b>63</b>
Investment management income	1	<b>1</b>
Other interest revenues	51	<b>70</b>
<b>Investment income</b>	<b>3 613</b>	<b>4 018</b>

CHF millions	2016	2017
Realised losses on sale of investments	0	<b>1</b>
Investment management expenses	1	<b>1</b>
Other interest expenses	0	<b>0</b>
<b>Investment expenses</b>	<b>1</b>	<b>2</b>

## 3 Administrative expenses and personnel information

Swiss Re Ltd receives management and other services from Swiss Re Management Ltd and Swiss Reinsurance Company Ltd and has no employees of its own.

## 4 Securities lending

As of 31 December 2017, securities of CHF 0.1 million were lent to Group companies under securities lending agreements, whereas in 2016 securities of CHF 1 034 million were lent to Group companies. As of 31 December 2017 and 2016, there were no securities lent to third parties.

## 5 Investments in subsidiaries and affiliated companies

As of 31 December 2017 and 2016, Swiss Re Ltd held directly the following investments in subsidiaries and affiliated companies:

As of 31 December 2017	Domicile	Currency	Share capital (millions)	Affiliation in %	Voting interest in %
Swiss Reinsurance Company Ltd	Zurich	CHF	34.4	100	100
Swiss Re Corporate Solutions Ltd	Zurich	CHF	100.0	100	100
Swiss Re Life Capital Ltd	Zurich	CHF	0.1	100	100
Swiss Re Investments Holding Company Ltd	Zurich	CHF	0.1	100	100
Swiss Re Principal Investments Company Ltd	Zurich	CHF	0.1	100	100
Swiss Re Management Ltd	Zurich	CHF	0.1	100	100
Swiss Re Specialised Investments Holdings (UK) Ltd	London	GBP	1.0	100	100

As of 31 December 2016	Domicile	Currency	Share capital (millions)	Affiliation in %	Voting interest in %
Swiss Reinsurance Company Ltd	Zurich	CHF	34.4	100	100
Swiss Re Corporate Solutions Ltd	Zurich	CHF	100.0	100	100
Swiss Re Life Capital Ltd	Zurich	CHF	0.1	100	100
Swiss Re Investments Holding Company Ltd	Zurich	CHF	0.1	100	100
Swiss Re Principal Investments Company Ltd	Zurich	CHF	0.1	100	100
Swiss Re Management Ltd	Zurich	CHF	0.1	100	100
Swiss Re Specialised Investments Holdings (UK) Ltd	London	GBP	1.0	100	100

Further disclosures in respect of investments in significant indirect subsidiaries and affiliated companies are detailed in note 19 "Significant subsidiaries and equity investees" on pages 281 to 283 in the notes to the Group financial statements, where the voting interests are equal to the affiliations disclosed, except of Sul América S.A. where the voting rights are equal to 10%.

## 6 Commitments

The Company has established subordinated debt facilities which allow the Company to issue subordinated callable notes at any time. The Company pays a fee on the available commitment under the facility and an interest rate on issued notes. Notes, when issued, will be classified as subordinated debt. As of 31 December 2017, no notes have been issued under the facilities.

An overview of the subordinated debt facilities is provided in the following table:

Instrument	Issued in	Currency	Nominal value in millions	Commitment fee (paid on undrawn amount)	Interest rate on issued notes	Facility first termination date	Issued notes' scheduled maturity date
Dated subordinated fixed-to-floating rate callable notes facility	2015	USD	700	3.53%	5.75% <sup>1</sup>	2025	2050
Dated subordinated fixed rate callable notes facility	2016	USD	400	3.92%	6.05% <sup>1</sup>	2031	2056
Dated subordinated fixed-to-floating rate callable notes facility	2016	USD	800	3.67%	5.625% <sup>1</sup>	2027	2052
Perpetual subordinated fixed spread callable notes facility	2017	USD	750	2.77%	4.625% <sup>1</sup>	2022	Perpetual <sup>2</sup>

<sup>1</sup> Until first optional redemption date.

<sup>2</sup> First optional redemption date in 2022 and every five years thereafter.

The Company has entered into subordinated funding facilities with its subsidiary Swiss Reinsurance Company Ltd under which Swiss Reinsurance Company Ltd has the right, among others, to issue subordinated notes to the Company at any time. For its various rights, Swiss Reinsurance Company Ltd owes the Company an unconditional fixed commitment fee on the total facility amount, payable in annual instalments. Annually, Swiss Reinsurance Company Ltd receives a partial reimbursement of the commitment fee on the undrawn facility amount. As of 31 December 2017, the facilities were undrawn.

An overview of the subordinated funding facilities is provided in the following table:

Instrument	Borrower	Issued in	Currency	Nominal value in millions	Total commitment fee calculated and paid on nominal value	Reimbursement fee paid on undrawn amount	Net commitment fee paid on undrawn amount	Maturity
Subordinated funding facility	Swiss Reinsurance Company Ltd	2015	USD	700	5.80%	2.22%	3.58%	2030
Subordinated funding facility	Swiss Reinsurance Company Ltd	2016	USD	400	6.10%	2.13%	3.97%	2036
Subordinated funding facility	Swiss Reinsurance Company Ltd	2016	USD	800	5.68%	1.95%	3.73%	2032

## 7 Change in shareholders' equity

CHF millions	Share capital	Legal capital reserves <sup>3</sup>	Legal profit reserves	Reserves for own shares	Voluntary profit reserves	Retained earnings brought forward	Net income for the financial year	Own shares	Total Shareholders' equity
Shareholders' equity 1.1.2017	36	192	8 265	17	11 890	4	3 972	-1 555	22 821
Allocations relating to the dividend paid					3 972		-3 972		0
Dividend for the financial year 2016					-1 557				-1 557
Net income for the financial year							4 043		4 043
Share buy-back programme 2016 <sup>1</sup>								-479	-479
Share cancellation <sup>1</sup>	-1	-18	-981					1 000	0
Share buy-back programme 2017 <sup>2</sup>								-585	-585
Other movements in own shares		19	1	-1				-17	2
<b>Shareholders' equity 31.12.2017</b>	<b>35</b>	<b>193</b>	<b>7 285</b>	<b>16</b>	<b>14 305</b>	<b>4</b>	<b>4 043</b>	<b>-1 636</b>	<b>24 245</b>

CHF millions	Share capital	Legal capital reserves	Legal profit reserves	Reserves for own shares	Voluntary profit reserves	Retained earnings brought forward	Net income for the financial year	Own shares	Total Shareholders' equity
Shareholders' equity 1.1.2016	37	257	9 168	18	9 550	4	3 865	-1 430	21 469
Allocations relating to the dividend paid					3 865		-3 865		0
Dividend for the financial year 2015					-1 525				-1 525
Net income for the financial year							3 972		3 972
Share buy-back programme 2015								-570	-570
Share cancellation	-1	-96	-903					1 000	0
Share buy-back programme 2016								-521	-521
Other movements in own shares		31		-1				-34	-4
<b>Shareholders' equity 31.12.2016</b>	<b>36</b>	<b>192</b>	<b>8 265</b>	<b>17</b>	<b>11 890</b>	<b>4</b>	<b>3 972</b>	<b>-1 555</b>	<b>22 821</b>

<sup>1</sup> At the 152nd Annual General Meeting held on 22 April 2016, the Group's shareholders authorised the Group Board of Directors to repurchase up to a maximum CHF 1 billion purchase value of the Group's own shares prior to the 2017 Annual General Meeting through a public share buy-back programme for cancellation purposes. The buy-back programme was completed on 9 February 2017. The total number of shares repurchased amounted to 10.6 million, of which 5.5 million and 5.1 million shares were repurchased by 31 December 2016 and between 1 January and 9 February 2017, respectively. On 21 April 2017, the 153rd Annual General Meeting resolved the cancellation of the repurchased 10.6 million shares by way of share capital reduction. The shares were cancelled on 25 July 2017, after completion of the procedure in respect of a share capital reduction as set forth in Article 732 et seqq. of the Swiss Code of Obligations.

<sup>2</sup> At the 153rd Annual General Meeting held on 21 April 2017, the Group's shareholders authorised the Group Board of Directors to repurchase up to a maximum CHF 1 billion purchase value of the Group's own shares prior to the 2018 Annual General Meeting through a public share buy-back programme for cancellation purposes.

<sup>3</sup> Under current Swiss tax legislation, CHF 1.0 million of legal reserves from capital contributions, which has been confirmed by the Swiss Federal Tax Administration, can be paid out as dividends exempt from Swiss withholding tax, and for Swiss resident individual shareholders holding shares in private wealth also exempt from Swiss income taxes.

## 8 Own shares (directly and indirectly held by the Company)

Number of own shares	2016	2017
<i>Own shares held by subsidiaries</i>	211 472	178 233
<i>Own shares held by Swiss Re Ltd directly</i>	32 755 754	33 915 601
Opening balance own shares	32 967 226	34 093 834
Purchase of own shares <sup>1</sup>	987 559	995 183
Sale of own shares <sup>2</sup>	-983 451	-1 027 501
Share buy-back programme (151st AGM 2015) <sup>3</sup>	6 214 370	-
Share buy-back programme (152nd AGM 2016) <sup>4</sup>	5 542 500	5 077 780
Cancellation of shares bought back	-10 634 370	-10 620 280
Share buy-back programme (153rd AGM 2017) <sup>5</sup>	-	6 347 500
<b>Own shares as of 31 December</b>	<b>34 093 834</b>	<b>34 866 516</b>

<sup>1</sup> Purchased at average price CHF 89.91 (2016: CHF 88.73).

<sup>2</sup> Sold at average price CHF 87.31 (2016: CHF 87.97).

<sup>3</sup> Purchased at average price CHF 91.73.

<sup>4</sup> Purchased at average price CHF 94.33 (2016: CHF 94.00).

<sup>5</sup> Purchased at average price CHF 92.16.

## 9 Major shareholders

As of 31 December 2017, there was one shareholder with a participation exceeding the 3% threshold of Swiss Re Ltd's share capital:

Shareholder	Number of shares	% of voting rights and share capital <sup>1</sup>	Creation of the obligation to notify
BlackRock, Inc.	17 278 451	4.94	14 December 2017

<sup>1</sup> The percentage of voting rights is calculated at the date the obligation was created and notified.

Further information in respect of major shareholders are detailed in "Group structure and shareholders" on page 98 in the Financial Report 2017.

In addition, Swiss Re Ltd held, as of 31 December 2017, directly and indirectly 34 866 516 (2016: 34 093 834) own shares, representing 9.98% (2016: 9.47%) of voting rights and share capital. Swiss Re Ltd cannot exercise the voting rights of own shares held.

## 10 Release of undisclosed reserves

In 2017 and 2016 no net undisclosed reserves were released.

## 11 Share ownership, options and related instruments of governing bodies

This section is in line with Articles 663c para. 3 and 959c para. 2 cif. 11 of the Swiss Code of Obligations, which requires disclosure of shareholdings, options and related instruments held by members of the Board of Directors and Group Executive Committee (Group EC) at the end of the reporting year and of share-based compensation for the Board of Directors during the reporting year. Further disclosures in respect of compensation for the members of the Board of Directors and the Group EC, and persons closely related, are detailed in the Compensation Report on pages 173 to 178 of the Financial Report of the Swiss Re Group.

### Share ownership

The number of shares held as of 31 December were:

Members of the Group EC	2016	2017
Christian Mumenthaler, Group CEO	63 854	68 775
David Cole, Group Chief Financial Officer	68 061	82 982
John R. Dacey, Group Chief Strategy Officer	7 526	23 671
Guido Furer, Group Chief Investment Officer	56 156	61 077
Agostino Galvagni, CEO Corporate Solutions	79 670	94 591
Jean-Jacques Henchoz, CEO Reinsurance EMEA	46 817	49 020
Thierry Léger, CEO Life Capital	57 610	49 841
Moses Ojeisekhoba, CEO Reinsurance	27 895	36 194
Jayne Plunkett, CEO Reinsurance Asia	29 095	34 288
Edouard Schmid, Group Chief Underwriting Officer	n/a	29 161
J. Eric Smith, CEO Reinsurance Americas	13 984	21 400
Matthias Weber, former Group Chief Underwriting Officer <sup>1</sup>	25 750	n/a
Thomas Wellauer, Group Chief Operating Officer	130 224	105 390
<b>Total</b>	<b>606 642</b>	<b>656 390</b>

<sup>1</sup> The number of shares held on 30 June 2017 when Matthias Weber stepped down from the Group EC was 24 913.

Members of the Board of Directors	2016	2017
Walter B. Kielholz, Chairman	414 613	399 987
Renato Fassbind, Vice Chairman, Chairman of the Audit Committee	19 954	23 854
Raymond K.F. Ch'ien, Member	19 978	21 472
Mary Francis, Member	5 927	6 509
Rajna Gibson Brandon, Member	21 700	23 194
C. Robert Henrikson, Chairman of the Compensation Committee	11 065	13 248
Trevor Manuel, Member	2 363	3 972
Jay Ralph, Member <sup>1</sup>	n/a	868
Joerg Reinhardt, Member <sup>1</sup>	n/a	1 168
Carlos E. Represas, former Member <sup>2</sup>	12 837	n/a
Philip K. Ryan, Chairman of the Finance and Risk Committee	6 134	8 892
Sir Paul Tucker, Member <sup>3</sup>	1 036	2 530
Jacques de Vaucleroy, Member <sup>1</sup>	n/a	868
Susan L. Wagner, Chair of the Investment Committee	6 111	8 754
<b>Total</b>	<b>521 718</b>	<b>515 316</b>

<sup>1</sup> Elected to Swiss Re's Board of Directors at the AGM of 21 April 2017.

<sup>2</sup> Term of office expired after the completion of the AGM of 21 April 2017 and did not stand for re-election.

<sup>3</sup> Elected to Swiss Re's Board of Directors at the AGM of 22 April 2016.



## Share-based compensation

The share-based compensation for the members of the Board of Directors for 2016 and 2017 was:

	2016		2017	
	Fees in blocked shares <sup>1</sup> (CHF thousands)	Number of shares <sup>2</sup>	Fees in blocked shares <sup>1</sup> (CHF thousands)	Number of shares <sup>2</sup>
Members of the Board of Directors				
Walter B. Kielholz, Chairman	1 955	22 372	1 663	19 674
Renato Fassbind, Vice Chairman, Chairman of the Audit Committee <sup>3</sup>	359	4 110	330	3 900
Mathis Cabiallavetta, former Member <sup>4</sup>	39	449	n/a	n/a
Raymond K.F. Ch'ien, Member	133	1 519	126	1 494
Mary Francis, Member <sup>5</sup>	140	1 598	136	1 609
Rajna Gibson Brandon, Member	130	1 484	127	1 494
C. Robert Henrikson, Chairman of the Compensation Committee	190	2 169	185	2 183
Hans Ulrich Maerki, former Member <sup>4</sup>	42	483	n/a	n/a
Trevor Manuel, Member	131	1 495	136	1 609
Jay Ralph, Member <sup>6</sup>	n/a	n/a	73	868
Joerg Reinhardt, Member <sup>6</sup>	n/a	n/a	73	868
Carlos E. Represas, former Member <sup>7, 8</sup>	110	1 256	34	396
Jean-Pierre Roth, former Member <sup>4</sup>	33	380	n/a	n/a
Philip K. Ryan, Chairman of the Finance and Risk Committee <sup>7</sup>	239	2 740	233	2 758
Sir Paul Tucker, Member <sup>9</sup>	91	1 036	126	1 494
Jacques de Vaucleroy, Member <sup>5, 6</sup>	n/a	n/a	73	868
Susan L. Wagner, Chair of the Investment Committee	229	2 626	223	2 643
<b>Total</b>	<b>3 821</b>	<b>43 717</b>	<b>3 538</b>	<b>41 858</b>

<sup>1</sup> Represents the portion (40%) of the total fees for the members of the Board of Directors that is delivered in Swiss Re Ltd shares, with a four-year blocking period.

<sup>2</sup> The number of shares is calculated by dividing the portion (40%) of the total fees with the average closing price of the shares on the SIX Swiss Exchange during the ten trading days preceding the AGM less the amount of any dividend resolved by such AGM.

<sup>3</sup> Acting as the Lead Independent Director.

<sup>4</sup> Term of office expired after the completion of the AGM of 22 April 2016 and did not stand for re-election.

<sup>5</sup> Includes fees received for duties on the board of Luxembourg Group companies.

<sup>6</sup> Elected to Swiss Re's Board of Directors at the AGM of 21 April 2017.

<sup>7</sup> Includes fees received for duties on the board of US Group companies.

<sup>8</sup> Term of office expired after the completion of the AGM of 21 April 2017 and did not stand for re-election.

<sup>9</sup> Elected to Swiss Re's Board of Directors at the AGM of 22 April 2016.

## Restricted shares

For the years ended 31 December 2016 and 2017, neither the members of the Board of Directors nor the members of the Group EC held any restricted shares.

## Vested options

For the years ended 31 December 2016 and 2017, neither the members of the Board of Directors nor the members of the Group EC held any vested options.

# Proposal for allocation of disposable profit

The Board of Directors proposes to the Annual General Meeting to be held in Zurich on 20 April 2018 to approve the following allocations and dividend payment:

CHF millions	2016	2017
Retained earnings brought forward	4	4
Net income for the financial year	3 972	4 043
<b>Disposable profit</b>	3 976	4 047
Allocation to voluntary profit reserves	-3 972	-4 043
<b>Retained earnings after allocation</b>	4	4

CHF millions	2016	2017
Voluntary profit reserves brought forward	11 890	14 305
Allocation from retained earnings	3 972	4 043
Ordinary dividend payment out of voluntary profit reserves	-1 557 <sup>1</sup>	-1 573 <sup>2</sup>
<b>Voluntary profit reserves after allocation and dividend payment</b>	14 305	16 775

<sup>1</sup> Since the Board of Directors' proposal for allocation of disposable profit, included in the Annual Report 2016, the number of registered shares eligible for dividend, at the dividend payment date of 27 April 2017, decreased due to the share buy-back programme of 5 077 780 shares and transfer of 44 378 shares for employee participation purposes from not eligible to eligible for dividend. This resulted in a lower dividend of CHF 24 million, compared to the Board of Directors' proposal, and higher voluntary profit reserves by the same amount.

<sup>2</sup> The Board of Directors' proposal to the Annual General Meeting of 20 April 2018 is based on the number of shares eligible for dividend as of 31 December 2017. The actual dividend payment will depend on the number of shares eligible for dividend as of 23 April 2018.

## Dividend

If the Board of Directors' proposal for allocations and dividend payment is accepted, an ordinary dividend of CHF 5.00 per share will be paid on 26 April 2018 from voluntary profit reserves.

Share structure per 31 December 2017	Number of registered shares	Nominal capital in CHF
Eligible for dividend <sup>1</sup>	314 585 765	31 458 577
Not eligible for dividend	34 866 516	3 486 652
<b>Total shares issued</b>	349 452 281	34 945 228

<sup>1</sup> The Board of Directors' proposal to the Annual General Meeting of 20 April 2018 is based on the number of shares eligible for dividend as of 31 December 2017. The actual dividend payment will depend on the number of shares eligible for dividend as of 23 April 2018.

Zurich, 14 March 2018

# Report of the statutory auditor

Report of the statutory auditor  
to the General Meeting of  
Swiss Re Ltd  
Zurich

## Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Swiss Re Ltd (the "Company"), which comprise the income statement, balance sheet and notes (pages 299 to 309), for the year ended 31 December 2017.

## Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the Company's Articles of Association. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the Company's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements for the year ended 31 December 2017 comply with Swiss law and the Company's Articles of Association.

## Report on a key audit matter based on the circular 1/2015 of the Federal Audit Oversight Authority

A key audit matter is a matter that, in our professional judgement, was of most significance in our audit of the financial statements of the current period. The matter was addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

### Impairment assessment of investments in subsidiaries and affiliated companies

#### Key audit matter

The Company applies individual valuations of investments in subsidiaries and affiliated companies in accordance with Swiss Law.

In performing impairment assessments of investments in subsidiaries and affiliated companies, management uses considerable judgement in determining valuation-method inputs. Management applies a consistent market value method for each investment and applies adjustments to the model based on specific characteristics of the investment.

The impairment assessment is considered a key audit matter due to the considerable judgement in the valuation model and inputs and adjustments applied.

#### How our audit addressed the key audit matter

In relation to the matter set out opposite, our substantive testing procedures included the following:

- Evaluating management's method and assumptions to determine a market value.
- Assessing whether the model applied for each subsidiary is reasonable, including any adjustments applied.
- Understanding judgements applied by management for each investment to ensure they are in accordance with our own expectation based on our knowledge of the business and industry.
- Engaging our internal valuation specialists to assist in the testing of key assumptions and inputs.

On the basis of the work performed, we consider the methods and assumptions used by management to be reasonable. We agree with their conclusion that the book values for all investments in subsidiaries are recoverable.

### Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (Article 728 CO and Article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with Article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposal for allocation of disposable profit complies with Swiss law and the Company's Articles of Association. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd



Alex Finn

Audit expert  
Auditor in charge



Bret Griffin

Zurich, 14 March 2018

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Headquartered in Zurich, Switzerland, Swiss Re has operations across the globe. Our success is built on our solid client relationships, capital strength and risk knowledge company approach. We make the world more resilient.



# Glossary

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<b>Acquisition costs</b>	That portion of an insurance premium which represents the cost of obtaining the insurance business: it includes the intermediaries' commission, the company's sales expense and other related expenses.
<b>Asset-backed securities</b>	Securities backed by notes or receivables against financial assets such as auto loans, credit cards, royalties, student loans and insurance profits.
<b>Asset-liability management (ALM)</b>	Management of an insurance business in a way that coordinates investment-related decisions on assets and liabilities. Specifically, the ongoing process of formulating, implementing, monitoring and revising investment strategies related to assets and liabilities in an attempt to achieve financial objectives, while managing exposure to financial market risks, such as interest rates, credit spreads and currency movements.
<b>Aviation insurance</b>	Insurance of accident and liability risks, as well as hull damage, connected with the operation of aircraft.
<b>Benchmark investment result</b>	Includes changes in the economic value of liabilities (as represented by the replicating portfolio) as a result of movements in risk-free discount rates, the passage of time, changes in credit spreads, changes in equity prices or changes in the economic value of embedded options and guarantees.
<b>Book value per share</b>	The ratio of ordinary shareholders' equity to the number of common shares entitled to dividend.
<b>Business interruption</b>	Insurance covering the loss of earnings resulting from, and occurring after, destruction of property; also known as "loss of profits" or "business income protection insurance".
<b>Capacity</b>	Maximum amount of risk that can be accepted in insurance. Capacity also refers to the amount of insurance coverage allocated to a particular policyholder or in the marketplace in general.  Type of insurance – mainly comprising accident and liability business – which is separate from property, engineering and life insurance.
<b>Catastrophe bonds</b>	Securities used by insurance and reinsurance companies to transfer peak insurance risks, including natural catastrophes, to the capital markets. Catastrophe bonds help to spread peak exposures (see insurance-linked securities).
<b>Cession</b>	Insurance that is reinsured: the passing of the insurer's risks to the reinsurer against payment of a premium. The insurer is referred to as the ceding company or cedent.
<b>Claim</b>	Demand by an insured for indemnity under an insurance contract.
<b>Claims and benefits</b>	Claims and benefits in the EVM income statement represent the present value of all estimated future claims and benefits on contracts written during the year. Changes in estimates of claims and benefits payable on contracts written in prior years are reflected in previous years' business profit, along with changes in other underwriting cash flows relating to previous years.



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<b>Claims handling</b>	Activities in connection with the investigation, settlement and payment of claims from the time of their occurrence until settlement.
<b>Claims incurred and claim adjustment expenses</b>	All claims payments plus the adjustment in the outstanding claims provision of a business year and claim adjustment expenses.
<b>Claims ratio</b>	Sum of claims paid and change in the provisions for unpaid claims and claim adjustment expenses in relation to premiums earned.
<b>Coinsurance</b>	Arrangement by which a number of insurers and/or reinsurers share a risk.
<b>Combined ratio</b>	The ratio is a combination of the non-life claims ratio and the expense ratio.
<b>Commission</b>	Remuneration paid by the insurer to its agents, brokers or intermediaries, or by the reinsurer to the insurer, for costs in connection with the acquisition and administration of insurance business.
<b>Commutation</b>	The termination of a reinsurance contract by agreement of the parties on the basis of one or more lump sum payments by the reinsurer which extinguish its liability under the contract. The payment made by the reinsurer commonly relates to incurred losses under the contract.
<b>Cover</b>	Insurance and reinsurance protection of one or more specific risk exposures based on a contractual agreement.
<b>Credit insurance</b>	Insurance against financial losses sustained through the failure, for commercial reasons, of policyholders' clients to pay for goods or services supplied to them.
<b>Credit spreads</b>	Difference in yield between a fixed income security which has default risk and one which is considered to be risk-free, such as U.S. Treasury securities.
<b>Directors' and officers' liability insurance (D&amp;O)</b>	Liability insurance for directors and officers of an entity, providing cover for their personal legal liability towards shareholders, creditors, employees and others arising from wrongful acts such as errors and omissions.
<b>Disability insurance</b>	Insurance against the incapacity to exercise a profession as a result of sickness or other infirmity.
<b>Earnings per share (EPS)</b>	Portion of a company's profit allocated to each outstanding share of common stock. Earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period.
<b>Economic net worth</b>	Economic net worth (ENW) is defined as the difference between the market-consistent value of assets and liabilities. ENW is an economic measure of shareholders' equity and the starting point in determining available capital under the Swiss Solvency Test (SST).
<b>EVM</b>	Economic Value Management (EVM) is Swiss Re Group's proprietary integrated economic valuation and accounting framework for planning, pricing, reserving, and steering our business.

<b>EVM capital</b>	EVM capital is the capital required to support uncertainty related to estimated cash flows arising from existing underwriting and investment activities.
<b>EVM profit</b>	EVM profit is a risk-adjusted measure of performance that can be compared across all business activities.
<b>Expense ratio</b>	Sum of acquisition costs and other operating costs and expenses, in relation to premiums earned.
<b>G-SIIs</b>	Globally systemically important insurers.
<b>Gross outperformance</b>	Defined as the difference between the mark-to-market investment result and the benchmark investment result.
<b>Gross underwriting result – new business</b>	Gross underwriting result from new business is defined as present value of new business underwriting cash flows (eg premiums, claims, commissions, etc) before internal expenses, taxes and capital costs.
<b>Guaranteed minimum death benefit (GMDB)</b>	A feature of variable annuity business. The benefit is a predetermined minimum amount that the beneficiary will receive upon the death of the insured.
<b>Health insurance</b>	Generic term applying to all types of insurance indemnifying or reimbursing for losses caused by bodily injury or sickness or for expenses of medical treatment necessitated by sickness or accidental bodily injury.
<b>Incurred but not reported (IBNR)</b>	Provision for claims incurred but not reported by the balance sheet date. In other words, it is anticipated that an event will affect a number of policies, although no claims have been made so far, and is therefore likely to result in liability for the insurer.
<b>Insurance-linked securities (ILS)</b>	Security for which the payment of interest and/or principal depends on the occurrence or severity of an insurance event. The underlying risk of the security is a peak or volume insurance risk.
<b>Layer</b>	Section of cover in a non-proportional reinsurance programme in which total coverage is divided into a number of consecutive layers starting at the retention or attachment point of the ceding company up to the maximum limit of indemnity. Individual layers may be placed with different insurers or reinsurers.
<b>Liability insurance</b>	Insurance for damages that a policyholder is obliged to pay because of bodily injury or property damage caused to another person or entity based on negligence, strict liability or contractual liability.
<b>Life insurance</b>	Insurance that provides for the payment of a sum of money upon the death of the insured, or upon the insured surviving a given number of years, depending on the terms of the policy. In addition, life insurance can be used as a means of investment or saving.
<b>Longevity risk</b>	The risk to which a pension fund or life insurance company could be exposed as a result of higher-than-expected payout ratios. Increasing life expectancy trends among policyholders and pensioners can result in payout levels that are higher than originally expected.
<b>Marine insurance</b>	Line of insurance which includes coverage for property in transit (cargo), means of transportation (except aircraft and motor vehicles), offshore installations and valuables, as well as liabilities associated with marine risks and professions.
<b>Mark-to-market</b>	Adjustment of the book value or collateral value of a security, portfolio or account to current fair market value.

<b>Mark-to-market investment result</b>	Includes net investment income, realised gains and losses and changes in unrealised gains and losses reported under the accounting principles generally accepted in the United States of America (US GAAP). In addition, it includes changes in market value of investment positions carried at amortised cost under US GAAP. It excludes the following US GAAP items: investment income from cedants, unit-linked and with-profit business and certain loans as well as minority interest and depreciation on real estate.
<b>Motor insurance</b>	Line of insurance which offers coverage for property, accident and liability losses involving motor vehicles.
<b>Net outperformance</b>	Defined as the gross outperformance after deducting the actual costs incurred by managing our actual investment portfolio in excess of the internal fee paid by underwriting for the purchase and maintenance of the investment portfolio replicating the best-estimate liability and backing the associated capital requirements.
<b>Net reinsurance assets</b>	Receivables related to deposit accounting contracts (contracts which do not meet risk transfer requirements) less payables related to deposit contracts.
<b>Net underwriting result – new business</b>	Net underwriting result from new business is defined as the gross underwriting result from new business net of the present value of internal expenses allocated to new business but before taxes and capital costs.
<b>Non-life insurance</b>	All classes of insurance business excluding life insurance.
<b>Non-proportional reinsurance</b>	Form of reinsurance in which coverage is not in direct proportion to the original insurer's loss; instead the reinsurer is liable for a specified amount which exceeds the insurer's retention; also known as "excess of loss reinsurance".
<b>Operating margin ratio</b>	The operating margin is calculated as operating result divided by total operating revenues. The operating result is before interest expenses, taxes and net realised gains/losses.
<b>Operating revenues</b>	Premiums earned plus net investment income plus other revenues.
<b>Operational risk</b>	Risk arising from failure of operational processes, internal procedures and controls leading to financial loss.
<b>Premium</b>	The payment, or one of the periodical payments, a policyholder agrees to make for an insurance policy.
<b>Premiums and fees</b>	Premiums and fees in the EVM income statement represent the present value of all estimated future premiums and fees on contracts written during the year. Gross premiums and fees represent premiums and fees before external retrocessions. Gross premiums and fees in the EVM income statement of the business segments also exclude retrocessions to other segments of the Group.
<b>Premiums earned</b>	Premiums an insurance company has recorded as revenues during a specific accounting period.
<b>Premiums written</b>	Premiums for all policies sold during a specific accounting period.
<b>Present value of future profits (PVFP)</b>	Intangible asset primarily arising from the purchase of life and health insurance companies or portfolios.
<b>Principal Investments and Acquisitions</b>	Principal Investments and Acquisitions is a unit of Swiss Re that manages all strategic acquisition activities of the Group as well as a portfolio of minority holdings in primarily insurance and insurance-related businesses with the goal of generating long-term value.

<b>Product liability insurance</b>	Insurance covering the liability of the manufacturer or supplier of goods for damage caused by their products.
<b>Professional indemnity insurance</b>	Liability insurance cover which protects professional specialists such as physicians, architects, engineers, lawyers, accountants and others against third-party claims arising from activities in their professional field; policies and conditions vary according to profession.
<b>Profit margin</b>	Profit margin is calculated for new business, previous years' business and investment activities. The new business profit margin is the ratio of new business profit/loss to EVM capital allocated to new business over the lifetime of the business. The previous years' business profit margin is the ratio of previous years' business profit/loss to EVM capital allocated to previous years' business in the current year. Investment profit margin is the ratio of investment profit/loss to EVM capital allocated to investment activities in the current year. These ratios can be used to compare profitability across all underwriting and investment activities on a consistent, risk-adjusted basis.
<b>Property insurance</b>	Collective term for fire and business interruption insurance as well as burglary, fidelity guarantee and allied lines.
<b>Proportional reinsurance</b>	Form of reinsurance arrangement in which the premiums earned and the claims incurred of the cedent are shared proportionally by the cedent and the reinsurer.
<b>Provision for capital costs</b>	Frictional capital costs provide compensation to shareholders for agency costs, costs for potential financial distress and regulatory (illiquidity) costs. Frictional capital costs include risk capital costs and funding costs. Risk capital costs are charged at 4.5% of eligible economic capital which consists of ENW and eligible hybrid debt. Funding costs are charged or credited at the legal entity level depending on the liquidity the respective legal entity uses or generates. In addition, the provision for capital costs includes an allowance for double taxation on the risk free return on capital allocated to underwriting activities.
<b>Quota share reinsurance</b>	Form of proportional reinsurance in which a defined percentage of the premiums earned and the claims incurred by the cedent in a specific line is reinsured for a given period. Quota share reinsurance arrangements represent a sharing of business in a fixed ratio or proportion.
<b>Reinsurance</b>	Insurance which lowers the risk carried by primary insurance companies. Reinsurance includes various forms such as facultative, financial, non-proportional, proportional, quota share, surplus and treaty reinsurance.
<b>Reserves</b>	Amount required to be carried as a liability in the financial statements of an insurer or reinsurer to provide for future commitments under outstanding policies and contracts.
<b>Retention</b>	Amount of risk which the policyholder or insurer does not insure or reinsure but keeps for its own account.
<b>Retrocession</b>	Amount of the risk accepted by the reinsurer which is then passed on to other reinsurance companies.
<b>Return on equity</b>	Net income as a percentage of time-weighted shareholders' equity.
<b>Return on investments</b>	Investment related operating income as a percentage of invested assets. Invested assets include investments, securities in transit, certain financial liabilities and exclude policy loans, minority interests, cash and cash equivalents, as well as assets related to securities lending, repurchase agreements and collateral balances.
<b>Risk</b>	Condition in which there is a possibility of injury or loss; also used by insurance practitioners to indicate the property insured or the peril insured against.

<b>Risk management</b>	Management tool for the comprehensive identification and assessment of risks based on knowledge and experience in the fields of natural sciences, technology, economics and statistics.
<b>Running yield</b>	Net investment income on long-term fixed income positions, including coupon income and amortisation, as a percentage of the average market value of the long-term fixed income portfolio.
<b>Securitisation</b>	Financial transaction in which future cash flows from financial assets (or insurable risks) are pooled, converted into tradable securities and transferred to capital market investors. The financial assets are commonly sold to a special-purpose entity, which purchases them with cash raised through the issuance of beneficial interests (usually debt instruments) to third-party investors.
<b>Solvency II</b>	New regulatory framework for EU re/insurance solvency rules that introduces comprehensive, economic and risk-based regulation and includes prudential requirements on solvency capital, risk modelling, supervisory control and disclosure.
<b>Stop-loss reinsurance</b>	Form of reinsurance that protects the ceding insurer against an aggregate amount of claims over a period, in excess of either a stated amount or a specified percentage of estimated benefit costs. An example of this is employer stop-loss (ESL) coverage, which is used by US companies to cap losses on self-funded group health benefit programmes. The stop-loss can apply to specific conditions or aggregate losses.
<b>Surety insurance</b>	Sureties and guarantees issued to third parties for the fulfilment of contractual liabilities.
<b>Surplus reinsurance</b>	Form of proportional reinsurance in which risks are reinsured above a specified amount.
<b>Swiss Solvency Test (SST)</b>	An economic and risk-based insurance regulation, similar to the objectives of Solvency II to which all insurance and reinsurance companies writing business in Switzerland are subject. Since 1 January 2011, the SST-based target capital requirement is in force and companies must achieve economic solvency.
<b>Tail VaR</b>	See "Value at risk".
	An investment strategy process which analyses trends in the global economy and the associated impact on financial markets to assess the overall financial market outlook as well as their implications for various asset classes and risk exposures.
<b>Total contribution to ENW</b>	Total contribution to ENW is the total return generated for shareholders and includes the release of capital costs. Total contribution to ENW is therefore not a risk-adjusted performance measure.
<b>Treaty reinsurance</b>	Participation of the reinsurer in certain sections of the insurer's business as agreed by treaty, as opposed to single risks.
<b>Underwriting result</b>	Premiums earned less the sum of claims paid, change in the provision for unpaid claims and claim adjustment expenses and expenses (acquisition costs and other operating costs and expenses).
<b>Unearned premium</b>	Part of written premium (paid or owed) which relates to future coverage and for which services have not yet been provided; this is carried in an unearned premium reserve and may be refundable if the contract is cancelled before expiry.
<b>Unit-linked policy</b>	A life insurance contract which provides policyholder funds linked to an underlying investment product or fund. The performance of the policyholder funds is for the account of the policyholder.
<b>US GAAP</b>	United States generally accepted accounting principles.

**Value at risk (VaR)**

Maximum possible loss in market value of an asset portfolio within a given time span and at a given confidence level. 99% VaR measures the level of loss likely to be exceeded in only one year out of a hundred, while 99.5% VaR measures the loss likely to be exceeded in only one year out of two hundred. 99% tail VaR estimates the average annual loss likely to occur with a frequency of less than once in one hundred years.

**With-profit policy**

An insurance contract that has additional amounts added to the sum insured, or paid/credited separately to the policyholder as a bonus, which result from a share of the profit generated by the with-profits insurance funds, including these funds' interests in other blocks of business.

Some of the terms included in the glossary are explained in more detail in Note 1 to the Group financial statements.

Swiss Re uses some of the term definitions provided by the glossary of the International Association of Insurance Supervisors (IAIS).

# Cautionary note on forward-looking statements

Certain statements and illustrations contained herein are forward-looking. These statements (including as to plans, objectives, targets and trends) and illustrations 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”, “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, which may cause the Group’s actual results of operations, financial condition, solvency ratios, capital or liquidity positions or prospects to be materially different from any future results of operations, financial condition, solvency ratios, capital or liquidity positions or prospects expressed or implied by such statements or cause Swiss Re to not achieve its published targets. Such factors include, among others:

- the frequency, severity and development of insured claim events, particularly natural catastrophes, man-made disasters, pandemics, acts of terrorism and acts of war;
- mortality, morbidity and longevity experience;
- the cyclicity of the insurance and reinsurance sectors;
- instability affecting the global financial system;
- deterioration in global economic conditions;
- the effect of market conditions, including the global equity and credit markets, and the level and volatility of equity prices, interest rates, credit spreads, currency values and other market indices, on the Group’s investment assets;
- changes in the Group’s investment result as a result of changes in the Group’s investment policy or the changed composition of the Group’s investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
- the Group’s ability to maintain sufficient liquidity and access to capital markets, including sufficient liquidity to cover potential recapture of reinsurance agreements, early calls of debt or debt-like arrangements and collateral calls due to actual or perceived deterioration of the Group’s financial strength or otherwise;
- any inability to realise amounts on sales of securities on the Group’s balance sheet equivalent to their values recorded for accounting purposes;
- changes in legislation and regulation, and the interpretations thereof by regulators and courts, affecting us or the Group’s ceding companies, including as a result of shifts away from multilateral approaches to regulation of global operations;
- the outcome of tax audits, the ability to realise tax loss carryforwards, the ability to realise deferred tax assets (including by reason of the mix of earnings in a jurisdiction or deemed change of control), which could negatively impact future earnings, and the overall impact of changes in tax regimes on business models;
- failure of the Group’s hedging arrangements to be effective;
- the lowering or loss of one of the financial strength or other ratings of one or more Group companies, and developments adversely affecting the Group’s ability to achieve improved ratings;
- uncertainties in estimating reserves;
- policy renewal and lapse rates;
- uncertainties in estimating future claims for purposes of financial reporting, particularly with respect to large natural catastrophes and certain large man-made losses, as significant uncertainties may be involved in estimating losses from such events and preliminary estimates may be subject to change as new information becomes available;
- extraordinary events affecting the Group’s clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- legal actions or regulatory investigations or actions, including those in respect of industry requirements or business conduct rules of general applicability;
- changes in accounting standards;
- significant investments, acquisitions or dispositions, and any delays, unexpected costs, lower-than expected benefits, or other issues experienced in connection with any such transactions;
- changing levels of competition, including from new entrants into the market; and
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks and the ability to manage cybersecurity risks.

These factors are not exhaustive. 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. Swiss Re 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

## General impact of adverse market conditions

The operations of Swiss Re Ltd ("Swiss Re") and its subsidiaries (collectively, the "Group") as well as its investment returns are subject to market volatility and macro-economic factors, which are outside of the Group's control and are often inter-related.

Growth forecasts among the principal global economies remain uneven and uncertain in an environment of elevated political uncertainty. The planned withdrawal of the United Kingdom from the EU has created uncertainty not only for the United Kingdom but for the rest of the EU, and negotiations over withdrawal will likely continue to contribute to volatility and pose significant challenges for the EU and the United Kingdom. The long-term effects of a withdrawal of the United Kingdom from the EU will depend in part on any agreements the United Kingdom makes to retain access to the single market within the European Economic Area ("EEA") following such withdrawal, the scope and nature of which currently remain highly uncertain. As China's economy undergoes structural changes, recent near-term growth stabilisation may be reversed in the context of a broader economic slowdown were it to occur. The foregoing may be exacerbated by geopolitical tensions, fears over security and migration, and uncertainty created generally by the policy pronouncements that have been, and may in the coming months be, announced by the US administration on a range of trade, security, foreign policy, environmental protection and other issues having global implications, as well as by the consequences of the implementation of such policy pronouncements.

With fewer options available to policymakers and concerns generally over the absence of realistic confidence-building measures, and with heightened risk that volatility or depressed conditions in one sector, one market, one country or one region could have far broader implications, volatility 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 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 and reinsurance.

Any of the foregoing factors, developments and trends could have an adverse effect on the Group's investment results, 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 portfolio, make it more difficult to acquire suitable investments to meet its risk and return criteria and otherwise have a material adverse effect on its business and operations.



### **Regulatory changes**

Swiss Re and its subsidiaries operate in a highly regulated environment. The regulatory regimes to which members of the Group are subject have changed significantly in recent years and are expected to continue to evolve. During this period, there has been a noticeable trend to extend the scope of reforms and oversight, which initially targeted banks, beyond such institutions to cover insurance and reinsurance operations.

While some regulation is national in scope, the global nature of the Group's business means that its operations are subject in effect to a patchwork of global, national and regional standards. Swiss Re and its subsidiaries are subject to group supervision and Swiss Re's subsidiaries are also subject to applicable regulation in each of the jurisdictions in which they conduct business, particularly Switzerland, the United States, the United Kingdom, Luxembourg and Germany. The Group is subject to the Swiss Solvency Test and, through its legal entities organised in the EEA, Solvency II.

While certain regulatory processes are designed in part to foster convergence and achieve recognition of group supervisory schemes, the Group continues to face risks of extra-territorial application of regulations, particularly as to group supervision and group solvency requirements. In addition, regulators in jurisdictions beyond those where the Group has core operations increasingly are playing a far greater oversight role, requiring more localised resources and, despite a predominantly local focus, also raise issues of a cross-border nature. Furthermore, evolving regulatory schemes and requirements may be inconsistent or may conflict with each other, thereby subjecting the Group, particularly in light of the increasing focus on legal entities in isolation, to higher compliance and legal costs, as well as the possibility of higher operational, capital and liquidity costs. The effect of these trends could be exacerbated to the extent that the current political environment results in a return to more bilateral, and less harmonised, cross-border regulatory efforts.

While in recent years there has been an evolving focus on classifying certain insurance companies as systemically important, it is unclear whether and, if so, in what form reforms will be enacted. The Group could be designated as a global systemically important insurer ("G-SIIs") by the Financial Stability Board, or as a systemically important non-bank financial company by the Financial Stability Oversight Council ("FSOC") in the United States. The International Association of Insurance Supervisors, an international body that represents insurance regulators and supervisors, has published and since refined the methodology for identifying G-SIIs. Were the Group to be designated as a G-SII, it could be subject to one or both of the resulting regimes, including capital standards (the basic capital requirement for G-SIIs), which would have various implications for the Group, including additional compliance costs and reporting obligations as well as heightened regulatory scrutiny in various jurisdictions. In addition, the Group ultimately will be subject to oversight of its Swiss regulator in respect of recovery and resolution planning.

The Group cannot predict which legislative and/or regulatory initiatives will be enacted or promulgated, what the scope and content of these initiatives ultimately will be, when they will be effective and what the implications will be for the industry, in general, and for the Group, in particular. The Group may be subject to changes in views of its regulators in respect of the models that the Group uses for capital and solvency purposes, and could be adversely affected if, for example, it is required to use standard models rather than internal models. Generally, legal and regulatory changes could have a material impact on the Group's business. Uncertainty regarding the future relationship between the UK and the EU could also impact the legislative and/or regulatory regimes to which the Group is subject, both in the United Kingdom and in the EEA.

In addition, regulatory changes could occur in areas of broader application, such as competition policy and tax laws. Changes in tax laws, for example, could increase the taxes the Group pays, the attractiveness of products offered by the Group, the Group's investment activities and the value of deferred tax assets. Any number of these changes could apply to the Group and its operations. Recently enacted changes to the US tax regime is prompting us to consider modifications to our operating model for our US business. These changes, or inconsistencies between the various regimes that apply to the Group, could increase the costs of doing business (including due to related capital requirements), reduce access to liquidity, limit the scope of current or future business or affect the competitive balance, or could make reinsurance less attractive to primary insurers.

#### **Market risk**

Volatility and disruption in the global financial markets could expose the Group to significant financial and capital markets risk, including changes in interest rates, credit spreads, equity prices and foreign currency exchange rates, which may adversely impact the Group's financial condition, results of operations, liquidity and capital position. 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. In general, a low interest rate environment, such as the one experienced in recent years, poses significant challenges to the insurance and reinsurance industries, with earnings capacity under stress unless lower investment returns from fixed income assets can be offset by lower combined ratios or higher returns from other asset classes. Exposure to credit spreads primarily relates to market price and cash flow variability associated with changes in credit spreads. When credit spreads widen, the net unrealised loss position of the Group's investment portfolio can increase, as could other-than-temporary impairments.

The Group is exposed to changes in the level and volatility of equity prices, as they affect the value of equity securities themselves as well as the value of securities or instruments that derive their value from a particular equity security, a basket of equity securities or a stock index. The Group is also subject to equity price risk to the extent that the values of life-related benefits under certain products and life contracts, most notably variable annuity business, are tied to financial market values; to the extent market values fall, the financial exposure on guarantees related to these contracts would increase to the extent this exposure is not hedged. While the Group has an extensive hedging programme covering its existing variable annuity business that it believes is sufficient, certain risks cannot be hedged, including actuarial risks, basis risk and correlation risk. Exposure to foreign exchange risk arises from exposures to changes in spot prices and forward prices as well as to volatile movements in exchange rates.

These risks can have a significant effect on investment returns and market values of securities positions, which in turn may affect both the Group's results of operations and financial condition. The Group continues to focus on asset-liability management for its investment portfolio, but pursuing even this strategy has its risks – including possible mismatch – that in turn can lead to reinvestment risk. The Group seeks to manage the risks inherent in its investment portfolio by repositioning the portfolio from time to time, as needed, and to reduce risk and fluctuations through the use of hedges and other risk management tools.

#### **Credit risk**

If the credit markets were again to deteriorate and further asset classes were to be impacted, the Group could experience losses. Changes in the market value of the underlying securities and other factors impacting their price could give rise to market value losses. If the credit markets were to deteriorate again, the Group could also face write-downs in other areas of its portfolio, including other structured instruments, and the Group and its counterparties could face difficulties in valuing credit-related instruments. Differences in opinion with respect to valuations of credit-related instruments could result in legal disputes among the Group and its counterparties as to their respective obligations, the outcomes of which are difficult to predict and could be material.

The Group is also subject to credit and other risks in its credit business, including reliance on banks that underwrite and monitor facilities in which the Group participates and potential default by borrowers under those facilities.

#### **Liquidity risks**

The Group's business requires, and its clients expect, that it has sufficient capital and sufficient liquidity to meet its re/insurance obligations, and that this would continue to be the case following the occurrence of any foreseeable event or series of events, including extreme catastrophes, that would trigger insurance or reinsurance coverage obligations. The Group's uses of funds include obligations arising in its insurance and reinsurance businesses (including claims and other payments as well as insurance provision repayments due to portfolio transfers, securitisations and commutations), which may include large and unpredictable claims (including catastrophe claims), funding of capital requirements and operating costs, payment of principal and interest on outstanding indebtedness and funding of acquisitions. The Group also has unfunded capital commitments in its private equity and hedge fund investments, which could result in funding obligations at a time when it is subject to liquidity constraints. In addition, the Group has potential collateral requirements in connection with a number of reinsurance arrangements, the amounts of which may be material and the meeting of which could require the Group to liquidate cash equivalents or other securities.

The Group manages liquidity and funding risks by focusing on the liquidity stress that is likely to result from extreme capital markets scenarios or from extreme loss events or combinations of the two. 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.

## General information

### Note on risk factors

Unexpected liquidity needs (including to meet collateral calls) could require the Group to incur indebtedness or liquidate investments or other assets. The Group may not be able to secure new sources of liquidity or funding, should projected or actual liquidity fall below levels it requires. The ability to meet liquidity needs through asset sales may be constrained by market conditions and the related stress on valuations, and through third-party funding may be limited by constraints on the general availability of credit and willingness of lenders to lend. In addition, the Group's ability to meet liquidity needs may also be constrained by regulatory requirements that require regulated entities to maintain or increase regulatory capital, or that restrict intra-group transactions, the timing of dividend payments from subsidiaries or the fact that certain assets may be encumbered or otherwise non-tradable. Failure to meet covenants in lending arrangements could give rise to collateral-posting or defaults, and further constrain access to liquidity. Finally, any adverse ratings action could trigger a need for further liquidity (for example, by triggering termination provisions or collateral delivery requirements in contracts to which the Group is a party) at a time when the Group's ability to obtain liquidity from external sources is limited by such ratings action.

#### Counterparty risks

The Group is exposed to the risk of defaults, or concerns about defaults, by its counterparties. Securities trading counterparties, counterparties under swaps and other derivative contracts, and financial intermediaries may default on their obligations due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons, which could have a material adverse effect on the Group.

The Group could also be adversely affected by the insolvency of, or other credit constraints affecting, counterparties in its insurance and reinsurance operations. Moreover, the Group could be adversely affected by liquidity issues at ceding companies or at third parties to whom the Group has retroceded risk, and such risk could be exacerbated to the extent any such exposures are concentrated.

#### Risks relating to credit rating downgrades

Ratings are an important factor in establishing the competitive position of reinsurance companies. Third-party rating agencies assess and rate the financial strength of reinsurers and insurers. These ratings are intended to measure a company's ability to repay its obligations and are based upon criteria established by the rating agencies. Ratings may be revised downward or revoked at the sole discretion of the rating agencies.

The Group's ratings reflect the current opinion of the relevant rating agencies. One or more of its ratings could be downgraded or withdrawn in the future, and market conditions could increase the risk of downgrade. Rating agencies may increase the frequency and scope of ratings reviews, revise their criteria or take other actions that may negatively impact the Group's ratings. In addition, changes to the process or methodology of issuing ratings, or the occurrence of events or developments affecting the Group, could make it more difficult for the Group to achieve improved ratings which it would otherwise have expected.

As claims paying and financial strength ratings are key factors in establishing the competitive position of reinsurers, a decline in ratings alone could make reinsurance provided by the Group less attractive to clients relative to reinsurance from competitors with similar or stronger ratings. A decline in ratings could also cause the loss of clients who are required by policy or regulation to purchase reinsurance only from reinsurers with certain ratings. Certain larger reinsurance contracts contain terms that would allow the ceding companies to cancel the contract if the Group's ratings or those of its

subsidiaries are downgraded beyond a certain threshold. Moreover, a decline in ratings could impact the availability and terms of unsecured financing and obligate the Group to provide collateral or other guarantees in the course of its business or trigger early termination of funding arrangements, potentially resulting in a need for additional liquidity. As a ratings decline could also have a material adverse impact on the Group's costs of borrowing or ability to access the capital markets, the adverse implications of a downgrade could be more severe. These same factors could also impact the Group's insurance business.

### **Legal and regulatory 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 insurance, reinsurance and other 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 ceding companies, disputes with parties to which the Group transfers risk under reinsurance arrangements, disputes with other counterparties or other matters. The Group cannot predict the outcome of any of the foregoing, which could be material for the Group.

The Group is also involved, from time to time, in investigations and regulatory proceedings, which could result in adverse judgments, 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.

### **Insurance, operational and other risks**

As part of the Group's ordinary course operations, the Group is subject to a variety of risks, including risks that reserves may not adequately cover future claims and benefits; risks that catastrophic events (including hurricanes, windstorms, floods, earthquakes, acts of terrorism, man-made disasters such as industrial accidents, explosions, and fires, and pandemics) may expose the Group to unexpected large losses (and related uncertainties in estimating future claims in respect of such events); changes in the insurance industry that affect ceding companies, particularly those that further increase their sensitivity to counterparty risk; competitive conditions (including as a result of consolidation and the availability of significant levels of alternative capacity); cyclicalities of the industry; risks related to emerging claims and coverage issues; macro developments giving rise to emerging risks, such as climate change and technological developments (including greater exposure to cyber risks, which could have a range of consequences from operational disruption, to loss of proprietary or customer data, to

greater regulatory burdens and potential liability); risks arising from the Group's dependence on policies, procedures and expertise of ceding companies; risks related to investments in emerging markets; and risks related to the failure of, or attacks directed at, the Group's operational systems and infrastructure, including its information technology networks and systems. Any of the foregoing, as well as the occurrence of future risks that the Group's risk management procedures fail to identify or anticipate, could have a material adverse effect on the Group, and could also give rise to reputational risk.

#### **Use of models; accounting matters**

The Group is subject to risks related to the preparation of estimates and assumptions that management uses as part of its risk models; it is also subject to risks that affect the reported amounts of assets, liabilities, revenues and expenses in the Group's financial statements, including assumed and ceded business. For example, the Group estimates premiums pending receipt of actual data from ceding companies, which actual data could deviate from the estimates. In addition, particularly with respect to large natural catastrophes, it may be difficult to estimate losses, and preliminary estimates may be subject to a high degree of uncertainty and change as new information becomes available. Deterioration in market conditions could have an adverse impact on assumptions used for financial reporting purposes, which could affect possible impairment of present value of future profits, fair value of assets and liabilities, deferred acquisition costs or goodwill. Moreover, regulators could require the use of standard models instead of permitting the use of internal models. To the extent that management's estimates or assumptions prove to be incorrect, it could have a material impact on 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 financial reporting, including in this report. 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.

The Group includes in its annual report a section in respect of its results, including financial statements, prepared in accordance with the Group's proprietary economic value management ("EVM") principles ("EVM section"). Financial information included in the EVM section contains non-GAAP financial measures. The EVM principles differ significantly from US GAAP and, accordingly, the Group's results prepared in accordance with US GAAP will differ from its EVM results, and those differences could be material. The Group's annual EVM results can be more volatile than the US GAAP results because, among other things, assets and liabilities are measured on a market-consistent basis, profit recognition on new contracts is recognised at inception rather than over the lifetime of the contract, and life and health actuarial assumptions are on a best estimate basis as opposed to generally being locked-in. The Group's EVM financial statements should not be viewed as a substitute for the Group's US GAAP financial statements.

#### **Risks related to the Swiss Re corporate structure**

Swiss Re is a holding company, a legal entity separate and distinct from its subsidiaries, including Swiss Reinsurance Company Ltd. As a holding company with no operations of its own, Swiss Re is dependent upon dividends and other payments from Swiss Reinsurance Company Ltd and its other principal operating subsidiaries. The Group expects that, over time, its structure will continue to evolve, and in the future it may elect again (having accepted an equity investment within its Life Capital Business Unit from a third party) to partner with minority investors in or within one or more of the 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.

# Contacts

Swiss Re has about 80 office locations in more than 30 countries. For a full list of our office locations and service offerings, please visit [www.swissre.com](http://www.swissre.com).

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# Corporate calendar

2018

**4 April 2018**

Investors' Day in Zurich

**20 April 2018**

154th Annual General Meeting

**4 May 2018**

First quarter 2018 key financial data

**3 August 2018**

Half-year 2018 results

**1 November 2018**

Nine months 2018 key financial data

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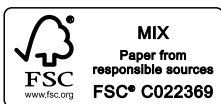
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