Financial Condition Report 2017

Local GAAP format
(Swiss Code of Obligations and FINMA circular 2016/2)

new/re

Who we are

120 specialists in Zurich

over **90** years of experience

CHF **128**m annual result

AA- S&P rating

A+ A.M. Best rating

218% SST solvency ratio

NewRe has dedicated itself to developing state-of-the-art reinsurance solutions. Our employees apply solid expertise and reliability in creating tailor-made offers to cover your risks.

We possess the ideal size and required agility to react quickly and competently to changes in the market.

Contents

Executive summary

NewRe, as in previous years, focused on four areas of business. NewRe is a professional property and casualty reinsurance company, through its Capital Partners unit a leading underwriter of structured reinsurance solutions and, via the business unit Weather & Agro, an active reinsurer in the fields of insurance derivatives and parametric trigger covers. The Company also specialises in variable annuity reinsurance and capital management solutions for life business.

2017 financial performance was positive. Primarily driven by new life transactions, premium volume rose from CHF 4.0m in 2016 to CHF 4.3bn in 2017. Among the two rather volatile business segments of weather/agricultural risks and natural catastrophe reinsurance, the former was negative for the year while the latter produced positive results in 2017. At CHF 128m, NewRe's 2017 overall result was higher than the previous year result of CHF 113m.

The structural set-up of corporate governance of NewRe remained unchanged throughout 2017. As a change in the Board of Management, Dr. Christian Dahmen became CRO of NewRe on 1 January 2018. He succeeds Paolo Monticolo, who – after 17 years with NewRe – has decided to step down from his role at NewRe.

In the risk management structure, a structural change was implemented in 2017: The former audit committee was re-shaped to become NewRe's audit and risk committee. Hence, its scope of responsibility was enlarged to now encompass all risk related topics as well.

NewRe's risk profile continues to be driven by the business risk emanating from the four segments: property and casualty reinsurance, structured solutions, weather and agro, and life, complemented by the associated market and credit risks. Compared to 2016, the life portfolio has continued to grow, which in turn increases the risk contribution by the life segment. As a result of this growth in life the overall risk profile has become more balanced between the four business segments.

NewRe's solvency position is solid, with a SST ratio of 218%. The main adjustments to the valuation of assets and liabilities for solvency purposes are the difference between book value and market value of assets, the recognition of a present value of future profits for life reinsurance contracts and fluctuation reserves recognised as risk-bearing capital.

In its management of the statutory equity capital, the goal of NewRe's capital planning is a stable and solid capitalisation. The statutory equity capital is deemed sufficient to sustain the expected development of the business over the coming years. Therefore, as in the previous year, NewRe intends to pay a dividend approximately equal to the annual result.

1) NewRe business activities

a) NewRe at a glance – an overview

New Reinsurance Company Ltd. (NewRe) is a Swiss reinsurer founded in Zurich in 1926. In 1988, NewRe became part of Munich Re Group, one of the world's leading reinsurers.

NewRe is a property and casualty reinsurance company, a leading underwriter of structured reinsurance solutions and an active reinsurer in the fields of insurance derivatives and parametric trigger covers. The company also specialises in variable annuity reinsurance and capital management solutions for life business. NewRe is considered a core company of Munich Re Group and combines exceptional financial strength with the efficiency and creativity of a medium-sized reinsurer.

We want to be a reliable partner for our clients. We think beyond traditional models and design tailor-made reinsurance solutions with the aim of enhancing our clients' capital structure, earnings stability and liquidity. Working with our broker partners, we offer mono-line and multi-line solutions, including life and specialty classes of business, in the form of both prospective and retrospective covers.

Financial results and shareholder's equity at a glance

in CHFm	2017	2016
Gross premiums written	4'337.3	3'955.5
Net earned premiums	4'403.3	3'914.4
Overall technical result - Life & Non-life (incl. interest, after management expenses)	69.5	66.7
Investment result (excl. interest on techn. prov., before mgmt exp.)	29.4	61.4
Management expenses - investments	-21.7	-23.0
Profit for the year	**128.0**	**113.3**
Investments	2'549.6	2'387.9
Technical provisions (net)	4'247.4	2'497.2
Shareholder's equity*	**834.4**	**819.7**

*before appropriation of available earnings

b) Board of management

Dr. Renate Strasser, Chief Executive Officer

Before joining Munich Re, Renate Strasser spent six years as an Assistant Professor for Corporate Finance at the University of Klagenfurt. She joined Munich Re in 2004 as Consultant Pricing for Aviation, developing aviation pricing tools and pricing complex aviation risks. From 2007 onwards, she took over the role of Head of Aviation Facultative, where she was responsible for the worldwide portfolio.

In January 2016, Renate Strasser was appointed CEO of NewRe. In this function, she has responsibility for the entire legal entity operating out of Zurich, including traditional property and casualty reinsurance business, structured reinsurance solutions, weather derivative business and life business.

Renate Strasser holds a Master of Business Administration from the University of Graz, Austria and a PhD in Business Administration with a focus on Corporate Finance from the University of Klagenfurt, Austria.

Jean-Luc Bourgault, Chief Underwriting Officer Property & Casualty

Jean-Luc Bourgault started his career at SCOR in Paris and then moved to MMA Re (Covea Group), where he spent 20 years with various underwriting responsibilities in international markets, including Managing Director of the Canadian Branch from 1985 to 1990 and Chief Underwriting Officer Life and Non-life from 1990 to 1998. In 1998, he was appointed General Manager of Le Mans Re, a joint venture between MMA and XL Capital (now XL Re Europe).

He joined NewRe in 2000 and was appointed to the Board of Management as Chief Underwriting Officer responsible for all life and non-life business in 2001. He oversaw the strategic refocusing of NewRe in European markets and non-proportional business and built the analytics capabilities of the company. From 2008 onwards, he focused on developing the Property & Casualty operations and positioned NewRe as a leading market player for innovative non-standard and structured solutions.

He holds a Master of Business Administration from ESCP Europe Business School in Paris, a Master of Economics from Sorbonne University and an MBA from the University of Toronto, Canada.

Dr. Jürgen Kammerlohr, Chief Financial Officer

After eight years as an attorney at an international law firm in Germany focusing on corporate, commercial and insurance law, Jürgen Kammerlohr joined Munich Re in 1998 as a Senior Consultant in the Finance Department. He was Head of M&A/Group Investments (Europe) from 2004 to 2007, where he was primarily responsible for group-wide M&A work as well as debt and equity capital market transactions.

From 2008 until 2012, Jürgen Kammerlohr was Chief Financial Officer and member of the Board of Directors of American Modern Insurance Group. American Modern was acquired by Munich Re in early 2008 and Jürgen Kammerlohr was responsible for integrating American Modern into the Munich Re America Group.

In January 2013, Jürgen Kammerlohr was nominated Chief Financial Officer and member of the Board of Management of NewRe.

He holds a doctorate in German law and a US Master of Law degree.

Paolo Monticolo, Chief Risk Officer (until 31 December 2017)

Paolo Monticolo began his career at SCOR in Paris in 1996 and moved to the Italian subsidiary in Milan in 1997 where he was responsible for pricing and reserving.

He joined NewRe in 2001 as a Senior Life and Non-Life Underwriter. In 2002, he moved to the newly created risk management department, initially in charge of life and non-life reserving. He was appointed Head of Department in 2004 and became Appointed Actuary in 2008. In this function, Paolo Monticolo developed the internal risk management model in parallel with the development of the Swiss Solvency Test (SST) framework.

In 2013, Paolo Monticolo became Chief Risk Officer and was promoted to the Board of Management.

Paolo Monticolo studied actuarial sciences in Trieste, Italy and London, United Kingdom, and is a member of the Italian Institute of Actuaries.

Dr. Christian Dahmen, Chief Risk Officer (as of 1 January 2018)

Following several years in financial risk consulting with d-fine in Germany, Christian Dahmen joined Munich Re in 2009 as Risk Analyst for market and credit risk modelling. In the preparation phase for Solvency II, Christian Dahmen managed Munich Re's group-wide internal model application project.

Since then, he has held several management positions in risk management across the Munch Re Group. Most recently, he headed the risk management organisation of the health primary and reinsurance segment within the Group.

In January 2018, Christian Dahmen was appointed Chief Risk Officer and member of the Board of Management of NewRe.

Christian Dahmen holds a doctorate degree in Physics from the Technical University Aachen, Germany, and a M.Sc. in Mathematical Finance from the University of Oxford, United Kingdom.

c) Business segments

NewRe's strategic focus is that of a specialised risk carrier in the Munich Re group, building on our efficiency and creativity as a medium- sized reinsurer. In each of our four business segments, we aim to be a reliable partner for our clients. We strive to think beyond traditional models and design tailor-made reinsurance solutions. The four business segments follow this overarching strategic focus and apply it in their respective market segment.

PROPERTY & CASUALTY REINSURANCE

NewRe offers treaty reinsurance solutions operating as a separate brand within the Munich Re Group and thus complementing Munich Re's Property & Casualty offerings. We are a transaction oriented reinsurer delivering client value by providing high quality financial rating and large capacities paired with our ability to structure and evaluate tailor-made solutions.

We focus on European-based cedants and trade mainly with brokers. Not only because this is how most clients buy reinsurance today, but also because we think of the broker as business facilitator with whom we can work together to find the best suitable solutions.

Our pan-European team set-up enables us to allocate resources where they are best utilised and ensure swift response times. Our underwriters are also client managers who provide our business partners with transparency concerning decision making processes.

We operate in three distinct areas that enable the optimal combination to deliver an ongoing solid performance within challenging market conditions:

- We write traditional Property and Casualty treaty excess of loss reinsurance which remains the core of our activity.
- During the last decade we have developed and successfully grown recognised competencies in non-traditional reinsurance such as Solvency Q/S, Multi-Line Aggregate XL and retrospective reinsurance. Of late, these competencies have been further strengthened benefitting from our close cooperation with Capital Partners.
- More recently, and on a selective basis, we support specific virtual insurance models either with reinsurance capacity or on a direct basis using our group-internal insurance paper via Great Lakes.

CAPITAL PARTNERS

We believe reinsurance offers complementary value for our clients. Our agile Deal Teams consisting of experts from NewRe in Zurich as well as Munich Re in Munich, New York, Singapore and Beijing are dedicated to making sure that it does. We work closely with clients to jointly develop and structure unconventional risk transfer solutions around their needs.

The results are highly flexible, turnkey packages that support the fulfilment of solvency requirements, optimise capital management or ensure business plan protection. Relying on our support in structuring risk transfer solutions ensures fitting these to specific solvency and rating models. In a low-yield environment with increasing shareholder expectations, locked-up capital can be freed up using reinsurance. And when business plans encounter disruptions or surprises, a tailor-made reinsurance solution can limit the impact of distressed situations and protect our clients' business plan capital base.

Our solutions include structured prospective and retroactive reinsurance, as well as alternative risk transfer instruments like Insurance Linked Securities (ILS) and derivatives. The team in Zurich specialises in broker-sourced business in Continental Europe, the Middle East and Africa, and in public-sector business and captives.

WEATHER & AGRO

Weather has a substantial financial impact on business in wealthy industrialised economies. The affected sectors include not only energy and agriculture, but also travel, entertainment, construction and many more. While companies have long used insurance to manage the risk of catastrophic weather events, weather-index-linked covers have more recently grown to become an important risk management tool.

We develop bespoke risk transfer solutions for all industry sectors impacted by increased weather variability. Our financial hedging instruments are used to manage non-catastrophic weather-related risks, i.e. high-frequency, low-impact occurrences. The global Weather & Agro unit of Munich Re with teams in Zurich, Houston and Munich offers tailor-made solutions to minimise our clients' weather-related risk.

The NewRe based team's main focus is energy clients (both conventional as well as renewable production) in Europe, Latin America and parts of Asia. The main exposures covered are temperature, rainfall, sunshine and wind risks. The key strategy remains to develop new client relationships in all markets. The focus in 2018 will be to further expand and intensify business in Europe as well as concentrate on opportunities in Latin America.

LIFE

In the context of today's strong competition and exacting rating and solvency requirements, active capital management is increasingly important for life insurers. NewRe writes structured reinsurance solutions to address such corporate risk management, corporate finance and business development needs of our clients.

Together with the specialists in the Munich Re Group we identify client needs and develop robust solution proposals. The life segment today calls for comprehensive know-how and knowledge of individual solutions. With our established approach, clients benefit from an expert team of actuaries, business analysts and client managers who conduct comprehensive business analyses as the basis of strategic implementations that will address the identified client needs.

NewRe as a financially solid, globally diversified reinsurer and core subsidiary of Munich Re is a specialised risk carrier in the Group for structured reinsurance solutions balancing a central approach with proximity to the markets.

NewRe's Life team is an integral part of Munich Re's Life Division which not only has successfully positioned itself as a premium provider of corporate risk management, particularly where management of market risk, credit risk, behaviour risk, complex biometric risk or structuring capabilities are key, but is in a position to offer the technology and resources required to seize business opportunities on a worldwide geographical scope.

d) Management report

GENERAL OVERVIEW

In 2017, NewRe's top-line developed positively again and the company achieved strong financial results. Primarily driven by life business, premium volume rose from CHF 4.0bn in 2016 to CHF 4.3bn in 2017.

While the natural catastrophe reinsurance business produced favourable results again, the bottom line of our weather/agricultural segment was negative for the year. Life business was profitable and exceeded expectations.

At CHF 128m, NewRe's overall 2017 result compares favourably to the previous year's figure of CHF 113m.

MARKET CONDITIONS, COMPETITION, SUPPLY AND DEMAND

The non-life reinsurance market showed mixed trends. In the United Kingdom, the discount rate applicable to lump sum payments for personal injury claims (the so-called "Ogden rate") was revised in late February 2017 from a previous rate of 2.5% to a negative rate of 0.75%. This change had a significant impact on the cost of personal injury claims. As a result, motor reinsurance in the UK has seen substantial price increases during 2017. Further developments in the UK motor market will depend to a substantial degree on the evolution of this rate.

In property reinsurance, the prices have remained relatively soft across Europe and all lines of business. The main cause for these continued low price levels is an ample supply of risk capital in the market. In life reinsurance, market conditions continued to be favourable. Solvency II requirements led to a continuing demand for traditional financing as well as structured life reinsurance solutions. NewRe has been able to benefit from this positive environment and several new life transactions have been written.

STAFF

The total workforce of NewRe was 112 FTEs at the beginning and 113 FTEs at the end of 2017, with an average of 112.5 FTEs during the year.

A change in the set-up of NewRe's Board of Management became effective at year-end 2017. Paolo Monticolo stepped down from his position as a member of the Board of Management and Chief Risk Officer. Dr. Christian Dahmen was appointed as his successor and took on both roles effective 1 January 2018.

INNOVATION AND DEVELOPMENT

In non-life reinsurance, we continue to work with innovative start-up companies and virtual insurers. In life reinsurance, our focus has been to support primary insurance companies in offering innovative products to their clients and to cover the risks associated with these new products.

SIGNIFICANT EVENTS

New life reinsurance transactions have added a premium volume of roughly CHF 450m during 2017. Across all segments (including life), gross premiums written grew to nearly CHF 4.3bn, compared to CHF 4.0bn in 2016.

In UK motor liability business, the aforementioned Ogden rate change necessitated a strengthening of our UK motor reserves by less than CHF 50m. Conversely, this change had a significant positive impact on our 2017 pricing in the UK Motor segment.

The NewRe natural catastrophe reinsurance business experienced another year of relatively benign losses. The Atlantic hurricanes of Harvey, Irma and Maria have only had a minor impact on NewRe. This was due to our European focus in the property and casualty reinsurance segment.

After a positive result in 2016, NewRe's weather derivatives business has seen negative results in 2017 due to periods of unusually warm weather during the year.

RISK MANAGEMENT

Due to the volatile nature of the reinsurance business, and the potential for significant losses, NewRe has a dedicated risk policy and maintains a tight risk management system. The features of this risk management system are explained in more detail in the respective section of this report (see chapters 3 and 4).

All events and impacts experienced in 2017 were within the expected range.

OUTLOOK

In NewRe's non-life reinsurance business, 1 January is the date on which a significant portion of the book is due for renewal. Despite the continuing soft market, the overall outcome of the 1 January 2018 business renewals was positive, both with respect to new business volume and price levels.

All in all, the outlook for NewRe's business in 2018 is favourable. However, reinsurance business is by nature highly volatile. The natural catastrophe reinsurance segment and the parametric weather business in particular may be affected by large loss events and weather extremes.

e) Additional information

BOARD OF DIRECTORS

Dr. Thomas Blunck, President until 28 February 2017
Dr. Doris Höpke, President as of 1 March 2017
Claus-Ulrich Kroll, Vice-President
Dr. Konrad Annasohn, until 1 June 2017
Dr. René Schnieper, as of 16 March 2017
Bruno Meyenhofer

BOARD OF MANAGEMENT

Dr. Renate Strasser, Chief Executive Officer
Dr. Jürgen Kammerlohr, Chief Financial Officer
Jean-Luc Bourgault, Chief Underwriting Officer Property & Casualty
Paolo Monticolo, Chief Risk Officer, until 31 December 2017
Dr. Christian Dahmen, Chief Risk Officer, as of 1 January 2018

SHAREHOLDER

100% Munich Reinsurance Company, Munich

RATING

AA-	by Standard & Poor's
A+	by A.M. Best

AUDITORS

KPMG AG, Zürich

BRANCH OFFICES

NewRe does not maintain any branch offices.

2) Financial performance

a) Financial statements

Balance sheet as at 31 December

before appropriation of available earnings
in CHF

Assets		**2017**		**2016**
Investments				
Real estate		44'174'508		44'517'761
Fixed interest securities		503'855'370		503'419'887
Shares		5'196'798		5'417'972
Other investments		1'996'398'138		1'834'542'666
Receivables from derivative financial instruments		876'291'218		1'029'395'758
Deposits retained on assumed reinsurance business		2'521'794'398		932'088'876
Cash and cash equivalent		215'992'090		254'906'201
Underwriting provisions ceded		10'254'985		10'558'234
Tangible assets		670'691		1'103'809
Deferred acquisition costs		426'526'717		424'081'524
Accounts receivable from insurance and reinsurance companies		66'540'119		70'839'025
Other accounts receivable		397'310'375		447'276'503
		7'065'005'407		**5'558'148'216**

Liabilities and equity		**2017**		**2016**
Technical provisions		4'257'664'476		2'507'788'064
Non-technical provisions		160'083'814		164'638'617
Liabilities due to derivative financial instruments		771'013'072		932'723'118
Deposits retained on ceded reinsurance business		1'670'397		2'434'954
Accounts payable on insurance and reinsurance business		308'141'528		291'791'638
thereof due to brokers	2'241'764		1'270'931	
thereof due to insurance and reinsurance companies	305'899'764		290'520'707	
Other liabilities		732'081'094		839'102'474
Total liabilities		**6'230'654'381**		**4'738'478'865**
Share capital		260'000'000		260'000'000
Legal reserves from capital		122'687		122'687
Legal reserves from profit		129'877'313		129'877'313
Free reserves		316'374'351		316'373'214
Profit for the year		127'976'675		113'296'137
Total equity		**834'351'026**		**819'669'351**
		7'065'005'407		**5'558'148'216**

Income statement for the year

Technical accounts

in CHF

LIFE			2017			2016
Gross premiums	3'673'620'869			3'141'343'012		
Premiums ceded	-882'406			-680'580		
Premiums for own account		3'672'738'463			3'140'662'432	
Change in unearned premiums gross	4'142'736			7'523'906		
Change in unearned premiums ceded	0			0		
Change in unearned premiums for own account		4'142'736			7'523'906	
Net earned premiums for own account			3'676'881'199			3'148'186'338
Interest for own account - on premium funds		40'323'535			15'444'279	
Interest for own account - on other technical provisions		3'073'059			10'181'473	
Interest on own account			43'396'594			25'625'752
Total technical income for own account			**3'720'277'793**			**3'173'812'090**
Claims payment gross	-1'236'694'618			-1'302'368'648		
Claims payment ceded	716'070			941'575		
Claims payment for own account		-1'235'978'548			-1'301'427'073	
Change in provision gross	-15'696'618			-71'034'392		
Change in provision ceded	-903'520			-744'569		
Change in provision for own account		-16'600'138			-71'778'961	
Expenditure for incurred claims for own account			-1'252'578'686			-1'373'206'034
Commissions expenses gross		-2'408'019'048			-1'788'560'915	
Commissions expenses ceded		354'885			-243'375	
Commissions expenses for own account			-2'407'664'163			-1'788'804'290
Management expenses - life for own account			-6'056'287			-4'922'325
Total technical expenses for own account			**-3'666'299'136**			**-3'166'932'649**
Technical result for Life			**53'978'657**			**6'879'441**

Technical accounts

in CHF

Non-LIFE			2017			2016
Gross premiums	663'649'778			814'201'930		
Premiums ceded	-14'309'287			-14'769'922		
Premiums for own account		649'340'491			799'432'008	
Change in unearned premiums gross	78'314'743			-34'107'681		
Change in unearned premiums ceded	-235'130			849'678		
Change in unearned premiums for own account		78'079'613			-33'258'003	
Net earned premiums for own account			727'420'104			766'174'005
Interest on technical provisions for own account			21'736'190			16'735'650
Total technical income for own account			**749'156'294**			**782'909'655**
Claims payment gross	-404'029'769			-525'048'706		
Claims payment ceded	2'889'766			11'373'370		
Claims payment for own account		-401'140'003			-513'675'336	
Change in provision gross	-159'918'633			-55'269'455		
Change in provision ceded	130'677			-11'725'030		
Change in provision for own account		-159'787'956			-66'994'485	
Expenditure for incurred claims for own account			-560'927'959			-580'669'821
Commissions expenses gross		-155'702'777			-124'123'395	
Commissions expenses ceded		4'633'355			2'840'280	
Commissions expenses for own account			-151'069'422			-121'283'115
Management expenses - other classes for own account			-21'644'078			-21'142'017
Total technical expenses for own account			**-733'641'459**			**-723'094'953**
Technical result for Non-Life			**15'514'835**			**59'814'702**
Overall technical result			**69'493'492**			**66'694'143**

General accounts

in CHF			2017			2016
Investment income	98'466'385			113'584'146		
Investment expenses	-3'946'365			-9'876'996		
Investment result		94'520'020			103'707'150	
Interest on technical provisions - life	-43'396'594			-25'625'752		
Interest on technical provisions - other classes	-21'736'190			-16'735'650		
Interest on technical provisions		-65'132'784			-42'361'402	
Investment result excluding interest on technical provisions			**29'387'236**			**61'345'748**
Net result from derivative financial instruments			39'623'634			65'641'334
Management expenses		-49'362'574			-49'096'253	
Management expenses - life for own account		6'056'287			4'922'325	
Management expenses - other classes for own account		21'644'078			21'142'017	
Management expenses - investments			-21'662'209			-23'031'911
Operating Result (overall techn. result and investment result incl. management expenses)			**116'842'153**			**170'649'314**
Other income			25'506'567			2'612'244
Other expenses			-12'133'870			-43'373'469
Profit before taxes			**130'214'850**			**129'888'089**
Direct taxes			-2'238'175			-16'591'952
Profit for the year			**127'976'675**			**113'296'137**

Cash flow statement

in CHFm	2017	2016
Profit for the year	128	113
Net change in technical provisions	1'748	484
Change in deposits retained and accounts receivable and payable	-1'595	-463
Change in other receivables and liabilities	-219	128
Gains and losses on the disposal of investments	-29	-1
Change in derivative from reinsurance business	79	-200
Change in other balance sheet items	-6	65
Other income/expenses without impact on cash flow	91	26
I. Cash flows from operating activities	**197**	**152**
Change in affiliated companies and participating interests	-127	22
Change from acquisition, sale and maturities of other investments	3	39
Other	1	1
II. Cash flows from investing activities	**-123**	**62**
Inflows from increases in capital	0	0
Outflows from share buy-backs	0	0
Dividend payments	-113	-117
III. Cash flows from financing activities	**-113**	**-117**
Cash flows for the financial year (I.+II.+III.)	**-39**	**97**
Cash at the beginning of the financial year	255	158
Cash at the end of the financial year	216	255
Change in cash for the financial year	**-39**	**97**

Notes to the financial statements

1. ACCOUNTING PRINCIPLES

The company's accounting principles are in line with those prescribed by the Swiss Code of Obligations (OR) and the Insurance Supervisory Ordinance (AVO). They are consistent with those applied in the previous year. The accounting and valuation principles applied for the main balance sheet items are as follows:

INVESTMENTS

Buildings are valued at the lower of original acquisition cost (including capitalised cost for improvements) less amortisation or market value. Amortisation is at a rate of 2% on a straight-line basis.

Equity investments and investment funds are valued at the lower of cost or market value.

Fixed-interest securities are valued at amortised cost less required impairments. The annual amortisation amount is recognised within the investment result.

RECEIVABLES FROM AND LIABILITIES DUE TO DERIVATIVE FINANCIAL INSTRUMENTS

Derivative assets and liabilities are accounted for at their fair value.

TANGIBLE ASSETS

All fixed assets are amortised on a straight-line basis.

DEFERRED ACQUISITION COST

Acquisition costs that are directly attributable to reinsurance contracts are capitalised and amortised over the lifetime of the contract in proportion to the premium income earned. These costs are regularly tested for impairment using a liability adequacy test.

ACCOUNTS RECEIVABLE

Receivables are booked at nominal values and adjusted if there is a risk of their not being fully recoverable. The adjustment is calculated on the basis of individual exposures and a general allowance based on analysis of the receivables.

OTHER ASSETS AND LIABILITIES

These are shown at their nominal value.

Commissions paid in respect of financing-type life reinsurance contracts are capitalised and amortised in proportion to the gross profit amounts expected to be realised over the life of the contract.

CLAIMS EXPENSES AND CLAIMS RESERVES

Case reserves are created for the amounts reported by ceding companies. At year-end closing, most statements of account received for recent underwriting years are incomplete and are subject to estimates. The claims reserves are valued at the expected ultimate cost – including reserves for incurred but not reported claims – either reported by ceding companies or estimated by underwriters and the actuarial department, less claims paid.

PREMIUMS

Premiums are earned on a pro-rata-temporis basis over the period of the risk, or in proportion to the cover provided.

2. TRANSACTIONS CONDUCTED IN FOREIGN CURRENCIES

All balance sheet items are translated from their original currency into CHF using the year-end exchange rate. The company books a provision for net unrealised foreign exchange gains.

3. OTHER INFORMATION ACCORDING TO THE SWISS CODE OF OBLIGATIONS (OR) AND INSURANCE SUPERVISORY ORDINANCE-FINMA (AVO-FINMA)

AFFILIATED COMPANIES - RELEVANT GROUP INTERNAL TRANSACTIONS

in CHF	**2017**	**2016**
Amount due from companies for reinsurance business		
Deposits retained on assumed reinsurance business	1'532'124'713	502'921'786
Accounts receivable	11'818'314	5'632'088
Total receivables	**1'543'943'027**	**508'553'874**
Amount due to companies for reinsurance business		
Deposits retained on ceded reinsurance business	0	0
Accounts payable	4'034'108	4'980'597
Total liabilities	**4'034'108**	**4'980'597**

The increase in deposits retained on assumed reinsurance business from 2016 to 2017 was driven by new life reinsurance business, primarily balance sheet protection solutions, with affiliated companies in Germany.

CONTINGENCIES

The assets pledged or assigned to secure NewRe's commitments, plus the assets under reservation of ownership, amounted to CHF 803m as at 31 December 2017 (2016: CHF 595m). The increase was mainly due to two life treaties.

AUDITORS' FEES

The fees for the audit of the 2017 financial statements amount to CHF 280k. CHF 19k are related to other services. In each case, fees exclude outlays and VAT.

EMPLOYEE FULL-TIME EQUIVALENTS

During the year an average of 112.5 employee full-time equivalents (FTEs) worked at NewRe.

TECHNICAL PROVISIONS

in CHF

	2017			2016		
Technical provisions	**Gross**	**Retro**	**Net**	**Gross**	**Retro**	**Net**
Unearned premiums	179'929'977	4'877'748	175'052'229	254'759'591	4'732'675	250'026'916
Loss reserves	1'801'529'570	3'744'453	1'797'785'117	1'551'889'729	3'456'647	1'548'433'082
Other technical reserves	10'283'852	3'721	10'280'131	0	0	0
Future policy benefits reserves	2'265'921'077	1'629'063	2'264'292'014	701'138'744	2'368'912	698'769'832
Total	**4'257'664'476**	**10'254'985**	**4'247'409'491**	**2'507'788'064**	**10'558'234**	**2'497'229'830**

	2017	2016
Changes of the technical provision	**Net**	**Net**
Changes in loss reserves	149'432'668	65'138'736
Other technical reserves	11'000'219	0
Changes in future policy benefits reserves *)	1'493'298'583	541'450'684
Total	**1'653'731'470**	**606'589'420**

*) Including portfolio movements the changes in future policy benefits reserves lead to CHF 15'955'207

Overall net technical provisions increased from CHF 2.5bn to CHF 4.2bn. This increase was mainly driven by future policy benefits reserves. These reserves have increased due to the growth in life reinsurance business, to a large part balance sheet protection solutions with affiliated companies in Germany.

INVESTMENT RESULT

in CHF							2017
	Current income	**Write-ups**	**Realised gains**	**Total investment income**	**Write-downs and value adjustments**	**Realised losses**	**Total investment expenses**
Real estate	1'150'982	0	0	**1'150'982**	-75'919		**-75'919**
Fixed interest securities	12'534'599	0	4'529'373	**17'063'972**	-2'323'327	25'888	**-2'297'439**
Other investments	73'864'120	0	6'387'311	**80'251'431**	-1'573'007		**-1'573'007**
			Total	**98'466'385**		**Total**	**-3'946'365**

							2016
Real estate	900'181	0	0	**900'181**	-84'095	0	**-84'095**
Fixed interest securities	13'814'001	0	1'659'167	**15'473'168**	-5'450'387	-32'412	**-5'482'799**
Other investments	96'182'252	0	1'028'545	**97'210'797**	-2'154'247	-2'155'855	**-4'310'102**
		0	**Total**	**113'584'146**		**Total**	**-9'876'996**

The real estate asset item represents the NewRe office building in Zurich. A part of one floor is let to an external tenant. The rental income and associated expenses are recorded as investment income real estate.

Income from fixed-interest securities increased in 2017 compared to 2016. The driver of this increase was a larger portion of investments being held directly, as opposed to being held via investment funds.

Other investment income was driven by two main components: technical interest on deposits retained and dividends from non-public investment funds. These non-public investment funds are almost exclusively invested into fixed-income securities. Due to these fixed-income assets being held via investment funds, they are reported as 'other investments'. In these non-public investment funds the 2016 pay-outs had been slightly higher than usual. The reduction from 2016 to 2017 is primarily driven by two elements: a shift of investments from these non-public investment funds to fixed-interest securities directly held by the company and by a lower 2017 pay-out from these non-public investment funds than in 2016.

NET RESULT FROM DERIVATIVE FINANCIAL INSTRUMENTS

Net result from derivative financial instruments

in CHF	2017	2016
Net result from derivative financial instruments	39'623'634	65'641'334

This item mainly includes income and expenses from insurance-related derivative financial instruments.

Derivative financial instruments are utilised in two of NewRe's business segments. In the life reinsurance segment, we write and hedge products that transfer financial market guarantees such as variable annuity and unit-linked guarantees. Furthermore, derivatives are used in the Weather & Agro business segment for the products that offer clients tailor-made solutions to minimise weather-related risk. In 2017, the result in the Weather & Agro segment was negative after a positive outcome in 2016.

OTHER INCOME & EXPENSES

A large component of other income and expenses were foreign exchange gains and losses, which were in part offset by currency hedges. The offsetting gains and losses from currency hedge transactions are recorded as result from derivative financial instruments.

To strengthen resilience to future result volatility, especially in the Weather & Agro business segment, NewRe strengthened the non-technical provisions by CHF 10m.

PROFITS AND LOSSES RECOGNISED DIRECTLY IN EQUITY

There are no profits and losses recognised directly in equity.

STATEMENT OF CHANGES IN EQUITY

Statements of changes in equity

in CHF

Year ended December 2017	Share Capital	Legal reserves	Free reserves from profit	Profit for the year	Total equity
Balances as at 31 December 2016	260'000'000	130'000'000	316'373'214	113'296'137	**819'669'351**
Appropriation of earnings					
Dividend payment				-113'295'000	**-113'295'000**
Allocation to free reserves			1'137	-1'137	**-**
Profit for the year 2017				127'976'675	**127'976'675**
Balances as at 31 December 2017	**260'000'000**	**130'000'000**	**316'374'351**	**127'976'675**	**834'351'026**
Year ended December 2016					
Balances as at 31 December 2015	260'000'000	130'000'000	316'334'064	116'779'150	**823'113'214**
Appropriation of earnings					
Dividend payment				-116'740'000	**-116'740'000**
Allocation to free reserves			39'150	-39'150	**-**
Profit for the year 2016				113'296'137	**113'296'137**
Balances as at 31 December 2016	**260'000'000**	**130'000'000**	**316'373'214**	**113'296'137**	**819'669'351**

Statutory equity increased moderately, now amounting to CHF 834m after CHF 820m at year-end 2016.

SHAREHOLDER

The shareholder of New Reinsurance Company Ltd., Zurich, is Munich Reinsurance Company (Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München), which holds 100% of the shares in the Company.

The share capital consists of 1.3 million shares, each with a nominal value of CHF 200.

b) Additional information –"Performance Solo Reinsurance" template

Quantitative template "Performance Solo Reinsurance"

	CHF millions	Total		Personal accident		Health		Motor	
		2016	2017	2016	2017	2016	2017	2016	2017
1	Gross premiums	3'956	4'337	2	2	7	8	637	476
2	Reinsurers' share of gross premiums	-15	-15	0	0	-7	-8	0	0
3	Premiums for own account (1 + 2)	3'940	4'322	2	2	0	0	637	476
4	Change in unearned premium reserves	-27	82	0	0	-4	0	-31	80
5	Reinsurers' share of change in unearned premium reserves	1	0	0	0	4	0	0	0
6	Premiums earned for own account (3 + 4 + 5)	3'914	4'404	2	2	0	0	606	556
7	Other income from insurance business	42	65	0	0	0	0	11	21
8	**Total income from underwriting business** (6 + 7)	**3'957**	**4'469**	**2**	**2**	**0**	**0**	**617**	**577**
9	Payments for insurance claims (gross)	-1'827	-1'641	-1	0	0	-2	-441	-330
10	Reinsurers' share of payments for insurance claims	12	4	0	0	0	2	0	0
11	Change in technical provisions	-126	-176	1	0	-1	-1	-58	-164
12	Reinsurers' share of change in technical provisions	-12	-1	0	0	1	1	0	0
13	Change in technical provisions for unit-linked life insurance	0	0	0	0	0	0	0	0
14	Expenses for insurance claims for own account (9 + 10 + 11 + 12 + 13)	-1'954	-1'814	0	-1	0	0	-499	-493
15	Acquisition and administration expenses	-1'939	-2'591	-1	-1	-2	-4	-109	-126
16	Reinsurers' share of acquisition and administration expenses	3	5	0	0	2	4	0	0
17	Acquisition and administration expenses for own account (15 + 16)	-1'936	-2'586	-1	-1	0	0	-109	-126
18	Other underwriting expenses for own account	0	0	0	0	0	0	0	0
19	**Total expenses from underwriting business** (14 + 17 + 18) **(non-life insurance only)**	**-3'890**	**-4'400**	**-1**	**-1**	**0**	**0**	**-609**	**-619**
	Technical result (8+19)	**67**	**69**	**1**	**1**	**0**	**0**	**8**	**-43**
20	Investment income	71	33						
21	Investment expenses	-33	-26						
22	**Net investment income** (20 + 21)	**38**	**8**						
23	Capital and interest income from unit-linked life insurance	0	0						
24	Other financial income	66	40						
25	Other financial expenses	0	0						
26	**Operating result** (8 + 14 + 17 + 18 + 22 + 23 + 24 + 25)	**171**	**117**						
27	Interest expenses for interest-bearing liabilities	0	0						
28	Other income	3	24						
29	Other expenses	-43	-11						
30	Extraordinary income/expenses	0	0						
31	**Profit / loss before taxes** (26 + 27 + 28 + 29 + 30)	**130**	**130**						
32	Direct taxes	-17	-2						
33	**Profit / loss** (31 + 32)	**113**	**128**						

Continued:

	CHF millions	Marine, aviation, transport		Property		Casualty		Miscellaneous (incl. Life)	
		2016	2017	2016	2017	2016	2017	2016	2017
1	Gross premiums	3	3	140	149	16	13	3'150	3'687
2	Reinsurers' share of gross premiums	0	0	-8	-6	0	0	0	0
3	Premiums for own account (1 + 2)	3	3	132	142	16	13	3'150	3'686
4	Change in unearned premium reserves	1	0	-3	-3	1	0	10	5
5	Reinsurers' share of change in unearned premium reserves	0	0	-1	0	0	0	-2	0
6	Premiums earned for own account (3 + 4 + 5)	3	3	128	139	17	13	3'158	3'691
7	Other income from insurance business	0	0	3	0	2	0	26	44
8	**Total income from underwriting business** (6 + 7)	**3**	**3**	**131**	**139**	**19**	**13**	**3'184**	**3'736**
9	Payments for insurance claims (gross)	-1	-4	-55	-52	-7	-11	-1'321	-1'242
10	Reinsurers' share of payments for insurance claims	1	0	3	1	0	0	8	1
11	Change in technical provisions	3	8	-27	-3	9	4	-52	-20
12	Reinsurers' share of change in technical provisions	-1	0	-2	0	-1	0	-10	-2
13	Change in technical provisions for unit-linked life insurance	0	0	0	0	0	0	0	0
14	Expenses for insurance claims for own account (9 + 10 + 11 + 12 + 13)	1	4	-82	-54	1	-6	-1'374	-1'262
15	Acquisition and administration expenses	-1	-1	-26	-34	-4	-5	-1'795	-2'422
16	Reinsurers' share of acquisition and administration expenses	0	0	0	1	0	0	0	0
17	Acquisition and administration expenses for own account (15 + 16)	-1	-1	-26	-33	-4	-5	-1'795	-2'422
18	Other underwriting expenses for own account	0	0	0	0	0	0	0	0
19	**Total expenses from underwriting business** (14 + 17 + 18) **(non-life insurance only)**	**0**	**3**	**-108**	**-87**	**-3**	**-11**	**-3'169**	**-3'684**
	Technical result (8+19)	**4**	**5**	**23**	**52**	**16**	**2**	**15**	**52**

Notes:

Life reinsurance business represents a significant portion of NewRe's business portfolio. In the financial statements technical accounts are provided separately for non-life and life reinsurance business. Following the line of business structure as foreseen in the "Performance Solo Reinsurance" template, life reinsurance business is reported as "Miscellaneous". Life represents by far the greater part of business in the "Miscellaneous" category, any other business being minor.

Investment income and investment expenses are reported in line 20 and 21, and with a lower granularity than shown in the income statement. Line 20 Investment income shows the "Investment result excluding interest on technical provisions" as reported in the income statement but before investment expenses. Line 21 Investment expenses includes the two income statement positions "Investment expenses" and the "Management expenses – investments" which in the income statement are reported separately.

Comments on quantitative template "Performance Solo Reinsurance"

PREMIUM INCOME

Three of NewRe's four business segments, Property & Casualty, Capital Partners and Life write business that predominantly takes the form of reinsurance contracts with a premium income and a technical result, while the parametric contracts of Weather & Agro are recorded as derivative instruments.

Premium income from reinsurance contracts grew significantly from CHF 3'956m to CHF 4'337m.

The Property & Casualty unit focuses on its core lines of reinsurance business, so that business volume in personal accident, health, and marine, aviation and transport continues to be low, whereas motor, property and casualty represent the core business lines. Motor reinsurance includes structured quota share contracts with significant premium volumes per treaty while both, property and casualty, are dominated by excess-of-loss contracts. Life reinsurance business is recorded as 'miscellaneous' following the line of business structure as foreseen in the "Performance Solo Reinsurance" template.

The increase of premium income from CHF 3'956m to CHF 4'337m was mainly driven by Life and the new business added in this segment. In business line motor the premium volume was lower than in the prior year mainly driven by a lower share in a large proportional treaty. This lower share offset positive impacts on premium income from an increasing price level in the UK Motor reinsurance market.

TECHNICAL RESULT

The technical result was CHF 69m, after CHF 67m in the previous year.

Key drivers of the technical result were the lines motor, property and miscellaneous (primarily life). Due to their minor relevance, the technical result in the lines personal accident and health, as well as marine, aviation and transport, was insignificant.

While the overall technical result remained nearly constant, several of the lines of business showed changes compared to 2016. In the United Kingdom, the discount rate applicable to lump sum payments for personal injury claims (the so-called "Ogden rate") was revised in late February 2017 from a previous rate of 2.5% to a negative rate of 0.75%. This change had a significant impact on the cost of personal injury claims and necessitated a strengthening of our motor reserves, leading to the negative technical result in 2017. In business line property the natural catastrophe reinsurance business experienced another year of relatively benign losses, leading to an even better property results than in 2016. The Atlantic hurricanes of Harvey, Irma and Maria have only had a minor impact on NewRe. This was due to our European focus in the property and casualty reinsurance segment. In line 'miscellaneous', mainly comprising life business, the 2017 technical result is within expectations; the 2016 figure had been impacted by an increase of reserves for a large retrocession treaty.

NET INVESTMENT INCOME

The net investment income (after management expenses for investments) amounted to CHF 8m, after CHF 38m in the previous year. The reduction from 2016 to 2017 is primarily driven by a lower pay-out from non-public investment funds than in 2016.

OTHER FINANCIAL INCOME

The other financial income line shows the net result from derivative financial instruments. Derivative financial instruments are utilised in two of NewRe's business segments. In the life reinsurance segment, we write and hedge products that transfer financial market guarantees such as variable annuity and unit-linked guarantees. Furthermore, derivatives are used in the Weather & Agro business segment for the products that offer clients tailor-made solutions to minimise weather-related risk. The main driver for the lower result are weather derivatives. After a positive result in 2016, the NewRe's weather derivatives business has seen negative results in 2017 due to periods of unusually warm weather during the year.

OTHER INCOME & EXPENSES

The other income and other expenses lines are primarily driven by foreign exchange rate gains and losses. In part the foreign exchange rate gains and losses reported as other income and other expenses are offset by currency hedges, the result of which is reported as other financial income.

To strengthen resilience to future result volatility, especially in the Weather & Agro business segment, NewRe continued to build-up non-technical provisions by CHF 10m, after a CHF 40m increase in 2016. This is recorded in line other expenses.

PROFIT / LOSS

At CHF 128m, NewRe's 2017 result was higher than previous year's figure of CHF 113m. While the technical result was nearly identical to the previous year, investment result and operating result deviated from 2016. Main driver of these deviations are the lower pay-out in the investment income and lower other financial income, which was offset by other income and expenses.

3) Corporate governance and risk management

a) Corporate governance

The Board of Directors of NewRe has overall responsibility for the Company and for the supervision and control of the Board of Management. The duties of the Board of Directors are defined in the articles of association and in the organisational regulations of NewRe.

To ensure that appropriate attention is paid to the relevant topics, the Board of Directors has set up an Audit and Risk Committee and a Remuneration Committee. The Audit and Risk Committee has been created in 2017 by re-shaping the previously existing Audit Committee; the scope of responsibility was enlarged to now encompass all risk related topics as well.

The Board of Management consists of a CEO, his or her deputy and further members elected by the Board of Directors. The CEO is the Chairman of the Board of Management and is responsible for managing and governing the company to ensure its success. The members of the Board of Management jointly govern and manage the Company and are accountable for its results. The Board of Management has decision-making authority on matters relating to business assigned to it. The Board of Management undertakes to involve key employees in the decision-making.

The composition of the Board of Directors and the Board of Management is shown in chapter 1) e) of this report, including an indication of changes scheduled for 2018.

b) Risk management organisation

Organisational structure and governance

NewRe, as a Munich Re Group core company, is fully integrated into the Group risk management framework in terms of organisational framework, policies, processes and tools.

The local framework is designed to be fully compliant with Swiss regulatory requirements in general and with the Swiss Solvency Test (SST) in particular. In parallel, all additional Group requirements regarding Solvency II are also met.

The most important elements of this framework are risk management, compliance, audit and the actuarial function, including the appointed actuary.

NewRe's Chief Risk Officer (CRO) has a reporting line to the Munich Re Group risk management and actuarial functions. The CRO heads up the Actuarial Risk Management department.

NewRe's Head of Legal & Compliance (L&C) has a reporting line to the chairman of the Audit and Risk Committee and Munich Re Group Legal as well as Group Compliance. L&C makes an independent assessment of NewRe's key compliance risks and submits the assessment directly to the Board of Directors.

The internal audit function is outsourced to the Munich Re Group internal audit department. The focus and schedule of internal audits at NewRe are set by the Board of Directors via its respective committee, and the audits themselves are carried out by the Munich Re Group internal audit department.

The NewRe risk governance ensures that an appropriate risk and control culture is in place. For all significant risks, the roles and responsibilities of the different management bodies, functions and persons are clearly defined. For example, the Board of Management must consult the risk management function prior to any major decision influencing the risk profile of NewRe and the risk-relevant Board of Directors affairs are referred to the Audit and Risk Committee prior to the Board of Directors.

Risk strategy

The risk strategy, which is derived from the business strategy, defines where, how and to what extent NewRe is prepared to take risks. The further development of our risk strategy is embedded in the annual planning cycle, and hence in our business planning, and is an important element of the Own Risk and Solvency Assessment (ORSA) approved by the Board of Directors.

We determine our risk strategy by defining risk appetites for the following risk criteria:

Whole portfolio criteria:

The whole portfolio criteria relate to the entire portfolio of risks and are designed to protect our capital and to limit the likelihood of an economic loss for the year. The financial strength criterion is of particular importance. This is based on the SST ratio, which is the ratio of the Risk-Bearing Capital less the expected value of the discounted Market Value Margin to the one-year Risk Capital. The ratio is provided in the relevant table in Section 4. b).

Supplementary criteria:

The supplementary criteria are used to limit the loss amounts for individual risk types and potential accumulations that could endanger NewRe's ongoing viability.

These risk appetites are based on the available capital and liquidity and also on our earnings target. Moreover, they provide a frame of reference for the operating divisions.

NewRe does not have a stand-alone rating from rating agencies. NewRe is regarded as a core strategic company for Munich Re and hence receives the Munich Re Group rating.

As mentioned above, the risk management structure was modified in 2017: The former Audit Committee was re-shaped to become NewRe's Audit and Risk Committee. Hence, its scope of responsibility was enlarged to now encompass all risk related topics as well.

c) Risks captured in the internal model

Financial risks are quantified via a full internal model, which covers all risks incurred by NewRe. NewRe's internal model is based on the same philosophy and framework as the MR Group model, and captures the specific risks to which NewRe is exposed. The model was approved by FINMA in 2011.

We use the model to calculate the capital required under SST. The Target Capital is the amount of eligible own funds that NewRe needs to have available, with a given risk appetite, to cover unexpected losses in the following year according to the risk measure fixed by FINMA: tail value at risk with a confidence level of 99%; (for NewRe this corresponds approximately to a value at risk with a confidence level of 99.6%). The internal model is based on an aggregation of individually modelled distributions for the risk categories property-casualty, life and health, market and credit risks. We use primarily historical data for the calibration of these distributions, complemented in some areas by expert estimates. Our historical data covers a long period and provides a stable and appropriate estimate of the risk parameters. We also account for the diversification effects achieved through the broadly spread exposures across the different risk categories (underwriting, market and credit). We also take into account dependencies between the risks, which can result in higher capital requirements than would be the case if no dependency were assumed.

d) Control and monitoring systems

The NewRe internal control system (ICS) is an integrated system for managing operational risks. The ICS covers all of NewRe's risk dimensions and areas of activity. For each field of business, the ICS delivers a risk map at process level, thereby systematically linking every step in a process to the significant risks and the controls relating to them. By making our risk situation transparent in this way, we can focus on and react to weaknesses. This enables us to identify operational risks at an early stage, locate control shortcomings immediately and take effective remedial action. Controls performed for the ICS at entity level are based on COSO (Committee of Sponsoring Organizations of the Treadway Commission), a recognised internal control standard in the finance industry. IT-level controls are based on COBIT (Control Objectives for Information and Related Technology), an internationally recognised framework for IT governance.

As part of ICS we also track key risk and existing controls for all our internal processes as well as for outsourced functions. Where necessary, controls are accompanied by risk mitigation measures to ensure that operational risks are efficiently limited.

4) Risk profile, valuation and solvency

a) Risk profile

The risks measured via our internal model are classified following the four standard categories, Property & Casualty, Life & Health, Market and Credit. The table below shows the one-year capital requirements for these four risk categories based on the SST risk measure in CHF millions:

Composition of target capital

in CHF millions	2016	2017
Property & Casualty	508	491
Life & Health	253	355
Market	225	263
Credit	110	119
Risk margin	104	143
Diversification	-300	-372
Target capital (before recognition of expected income)	**900**	**999**
Expected income (reduces the target capital)	60	47
Target capital	**840**	**952**

Property & Casualty

The property & casualty risk category encompasses the underwriting risks in the property, motor, third-party liability, personal accident and marine classes of reinsurance. It also contains the risk inherent to the weather derivative business. In risk management the weather derivatives risk is allocated to property & casualty, while from an accounting perspective these instruments are classified as financial derivatives.

Underwriting risk is defined as the risk of insured losses being higher than our expectations. The premium and the reserve risks are significant components of the underwriting risk. The premium risk is the risk of future claims payments related to insured losses that have not yet occurred being higher than expected. The reserve risk is the risk of technical provisions established being insufficient to cover losses that have already been incurred. In measuring loss provisions, we follow a cautious reserving approach and assess uncertainties conservatively. In every quarter, we also compare notified losses with our loss expectancy, in order to ensure that the level of reserves always remains high. We differentiate between basic, large and accumulation losses.

For basic losses, we calculate the risk of subsequent reserving being required for existing risks within a year (reserve risk) and the risk of underrating (premium risk). To achieve this, we use analytical methods that are based on standard reserving procedures, but take into account the one-year time horizon. The calibration for these methodologies is based on our own historical loss and run-off data. Appropriate homogeneous segments of our property & casualty portfolio are used for the calculation of the reserve and premium risks. To aggregate the risk to whole-portfolio level, we apply correlations that take account of our own historical loss experience.

To capture the loss-smoothing effects of structured business, the most important contracts are modelled individually and are then aggregated using a reasonable dependency structure. The calibration of the individual loss distributions is based on both the historical loss experience of our clients and the up-to-date contract terms and conditions.

Large (single) losses follow the assumption of a collective model. The parameters for each large loss segment are calibrated using the historical loss experience.

NewRe is also active in the derivative business (especially weather derivatives). For this portfolio our internal model captures the behaviour of the various underlying risk types such as precipitation, temperature and other types on the basis of historical data. This historical data is adjusted for macro and micro trends in recent decades.

We limit our exposure by setting limits and budgets for both natural catastrophe risks and potential man-made losses. For natural catastrophe events our experts develop scenarios, taking into account scientific data, occurrence probabilities and potential loss amounts. On the basis of these models, the impact of various events on our portfolio is calculated and represented in a stochastic model. These models serve as the basis for calculating the capital requirements.

As part of the model testing and review, we regularly assess the sensitivity of the results produced by the risk model for large and accumulation losses to changes in the return periods and loss amounts for events, as well as for changes in the business volumes written.

To reduce the net risk of NewRe, the company makes moderate use of retrocession. The retrocession covers are almost exclusively provided by Group internal counterparties. Our retrocession programmes are structured to transfer our peak risks, for natural catastrophe in particular, and to achieve capital efficiency.

The marginal capital requirements for the various risks were in CHFm:

Composition of target capital - Property & Casualty

in CHF millions	2016	2017
Basic losses	190	182
Large losses	104	92
Accumulations	446	440
Weather derivatives	283	260
Diversification	-515	-483
Target capital	**508**	**491**

The key risk within property and casualty, and the key risk for NewRe overall, is the accumulation-risk scenarios. NewRe's business contains several different scenarios that are considered as independent events in our risk modelling approach. The table shows our estimated exposures for the peak scenarios on a net retained basis for a return period of 250 years:

Top accumulation scenarios - 1 in 250 years event

in CHF millions	2016	2017
Storm Europe	193	258
Earthquake Turkey	193	216
Earthquake Switzerland/Germany	193	212

Note: Identical net retained exposures in year 2016 due to the attachment point of a common retrocession cover

Life & Health

The underwriting risk life & health is defined as the risk of insured benefits payable under reinsurance business being higher than expected. The biometric risks and the customer behaviour risks, for example lapses and lump-sum options, are of particular relevance. We differentiate between risks that have a short-term or long-term effect on our portfolio. In addition to the simple risk of random fluctuations resulting in higher claims expenditure in a particular year, there is the risk of adverse developments with a short-term impact. One of the key adverse development risks is the risk of claims in excess of actuarial estimates that could arise on the occurrence of rare but costly events such as pandemics. We additionally model long-term trends that may affect the longevity and mortality book as an adverse deviation to the expected value of future profits.

In the life business segment, NewRe offers financial market guarantees such as variable annuity and unit-linked guarantees, thereby covering financial guarantees embedded in life insurance contracts. For the risk associated with this business, we jointly model the biometric component, the financial component and the impact of our hedging strategies on the latter.

The risk modelling assigns probabilities to each modified assumption and produces a complete profit and loss distribution. We primarily use historical data extracted from the underlying portfolios to calibrate these probabilities. Additionally, we apply general mortality rates for the population to model the mortality trend risk. To enable us to define appropriate parameters for the modelling of the range of areas in which we operate, portfolios with a homogeneous risk structure are grouped together. We then aggregate the individual profit and loss distributions taking account of the dependency structure to obtain an overall distribution.

Our largest short-term risk concentration in the life and health risk category is, as in the previous year, a serious pandemic event, which would expose NewRe – like other companies in the insurance industry – to risks resulting from a considerable increase in mortality and morbidity, and probably disruptions in the capital markets caused by the pandemic event and occurring at the same time.

Interest-rate and other market risks are frequently ruled out by depositing the provisions with the cedant, with a guaranteed rate of interest on the deposit. In individual cases, these risks are also hedged by means of suitable capital market instruments.

The capital requirement for the key drivers of underwriting risk life & health are the following:

Composition of target capital - Life

in CHF millions	2016	2017
Mortality	126	227
Morbidity	6	11
Longevity	10	13
Lapses & Financing	118	141
Asset protection	82	93
Diversification	-89	-130
Target capital	**253**	**355**

Market

We define market risk as the risk of economic losses resulting from price changes in the capital markets. Market risk includes equity risk, general interest-rate risk, specific interest-rate risk, property-price risk and currency risk. The general interest-rate risk relates to changes in the basic yield curves, whereas the specific interest-rate risk arises out of changes in credit risk spreads, for example on euro government bonds from various issuers, or on corporate bonds. We also include in market risk the risk of changes in inflation rates and implicit volatilities (cost of options). Fluctuations in market prices affect not only our investments but also our underwriting liabilities, especially in life insurance.

Market risks are modelled by means of a Monte Carlo simulation of possible future market scenarios. We measure our assets and liabilities for every market scenario simulated. Apart from the risk model, we use appropriate limit and early-warning systems in our asset-liability management to manage market risks.

NewRe follows quite a restrictive asset-liability management strategy, by investing mostly in government and corporate fixed-income instruments that closely match the cash flow of the insurance liabilities and allow only a very limited duration mismatch. Thus, most of the risks are linked to interest rate and foreign currencies as outlined below:

Composition of target capital - Market

in CHF millions	2016	2017
Equity	7	7
Interest rate	69	92
Real estate	18	18
Foreign exchange	214	256
Diversification	-84	-110
Target capital	**225**	**263**

The largest market risk component is foreign exchange risk. For provisions and other liabilities NewRe follows a stringent asset-liability-matching approach, with equity mainly invested in assets denominated in euros. This causes a currency mismatch between the overall asset and liability sides.

Credit

We define credit risk as the financial loss that we could incur as a result of a change in the financial situation of a counterparty. In addition to credit risks arising out of investments in securities and payment transactions with clients, we actively assume credit risk through the writing of credit and financial reinsurance. One of the key components of our credit risk is also the expected future profits out of our life reinsurance business as well as any deferred acquisition costs outstanding; those exposures are also captured in the credit risk module.

We determine credit risks using a portfolio model, which is calibrated over a longer period (at least one full credit cycle), and which takes account of both changes in fair value caused by rating migrations and debtor default. The credit risk arising out of investments (including deposits retained on assumed reinsurance and government bonds) and reinsurers' shares in technical provisions is calculated by individual debtor. We use historical capital-market data to determine the associated migration and default probabilities. The correlation effects between debtors are derived from the sectors and countries in which they operate, and sector and country correlations are based on the interdependencies between the relevant stock indices.

We use our own historical company loss experience to calibrate the credit risk arising out of receivables.

The main drivers of our credit risk are the following:

Composition of target capital - Credit

in CHF millions	2016	2017
Investments	95	93
Life Business	28	50
Derivatives	28	21
Others	2	1
Diversification	-43	-45
Target capital	**110**	**119**

Other important risks

OPERATIONAL RISK

We define operational risk as the risk of losses resulting from inadequate or failed internal processes, incidents caused by the actions of personnel, system malfunctions or external events. This includes criminal acts committed by employees or third parties, insider trading, infringements of antitrust law, business interruptions, inaccurate processing of transactions, non-compliance with reporting obligations, and disagreements with business partners.

We do not model operational risk, but manage it via the internal control system ICS. In addition, we have a framework to define the rules for a standard group-wide procedure for, in particular, identifying, assessing and managing security risks for people, information and property. Appropriate measures are used to correct identified weaknesses or mistakes.

REPUTATIONAL RISK

Reputational risk is the risk of a loss resulting from damage to NewRe's, or indirectly to the Group's public image (for example with clients, shareholders or other parties). Monitoring and limitation of reputational risk is an essential element of operational risk within the scope of our internal control system. Our whistle-blower portal also helps to reduce risk in this category.

STRATEGIC RISK

We define strategic risk as the risk of making wrong business decisions, implementing decisions poorly, or being unable to adapt to changes in the operating environment. On a yearly basis a review is carried out to assess whether changes in the market environment or other developments necessitate a recalibration or even an adjustment of the NewRe strategy. We manage strategic risk by identifying the key drivers as an integral part of our ORSA, and assessing their impact and our readiness to deal with them should they materialise.

LIQUIDITY RISK

Our objective in managing liquidity risk is to ensure that we are in a position to meet our payment obligations at all times. Through stringent requirements regarding the availability of liquidity, which in particular also comply with supervisory rules, we ensure that NewRe is able to meet its payment obligations. We assess also liquidity risk under a distressed scenario in the event of a loss equal to the solvency capital requirement and a simultaneous rating downgrade.

b) Risk-bearing capital and solvency

INTERNAL RISK MODEL

NewRe writes a portfolio that contains traditional reinsurance as well as non-commoditised complex risks and insurance risks in derivative form; these include weather derivatives in the segment Weather & Agro and hedged financial market guarantees in the segment Life. To adequately reflect the complexity of the NewRe risk profile, and in particular the risks which go beyond the traditional reinsurance business, an internal risk model is used.

In 2011 FINMA has approved the NewRe internal model for assessing the solvency under the Swiss Solvency Test (SST) regulation. Since 2011 several submodules for new risks and specific items of business have been added to the model (model changes and/or quantification of new risks) which have received a temporary approval.

The NewRe internal risk model is consistent with the risk model used by Munich Re in the Solvency II context.

The following paragraphs provide an overview of the components of the model and their characteristics.

MARKET VALUE OF ASSETS AND LIABILITIES

The majority of NewRe's assets are in the asset classes fixed-income securities and collective investment schemes. For both, the main adjustment to derive the market value of assets from the statutory balance sheet is the mark-up of the booked value of parts of our investments (acquisition value) to their market-consistent valuation. The vast majority of our investments are traded assets and their valuation is marked to market, based on quoted prices in active markets or observable inputs. Assets that are not traded are valued consistently with market prices, including embedded options and guarantees where applicable (e.g. asset protection business). For Weather derivatives the valuation is driven by the underlying weather parameters.

We also value our liabilities on a market-consistent basis. For this we use the best estimates of underlying insurance cash flows and interest rate assumptions following the SST framework.

The difference between statutory liabilities and market consistent liabilities arises out of the discounting effect of property & casualty liabilities (also allowing for negative interest rates where applicable) and the expected present value of future profits from our in-force life reinsurance business. Statutory liabilities also contains various fluctuation reserves; for the economic balance sheet, these reserves are reclassified as Risk-Bearing Capital.

For all other liabilities the valuation follows International Financial Reporting Standards, fair value measurement standards and the respective levelling classifications. These levelling classifications take into account to what degree a market value can directly be observed in an active market or if secondary indicators need to be used for the valuation.

Quantitative template "Market-consistent Balance Sheet Solo"

Quantitative template "Market-consistent Balance Sheet Solo"

in CHF millions		2016	2017
Market-consistent value of investments	Real estate	64	64
	Shareholdings	14	14
	Fixed-income securities	519	541
	Loans		
	Mortgages		
	Equities		
	Other investments		
	Collective investment schemes	2'066	2'192
	Alternative investments		
	Other investments		
	Total investments	2'663	2'811
	Financial investments from unit-linked life insurance		
	Receivables from derivative financial instruments	1'029	876
Market-consistent value of other assets	Cash and cash equivalents	255	217
	Receivables from insurance business **see footnote*	1'003	2'588
	Other receivables	447	397
	Other assets	425	
	Total other assets	2'130	3'202
Total market-consistent value of assets	**Total market-consistent value of assets**	**5'822**	**6'890**
Best estimate liabilities (BEL)	Best estimate of provisions for insurance liabilities		
	Direct insurance: life insurance business (excluding ALV)		
	Direct insurance: non-life insurance business		
	Direct insurance: health insurance business		
	Direct insurance: unit-linked life insurance business		
	Direct insurance: other business		
	Outward reinsurance: life insurance business (excluding ALV)		
	Outward reinsurance: non-life insurance business		
	Outward reinsurance: health insurance business		
	Outward reinsurance: unit-linked life insurance business		
	Outward reinsurance: other business		
	Reinsurers' share of best estimate of provisions for insurance		
	Direct insurance: life insurance business (excluding ALV)	468	1'523
	Direct insurance: non-life insurance business	1'386	1'484
	Direct insurance: health insurance business		
	Direct insurance: unit-linked life insurance business		
	Direct insurance: other business		
	Outward reinsurance: life insurance business (excluding ALV)	-2	-2
	Outward reinsurance: non-life insurance business	-8	-9
	Outward reinsurance: health insurance business		
	Outward reinsurance: unit-linked life insurance business		
	Outward reinsurance: other business		
Market-consistent value of other liabilities	Non-technical provisions	58	42
	Interest-bearing liabilities		
	Liabilities from derivative financial instruments	933	771
	Deposits retained on ceded reinsurance	2	2
	Liabilities from insurance business	292	308
	Other liabilities	839	732
Total BEL plus market-consistent value of other liabilities	**Total BEL plus market-consistent value of other liabilities**	**3'968**	**4'852**
	Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	**1'854**	**2'038**

* Receivables from reinsurance business includes balance sheet position 'Deposits retained on assumed reinsurance business'

RISK BEARING CAPITAL

Our Risk-Bearing Capital is the difference between the market value of assets and the market value of liabilities. The following table derives the Risk-Bearing Capital from the statutory equity and shows its composition:

Composition of the RBC

in CHF millions	2016	2017
Statutory shareholder equity	820	834
Unrealised gains on assets	275	262
Adjustments on statutory liabilities	407	502
Fluctuation reserves	352	439
Expected dividend	-113	-128
Risk bearing capital	**1'741**	**1'910**

The adjustments on statutory liabilities are mainly due to expected future profits embedded in life contracts.

The reconciliation between risk-bearing capital and the economic balance sheet following the quantitative template "Market-consistent Balance Sheet Solo", are shown in the table below:

Market consistent balance sheet & RBC

in CHF millions	2016	2017
Market consistent balance sheet	1'854	2'038
Expected dividend	-113	-128
Risk bearing capital	**1'741**	**1'910**

MARKET VALUE MARGIN (MVM)

Our risk margin covers the cost of capital for our current liabilities under a run-off scenario. The MVM is the present value of the future cost of capital, assessed at 6%, over the future expected lifetime of our commitments.

We calculate an MVM for market and credit risk only fora one-year time horizon into the future. We estimate one year to be the time required to restructure our asset portfolio and eliminate any duration and currency mismatch.

For property and casualty, as well as for life business, we project the capital requirements over the whole duration of the respective liabilities at a highly granular level. Any eventual non-hedgeable market or credit risk emanating from reinsurance business is also projected over the whole life time of the respective contract (e.g. interest-rate-sensitive insurance business).

SOLVENCY RATIO

NewRe has a diversified portfolio in terms of both geographic spread and type of business. This diversification is reflected in the Target Capital calculation.

With a Risk-Bearing Capital of CHF 1'910m, as at 01.01.2018 / 31.12.2017, NewRe's solvency position is very strong, with a solvency ratio of 218%.

NewRe is in a position to comfortably meet all its contractual obligations.

Quantitative template "Solvency Solo"

Quantitative template "Solvency Solo"

in CHF millions

Composition of RBC	**2016**	**2017**
Market-consistent value of assets minus total from best estimate liabilities plus market-consistent value of other liabilities	1'854	2'038
Deductions (expected dividend)	113	128
Core capital	**1'741**	**1'910**
Supplementary capital	0	0
RBC	**1'741**	**1'910**

Composition of target capital	**2016**	**2017**
Underwriting risk	761	846
Market risk	225	263
Diversification effects	-300	-372
Credit risk	110	119
Risk margin and other effects on target capital	104	143
Expected income (reduces the target capital)	60	47
Target capital	**840**	**952**

SST ratio (in %)	**2016**	**2017**
(Risk-bearing capital - MVM) / (Target Capital - MVM)	**222%**	**218%**

The figures reported in this document correspond to the official SST calculation performed as at 01.01.2018. The SST calculation is submitted to FINMA at the same time as this report is published, 30 April 2018, and is subject to their regulatory review.

5) Capital management

Goals, strategy and time horizon

As regards statutory equity capital, the goal of NewRe's capital planning is a stable and solid capitalisation. The statutory equity capital is deemed sufficient to sustain the forecast business development over the coming years. Therefore, as for the previous year, NewRe intends to pay a dividend equal to the annual result for 2017.

To be able to absorb the inherent volatility of the business, NewRe aims for a diversified business mix and has built a buffer of both free reserves and retained earnings, as well as equalisation reserves in the technical and non-technical provisions.

Equity reported in the annual report

in CHF	2017	2016
Share capital	260'000'000	260'000'000
Legal reserves	130'000'000	130'000'000
Free reserves	316'374'351	316'373'214
Retained earnings	127'976'675	113'296'137
Total equity	**834'351'026**	**819'669'351**

There have not been any material changes to the structure, level or quality of the equity reported in the annual report. NewRe considers the quality of the statutory equity to be very high. The accounting and valuation principles for assets and liabilities are set out in the notes to the financial statements, and NewRe is of the opinion that all valuations are prudent.

For a comparison of statutory and solvency equity, see the section "Risk-bearing capital & solvency".

Sign-off by the executive body

The Board of Directors of NewRe has the overall management responsibility for the Company. In its meeting on 23 April 2018, the Board of Directors of NewRe has approved this Financial Condition Report 2017.

New Reinsurance Company Ltd.
Zollikerstrasse 226
CH-8008 Zürich

Phone +41 (0)58 226 6500
www.newre.com