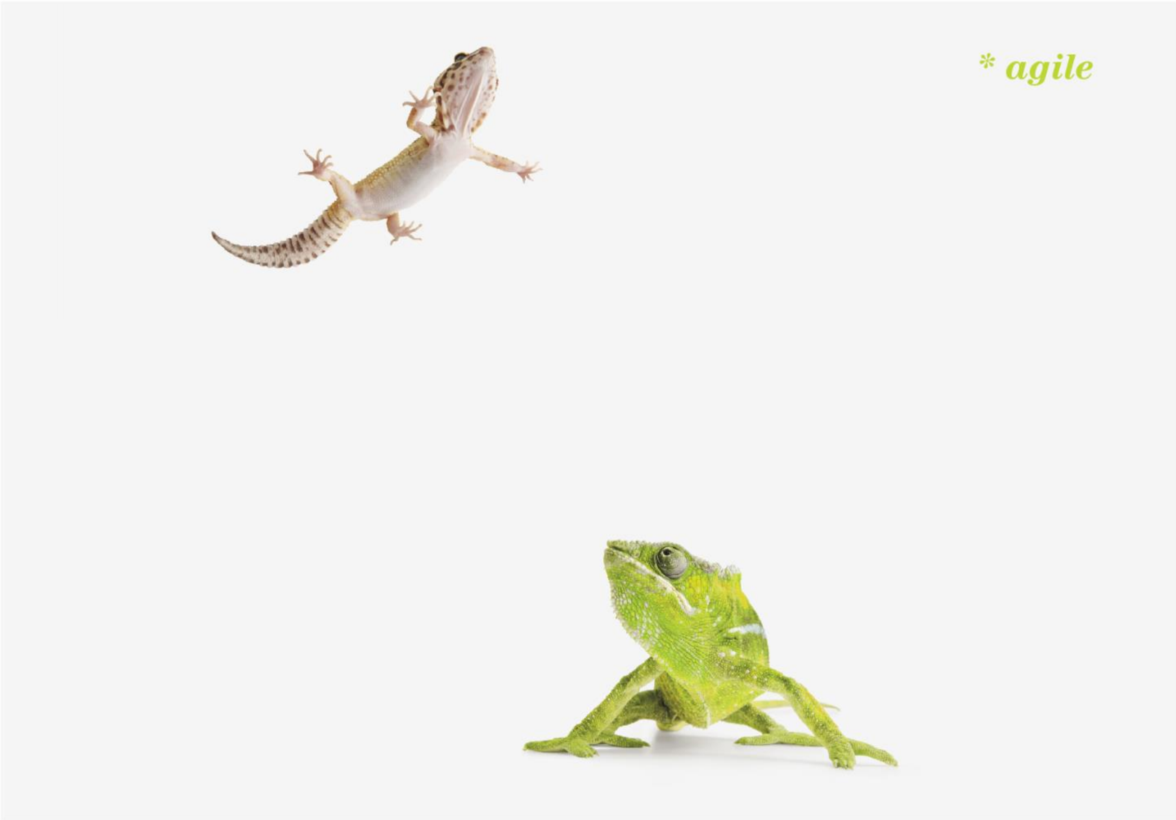

Financial Condition Report 2018

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 **133**m annual result

AA- S&P rating

A+ A.M. Best rating

173% SST

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Executive summary

NewRe, as in previous years, focused on its four established areas of business. NewRe is a professional property and casualty reinsurance company plus simultaneously through its Capital Partners unit, a leading underwriter of structured reinsurance solutions, and, via its 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.

2018 financial performance was positive. Primarily driven by new life transactions, premium volume rose from CHF 4.3bn in 2017 to CHF 5.3bn in 2018. All business segments (Life, Property & Casualty, Structured Solutions and Weather) were profitable in 2018. At CHF 133m, NewRe's 2018 overall result closed higher than the previous year result of CHF 128m.

The structural set-up of corporate governance at NewRe remained unchanged throughout 2018. Yet the company underwent a change on the Board of Management: Dr. Artur Klinger took on the responsibility as CUO of NewRe on 1 September 2018 and was appointed to the Board at the same time. He succeeds Jean-Luc Bourgault, who – after 18 years with NewRe –decided to step down from his management role.

NewRe's risk profile continues to be driven by the business risk emanating from the afore-mentioned four business segments in addition to the associated Market and Credit Risks. Compared to 2017, the life portfolio continued to grow, which in turn has increased the risk contribution by the Life segment. As a result of this growth in Life, the overall risk profile is now better diversified.

NewRe's solvency position is solid, with a SST ratio of 173%. 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 adequate to sustain the expected development of the business over the coming years. Therefore, as in the preceding 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.

Key figures

in CHFm	**2018**	**2017**
Gross premiums written	5'319.9	4'337.3
Net earned premiums	5'263.6	4'404.3
Overall technical result - Life & Non-life (incl. interest, after management expenses)	90.6	69.5
Investment result (excl. interest on techn. provisions, before mgmt expenses)	13.4	29.4
Management expenses - investments	-23.5	-21.7
Profit for the year	133.4	128.0
Investments	2'412.3	2'549.6
Technical provisions (net)	8'502.7	4'247.4
Shareholder's equity*	**839.9**	834.4

*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 Ph.D. in Business Administration with a focus on Corporate Finance from the University of Klagenfurt, Austria.

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.

Jean-Luc Bourgault, Chief Underwriting Officer Property & Casualty (until 30 August 2018)

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.

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. Artur Klinger, Chief Underwriting Officer Property & Casualty (as of 1 September 2018)

Prior to his reinsurance career, Artur Klinger spent several years as an Assistant Professor of Statistics at the University of Munich. In 1999, he joined the business economics department of Bavarian Re, resp. Swiss Re Germany where he worked on economic value measurement and capital allocation projects.

From 2001 onwards, Artur built up the pricing and cat. modelling department of Alea Europe, an innovative reinsurance company located in Basel. In 2005, he was appointed member of Alea Europe's Executive Board responsible for underwriting and actuarial services. Following his years with the Alea Group, Artur joined Allianz Risk Transfer (ART) as Chief Actuary for the ART Group in 2006.

He joined NewRe (in Geneva) in 2008, where he set up the Analytics, Pricing & Structuring department. After establishing the structured solutions for non-life business and insurance derivatives as a strategic pillar for NewRe, he was promoted to CUO Specialties in 2013.

From 2015 to 2018 Artur was Head of Capital Partners Zürich, a hub of a global Munich Re Group Business Unit focussing on innovative solutions for integrated risk, financial and capital management.

In September 2018, Artur Klinger was appointed Chief Underwriting Officer Property & Casualty and member of the Board of Management of NewRe.

Artur Klinger holds a Ph.D. in Statistics from the University of Munich.

Dr. Christian Dahmen, Chief Risk Officer

Following several years in financial risk consulting with d-fine in Germany, Christian Dahmen joined Munich Re in 2009 as Risk Analyst for Market & 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 Munich Re Group. Most recently, he headed the risk management organisation of the Munich Health 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 Technical University Aachen, Germany, and a M.Sc. in Mathematical Finance from University of Oxford, United Kingdom.

c) Business segments

NewRe's strategic focus is that of a specialised risk carrier within the Munich Re group. Hereby we make full use of 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 habitually think beyond traditional models and design tailor-made reinsurance solutions. All our business segments follow this overarching strategic focus and apply it to 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 orientated reinsurer delivering client value by providing high quality financial rating and large capacities paired with the ability to structure and evaluate customised solutions.

We focus on European 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 needed and ensure swift response times and a transactional mindset. Our underwriters are dedicated sparring partners to our clients providing them with full 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 are a quoting market for Property and Casualty treaty excess of loss reinsurance.
- We have recognised competencies in customised reinsurance to support solvency and growth and to protect earnings. We offer products, such as Solvency Q/S, Multi-Line Aggregate XL and retrospective reinsurance benefitting from our close cooperation with the local Capital Partners team.
- We support virtual insurance models and thus play a vital role in the Swiss InsurTech scene.

Capital Partners

We believe reinsurance offers profound 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. Our support in structuring risk transfers allows our clients to find solutions for 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 the business plans and capital base of our clients.

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 business in Continental Europe, the Middle East and Africa - broker-sourced or direct - 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 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 key focus are 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. Our core strategy continues to develop new client relationships in all markets to further grow and diversify the portfolio. The focus in 2019 will be to expand renewable business in Europe as well as to create opportunities in Latin America.

Life

In the context of today's intense competition, with challenging financial markets and exacting rating and solvency requirements, active capital and risk management are proofing to become increasingly important for life insurance companies.

NewRe addresses such needs by providing risk management solutions for life insurers worldwide. We continuously seize business opportunities driven by corporate risk management or corporate finance, particularly where management of Market Risks, Credit Risks, behavioural risks, complex biometric risks or structuring capabilities are key. Every transaction is tailored to our clients' specific needs.

Our book has grown significantly over the years to include reinsurance for variable annuities, immediate and contingent financing contracts, traditional and extreme mortality covers, and capital relief transactions covering – among others – lapse, mortality and financial market risks.

As a core subsidiary of the Munich Re Group, NewRe with its Life team in Zurich has access to the Group's technology and resources, allowing us to develop strong expertise in capital and reserve relief reinsurance for developed life insurance markets across Europe, Asia and Northern America.

d) Management report

General overview

In 2018, NewRe's top line developed positively again and the company achieved strong financial results. Primarily driven by Life business, premium volume rose from CHF 4.3bn in 2017 to CHF 5.3bn in 2018.

At CHF 133.4m, NewRe's overall 2018 result compares favourably to the previous year's figure of CHF 128m.This solid result stems from profits in the natural catastrophe reinsurance business, which showed favourable loss development, the Weather segment and Life business.

Market conditions, competition, supply and demand

The non-life reinsurance market showed stable rates in the Casualty business in an overall soft market environment.

In Property reinsurance, prices remained relatively soft across Europe; the rates for natural catastrophe exposed business reduced further. The main cause for these continued low price levels is a vast surplus of risk capital in the market.

In Life reinsurance, business opportunities arose in the German market due to interest rate based reserving requirements (so called "Zinszusatzreserve") and generally due to solvency requirements for primary insurance clients. NewRe was able to benefit from this environment and several new life transactions have been written.

Staff

The total workforce of NewRe was 113 FTEs at the beginning and 117 FTEs at the end of 2018, with an average of 115 FTEs during the year.

A change in the composition of NewRe's Board of Management became effective in September 2018. In the context of his upcoming retirement in 2019, Jean-Luc Bourgault stepped down from his position as a member of the Board of Management and Chief Underwriting Officer. Dr. Artur Klinger was appointed as his successor and took on his role effective 1 September 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 900m during 2018. Across all segments (including Life), gross premiums written grew to CHF 5.3bn, compared to CHF 4.3bn in 2017.

Non-life: The NewRe natural catastrophe reinsurance business experienced another year of relatively benign losses. With a bottom line impact of less than CHF 25m wildfire losses in the US formed the most severe losses in 2018.

Weather business: After a challenging year 2017, NewRe's Weather derivatives business performed positively in 2018 and in line with its business plan.

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 (cf. "Corporate governance and risk management ").

All events and impacts experienced in 2018 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 2019 business renewals was positive, primarily with respect to new business volume and, to a lesser degree, also with respect to price levels. While price levels were predominantly flat, NewRe received appropriate price increases on loss-affected business.

Life reinsurance is signed throughout the year and in light of NewRe's positioning in the market and its growth strategy, further top – and bottom line growth is expected.

All in all, the outlook for NewRe's business in 2019 is favourable. However, the reinsurance business remains highly volatile by nature. The natural catastrophe reinsurance segment and the parametric weather business particularly may be affected by large loss events and weather extremes. In addition, NewRe runs a tail risks in the Life segment with respect to market, mass lapse and mortality risks.

Based on NewRe's current capitalisation and growth expectations, future profits will be distributed as dividends to Munich Re.

e) Additional information

Board of Directors

Dr. Doris Höpke, President

Claus-Ulrich Kroll, Vice-President

Bruno Meyenhofer

Dr. René Schnieper

Board of management

Dr. Renate Strasser, Chief Executive Officer

Dr. Jürgen Kammerlohr, Chief Financial Officer

Jean-Luc Bourgault, Chief Underwriting Officer Property & Casualty, until 30 August 2018

Dr. Artur Klinger, Chief Underwriting Officer Property & Casualty, as of 1 September 2018

Dr. Christian Dahmen, Chief Risk Officer

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		**2018**		**2017**
Investments				
Real estate		43'831'255		44'174'508
Fixed interest securities		486'871'892		503'855'370
Shares		5'255'696		5'196'798
Other investments		1'876'338'213		1'996'398'138
Receivables from derivative financial instruments		869'988'147		876'291'218
Deposits retained on assumed reinsurance business		6'893'535'025		2'521'794'398
Cash and cash equivalent		535'777'333		215'992'090
Underwriting provisions ceded		125'657'296		10'254'985
Tangible assets		412'404		670'691
Deferred acquisition costs		395'293'143		426'526'717
Accounts receivable from insurance and reinsurance companies		138'219'329		66'540'119
Other accounts receivable		599'320'475		397'310'375
		11'970'500'208		**7'065'005'407**

Liabilities and equity		**2018**		**2017**
Technical provisions		8'628'341'807		4'257'664'476
Non-technical provisions		154'498'804		160'083'814
Liabilities due to derivative financial instruments		1'168'847'388		771'013'072
Deposits retained on ceded reinsurance business		117'721'251		1'670'397
Accounts payable on insurance and reinsurance business		333'107'633		308'141'528
thereof due to brokers	2'477'062		2'241'764	
thereof due to insurance and reinsurance companies	330'630'571		305'899'764	
Other liabilities		728'112'306		732'081'094
Total liabilities		**11'130'629'189**		**6'230'654'381**
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		316'431'026		316'374'351
Profit for the year		133'439'993		127'976'675
Total equity		**839'871'019**		**834'351'026**
		11'970'500'208		**7'065'005'407**

F

Income statement for the year

Technical accounts

IN CHF

LIFE			2018			2017
Gross premiums	4'575'612'657			3'673'620'869		
Premiums ceded	-7'718'991			-882'406		
Premiums for own account		4'567'893'666			3'672'738'463	
Change in unearned premiums gross	-4'733'965			4'142'736		
Change in unearned premiums ceded	0			0		
Change in unearned premiums for own account		-4'733'965			4'142'736	
Net earned premiums for own account			4'563'159'701			3'676'881'199
Interest for own account - on premium funds		168'553'069			40'323'535	
Interest for own account - on other technical provisions		8'402'864			3'073'059	
Interest on own account			176'955'933			43'396'594
Total technical income for own account			**4'740'115'634**			**3'720'277'793**
Claims payment gross	-2'066'300'426			-1'236'694'618		
Claims payment ceded	2'279'470			716'070		
Claims payment for own account		-2'064'020'956			-1'235'978'548	
Change in provision gross	18'115'114			-15'696'618		
Change in provision ceded	7'365'346			-903'520		
Change in provision for own account		25'480'460			-16'600'138	
Expenditure for incurred claims for own account			-2'038'540'496			-1'252'578'686
Commissions expenses gross		-2'665'560'175			-2'408'019'048	
Commissions expenses ceded		434'203			354'885	
Commissions expenses for own account			-2'665'125'972			-2'407'664'163
Management expenses - life for own account			-8'606'015			-6'056'287
Total technical expenses for own account			**-4'712'272'483**			**-3'666'299'136**
Technical result for Life			**27'843'151**			**53'978'657**

Technical accounts

IN CHF

Non-LIFE			2018			2017
Gross premiums	744'278'922			663'649'778		
Premiums ceded	-14'348'280			-14'309'287		
Premiums for own account		729'930'642			649'340'491	
Change in unearned premiums gross	-28'337'349			78'314'743		
Change in unearned premiums ceded	-1'109'462			-235'130		
Change in unearned premiums for own account		-29'446'811			78'079'613	
Net earned premiums for own account			700'483'831			727'420'104
Interest on technical provisions for own account			16'118'921			21'736'190
Total technical income for own account			**716'602'752**			**749'156'294**
Claims payment gross	-597'593'971			-404'029'769		
Claims payment ceded	7'185'291			2'889'766		
Claims payment for own account		-590'408'680			-401'140'003	
Change in provision gross	125'498'070			-159'918'633		
Change in provision ceded	706'039			130'677		
Change in provision for own account		126'204'109			-159'787'956	
Expenditure for incurred claims for own account			-464'204'571			-560'927'959
Commissions expenses gross		-175'233'496			-155'702'777	
Commissions expenses ceded		4'892'905			4'633'355	
Commissions expenses for own account			-170'340'591			-151'069'422
Management expenses - other classes for own account			-19'289'038			-21'644'078
Total technical expenses for own account			**-653'834'200**			**-733'641'459**
Technical result for Non-Life			**62'768'552**			**15'514'835**
Overall technical result			**90'611'703**			**69'493'492**

General accounts

IN CHF			2018			2017
Investment income	224'946'807			98'466'385		
Investment expenses	-18'423'931			-3'946'365		
Investment result		206'522'876			94'520'020	
Interest on technical provisions - life	-176'955'933			-43'396'594		
Interest on technical provisions - other classes	-16'118'921			-21'736'190		
Interest on technical provisions		-193'074'854			-65'132'784	
Investment result excluding interest on technical provisions			**13'448'022**			**29'387'236**
Net result from derivative financial instruments			81'556'808			39'623'634
Management expenses		-51'407'914			-49'362'574	
Management expenses - life for own account		8'606'015			6'056'287	
Management expenses - other classes for own account		19'289'038			21'644'078	
Management expenses - investments			-23'512'861			-21'662'209
Operating result (overall techn. result and investment result incl. management expenses)			**162'103'672**			**116'842'153**
Other income			3'140'414			25'506'567
Other expenses			-15'970'475			-12'133'870
Profit before taxes			**149'273'611**			**130'214'850**
Direct taxes			-15'833'618			-2'238'175
Profit for the year			**133'439'993**			**127'976'675**

Cash flow statement

Cash flow statement

in CHFm	2018	2017
Profit for the year	133	128
Net change in technical provisions	4'287	1'748
Change in deposits retained and accounts receivable and payable	-4'329	-1'595
Change in other receivables and liabilities	196	-219
Gains and losses on the disposal of investments	14	-29
Change in derivative from reinsurance business	-247	79
Change in other balance sheet items	-9	-6
Other income/expenses without impact on cash flow	239	91
I. Cash flows from operating activities	**284**	**197**
Change in affiliated companies and participating interests	147	-127
Change from acquisition, sale and maturities of other investments	17	3
Other	0	1
II. Cash flows from investing activities	**164**	**-123**
Inflows from increases in capital	0	0
Outflows from share buy-backs	0	0
Dividend payments	-128	-113
III. Cash flows from financing activities	**-128**	**-113**
Cash flows for the financial year (I.+II.+III.)	**320**	**-39**
Cash at the beginning of the financial year	216	255
Cash at the end of the financial year	536	216
Change in cash for the financial year	**320**	**-39**

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 costs

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.

Other income and expenses

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

Report of the statutory auditor

The statutory auditor KPMG has audited NewRe's financial statements (annual report) 2018. Their report to the General Meeting of Shareholders can be found in the annual report 2018 which is posted on NewRe's website for public reference.

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

At the balance sheet date there were receivables and liabilities in respect of other affiliated companies belonging to the Munich Re (Group), as follows:

in CHF	2018	2017
Amount due from companies for reinsurance business		
Deposits retained on assumed reinsurance business	4'418'695'491	1'532'124'713
Accounts receivable	17'459'095	11'818'314
Total receivables	**4'436'154'586**	**1'543'943'027**
Amount due to companies for reinsurance business		
Deposits retained on ceded reinsurance business	0	0
Accounts payable	1'848'008	4'034'108
Total liabilities	**1'848'008**	**4'034'108**

Overall, “Deposits retained on assumed reinsurance business” and “Technical provisions” increased by approximately the same amount in 2018, namely around CHF 4.4bn in 2018 (cf. Balance sheet in 2 f) for details). Both increases were mainly due to two intra-group Life treaties and four external contracts with German clients covering interest rate based reserving requirements (so called “Zinszusatzreserve”: ZZR). The structure of the business requires that assets covering the provisions be deposited. These high deposits together with the new ZZR treaties increased our income from "Interest for own account on premium funds" by CHF 128m from CHF 40m to CHF 168m (cf. Income statement in 2 f) for details).

The total of “Deposits retained on ceded reinsurance business” increased in line with the “Underwriting provisions ceded” by CHF 116m (cf. Balance sheet in 2 f) for details).

Contingencies

The assets pledged or assigned to secure NewRe's commitments, plus the assets under reservation of ownership, amounted to CHF 506m as at 31 December 2018 (2017: CHF 803m). The decrease was mainly due to one Life treaty.

Auditors' fees

The fees for the audit of the 2018 financial statements amount to CHF 267k. CHF 12k relate to other services. In each case, fees exclude outlays and VAT.

Full-time equivalents

During the year, an average of 115.0 FTEs worked at NewRe.

Technical provisions

in CHF

			2018			2017
Technical provisions	**Gross**	**Retro**	**Net**	**Gross**	**Retro**	**Net**
Unearned premiums	201'901'650	3'577'631	198'324'019	179'929'977	4'877'748	175'052'229
Loss reserves	1'617'545'282	4'348'805	1'613'196'477	1'801'529'570	3'744'453	1'797'785'117
Other technical reserves	48'505'978	29'773	48'476'205	10'283'852	3'721	10'280'131
Future policy benefits reserves	6'760'388'897	117'701'087	6'642'687'810	2'265'921'077	1'629'063	2'264'292'014
Total	**8'628'341'807**	**125'657'296**	**8'502'684'511**	**4'257'664'476**	**10'254'985**	**4'247'409'491**

	2018	2017
Changes of the technical provision	**Net**	**Net**
Change in unearned premiums	-34'180'776	82'222'349
Changes in loss reserves	-117'276'784	149'432'668
Other technical reserves	35'890'928	11'000'219
Changes in future policy benefits reserves *)	4'642'186'645	1'493'298'583
Total	**4'526'620'013**	**1'735'953'819**

*) Including portfolio movements the changes in future policy benefits reserves amount to CHF -70'298'713

The change in "Technical provisions" (Net) as per balance sheet and the "Changes of the technical provisions" per the income statement deviate due to different foreign exchange rates.

Overall "Technical provisions" (Net) increased from CHF 4.2bn to CHF 8.5bn. This increase was mainly driven by two intra-group Life treaties and four external ZZR contracts, which also explains the corresponding increase of the "Changes in future policy benefits reserves".

The total "Underwriting provisions ceded" rose by CHF 115m (cf. Balance sheet in 2 f) for details). The retrocession is mainly with third parties. This is caused by a provision for future policy benefits due to a retrocession of an insurance contract.

The decrease in "Loss reserves" (Net) of CHF 185m in 2018 is mainly triggered by the Structured Solutions business.

Investments and investment result

in CHF

2018

	Current income	Write-ups	Realised gains	Total investment income	Write-downs and value adjustments	Realised losses	Total investment expenses
Real estate	1'034'253	0	0	**1'034'253**	-75'919	0	**-75'919**
Fixed interest securities	12'808'465	0	632'733	**13'441'198**	-10'054'659	0	**-10'054'659**
Shares	0	0	0	**0**	0	0	**0**
Other investments	206'524'943	0	3'946'413	**210'471'356**	-8'293'353	0	**-8'293'353**
			Total	**224'946'807**		**Total**	**-18'423'931**

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	0	**-75'919**
Fixed interest securities	12'534'599	0	4'529'373	**17'063'972**	-2'323'327	25'888	**-2'297'439**
Shares	0	0	0	**0**	0	0	**0**
Other investments	73'864'120	0	6'387'311	**80'251'431**	-1'573'007	0	**-1'573'007**
			Total	**98'466'385**		**Total**	**-3'946'365**

The decline of "Other investments" of 120m in 2018 (cf. Balance sheet in 2 f) for details) is primary attributable to the strong Swiss Franc and to sales of non-public investment funds. These non-public investment funds classified under "Other investments", are mainly invested into fixed-income securities.

The NewRe office building in Zurich is marked by "Real estate" in the table above. On one floor the space is partially let to external tenants. The rental income and associated expenses are recorded as investment income "Real Estate".

Income from "Fixed-interest securities" decreased in 2018 compared to 2017. Lower realised gains on sales of investments drove this decrease. The increase in investment expenses was due to higher write-downs.

Income from "Other investments" increased by CHF 130m. This was due to higher technical interests on deposits retained in connection with new Life treaties.

Net result from derivatives financial instruments

in CHF	**2018**	**2017**
Net result from derivatives financial instruments	81'556'808	39'623'634

The „Net result from derivative financial instruments" increased by CHF 42m. On the one hand, it relates to our Life reinsurance business covering market risks which developed positively in line with the growth of our portfolio. On the other hand, it contains direct and intra-group weather business which contributed to the positive change over the previous year and is now on an expected level.

Other income and expenses

A large component of "Other income" and "Other expenses" were foreign exchange gains and losses, which were in part offset by currency hedges. The offsetting gains and losses from currency hedge transactions with derivatives are recorded within the investment result.

Profits and losses recognised directly in equity

There are no profits and losses recognised directly in equity.

Statement of changes in equity

in CHF

Year ended December 2018	Share Capital	Legal reserves from capital	Legal reserves from profit	Free reserves from profit	Profit for the year	Total equity
Balances as at 31 December 2017	260'000'000	122'687	129'877'313	316'374'351	127'976'675	**834'351'026**
Appropriation of earnings						
Dividend payment					-127'920'000	**-127'920'000**
Allocation to free reserves				56'675	-56'675	**0**
Profit for the year 2018					133'439'993	**133'439'993**
Balances as at 31 December 2018	**260'000'000**	**122'687**	**129'877'313**	**316'431'026**	**133'439'993**	**839'871'019**

Year ended December 2017	Share Capital	Legal reserves from capital	Legal reserves from profit	Free reserves from profit	Profit for the year	Total equity
Balances as at 31 December 2016	260'000'000	122'687	129'877'313	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	**0**
Profit for the year 2017					127'976'675	**127'976'675**
Balances as at 31 December 2017	**260'000'000**	**122'687**	**129'877'313**	**316'374'351**	**127'976'675**	**834'351'026**

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	
		2017	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**
1	Gross premiums	4'337	5'320	2	9	8	2	476	578
2	Reinsurers' share of gross premiums	-15	-22	0	-5	-8	-2	0	0
3	Premiums for own account (1 + 2)	4'322	5'298	2	3	0	0	476	578
4	Change in unearned premium reserves	82	-33	0	-3	0	3	80	-26
5	Reinsurers' share of change in unearned premium reserves	0	-1	0	3	0	-3	0	0
6	Premiums earned for own account (3 + 4 + 5)	4'404	5'264	2	3	0	0	556	553
7	Other income from insurance business	65	193	0	0	0	0	21	16
8	**Total income from underwriting business (6 + 7)**	**4'469**	**5'457**	**2**	**3**	**0**	**0**	**577**	**569**
9	Payments for insurance claims (gross)	-1'641	-2'664	0	-1	-2	-4	-330	-528
10	Reinsurers' share of payments for insurance claims	4	9	0	0	2	4	0	0
11	Change in technical provisions	-176	144	0	-1	-1	0	-164	117
12	Reinsurers' share of change in technical provisions	-1	8	0	1	1	0	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)	-1'814	-2'503	-1	-1	0	0	-493	-411
15	Acquisition and administration expenses	-2'591	-2'869	-1	-2	-4	-2	-126	-152
16	Reinsurers' share of acquisition and administration expenses	5	5	0	2	4	2	0	0
17	Acquisition and administration expenses for own account (15 + 16)	-2'586	-2'863	-1	0	0	0	-126	-152
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)**	**-4'400**	**-5'366**	**-1**	**-2**	**0**	**0**	**-619**	**-563**
	Technical result (8+19)	**69**	**91**	**1**	**2**	**0**	**0**	**-43**	**6**
20	Investment income	33	32						
21	Investment expenses	-26	-42						
22	**Net investment income (20 + 21)**	**8**	**-10**						
23	Capital and interest income from unit-linked life insurance	0	0						
24	Other financial income	40	82						
25	Other financial expenses	0	0						
26	**Operating result (8 + 14 + 17 + 18 + 22 + 23 + 24 + 25)**	**117**	**162**						
27	Interest expenses for interest-bearing liabilities	0	0						
28	Other income	26	3						
29	Other expenses	-12	-16						
30	Extraordinary income/expenses	0	0						
31	**Profit / loss before taxes (26 + 27 + 28 + 29 + 30)**	**130**	**149**						
32	Direct taxes	-2	-16						
33	**Profit / loss (31 + 32)**	**128**	**133**						

Continued:

	CHF millions	Marine, aviation, transport		Property		Casualty		Miscellaneous (incl. Life)	
		2017	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**
1	Gross premiums	3	6	149	106	13	23	3'687	4'595
2	Reinsurers' share of gross premiums	0	0	-6	-5	0	-2	0	-8
3	Premiums for own account (1 + 2)	3	6	142	101	13	21	3'686	4'587
4	Change in unearned premium reserves	0	0	-3	1	0	-3	5	-5
5	Reinsurers' share of change in unearned premium reserves	0	0	0	-1	0	0	0	0
6	Premiums earned for own account (3 + 4 + 5)	3	6	139	101	13	18	3'691	4'582
7	Other income from insurance business	0	0	0	0	0	0	44	177
8	**Total income from underwriting business (6 + 7)**	**3**	**6**	**139**	**101**	**13**	**18**	**3'736**	**4'759**
9	Payments for insurance claims (gross)	-4	-2	-52	-41	-11	-16	-1'242	-2'072
10	Reinsurers' share of payments for insurance claims	0	0	1	1	0	2	1	2
11	Change in technical provisions	8	0	-3	9	4	0	-20	19
12	Reinsurers' share of change in technical provisions	0	0	0	0	0	0	-2	7
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)	4	-2	-54	-31	-6	-13	-1'262	-2'044
15	Acquisition and administration expenses	-1	-1	-34	-22	-5	-4	-2'422	-2'685
16	Reinsurers' share of acquisition and administration expenses	0	0	1	1	0	0	0	0
17	Acquisition and administration expenses for own account (15 + 16)	-1	-1	-33	-22	-5	-4	-2'422	-2'684
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**	**-3**	**-87**	**-53**	**-11**	**-17**	**-3'684**	**-4'728**
	Technical result (8+19)	**5**	**3**	**52**	**48**	**2**	**1**	**52**	**31**

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 items "Investment expenses" and the "Management expenses – investments" which are reported separately in the income statement.

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 4'337m to CHF 5'320m.

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 casualty, esp. motor, and property 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 4'337m to CHF 5'320m was mainly driven by Life and the new business written in this segment. In the motor business line, the premium volume further increased following the growth ambition in large proportional treaty.

Technical result

The technical result was CHF 91m, after CHF 69m in the previous year.

The overall technical result further increased driven by non-life business. Key drivers of the technical result were the lines motor, property and miscellaneous. Due to their minor relevance, the technical result in the lines personal accident and health, as well as marine, aviation and transport, was insignificant.

In the business line property, the natural catastrophe reinsurance business experienced another year of relatively benign losses. The US wildfire losses were a significant loss. However, compared to its market magnitude NewRe's share in these losses was relatively small. This was due to our European focus in the property and casualty reinsurance segment.

Life technical result declined compared to 2017 following the growth in the variable annuity business which by nature produces negative technical results overcompensated in the net result of derivative financial instruments. Furthermore, NewRe increased its equalization reserve by CHF 15m for Life to strengthen its balance sheet which is increasingly exposed to life business.

Net investment income

The net investment income (after management expenses for investments) amounted to CHF-10m, after CHF 8m in the previous year. The drop was due to higher investment expenses as a result of higher write-downs of non-public investment funds.

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 higher result is growth in the life variable annuity business. Furthermore, weather derivatives, which were on an expected level in 2018 after losses in 2017, contributed to the income growth.

Other income and 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 “0ther income” and “Other expenses” are offset by currency hedges, the result of which is reported as other financial income.

Profit / loss

At CHF 133m, NewRe’s 2018 result was higher than the previous year’s figure of CHF 128m. While the non-life technical result was substantially above previous year, the life technical result was below previous year overcompensated by the net result from derivative financial instruments.

Main driver for the better result in 2018 are benign losses in the natural catastrophe reinsurance business, profits in Weather and Life business.

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 was created in 2017 by re-shaping the previously existing Audit Committee. The scope of responsibility was broadened to now encompass all risk related topics as well.

The Board of Management consists of the 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 additionally involves key employees in the decision-making on an as needed basis.

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

b) Risk management organisation

Organisational structure and governance

NewRe, as a Munich Re Group core company, is fully integrated into the Group's 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) and ORSA requirements in particular. In parallel, all additional requirements for NewRe regarding Solvency II compliance of Munich Re Group are met.

The most important elements of this framework are risk management, compliance and audit.

NewRe's Chief Risk Officer (CRO) heads up Actuarial Risk Management and has a functional reporting line to the Group CRO.

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 Compliance & Legal. 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 policy 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 topics 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: It 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 and the excess 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 therefore is granted the Munich Re Group rating.

There were no material changes in Risk Management during 2018.

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: At the same time, it captures the specific risks to which NewRe is exposed.

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, within 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%. 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 NewRe’s ICS 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 risks 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

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 2018, due to regulatory changes related to internal models, NewRe reapplied for its internal risk model to be used for SST purposes. NewRe was granted unconditional FINMA approval for the majority of the modules. For the remaining ones, NewRe was granted approval for the SST 2019 and is in an ongoing model dialogue with FINMA.

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. The main differences to the standard model are summarised in the table below:

Risk module	*Standard SST model*	*NewRe's internal risk model*
Property & Casualty	StandRe comprises NatCat events, attritional events and individual events	NewRe's P&C model comprises basic losses, large losses, weather derivatives, structured business and Accumulation (including Terror),
Life & Health	No standard Life reinsurance model available	See details in the Life & Health section below
Market	Multivariate Gaussian distribution for standardised risk factors	Full valuation approach re-evaluating single instruments under economic scenarios.
Credit	Basel III factor approach	Stochastic model on rating migration and debtor defaults
Aggregation	Gaussian Copula between insurance risk and market risk, simple addition of credit risk	Gumbel Copula approach between all modules to reflect tail dependencies

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	2017	2018
Property & Casualty	491	393
Life & Health	355	569
Market	263	311
Credit	119	88
Market Value Margin	143	178
Diversification	-372	-408
Other Effects (reduces the Target Capital)	-47	2
Target capital	**952**	**1'132**

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 modelling 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 losses being higher than expected (premium risk). To achieve this, we apply 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 an adequate 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.

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

Composition of target capital - Property & Casualty

in CHF millions	2017	2018
Basic losses	182	233
Large losses	92	150
Accumulations	440	343
Weather derivatives	260	180
Diversification	-483	-513
Target capital	**491**	**393**

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 in 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 & Health risk category is, as in the previous year, a serious pandemic event, which would expose NewRe – like any other company 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	2017	2018
Mortality	227	474
Morbidity	11	7
Longevity	13	8
Lapses & Financing	141	132
Asset protection	93	115
Diversification	-130	-166
Target capital	**355**	**569**

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	2017	2018
Equity	7	52
Interest rate	92	76
Real estate	18	27
Foreign exchange	256	280
Diversification	-110	-124
Target capital	**263**	**311**

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 also actively assume Credit Risk through the writing of financial reinsurance. Additional exposures of our Credit Risk are 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 derive 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 contributions of our Credit Risk are the following:

Composition of target capital - Credit

in CHF millions	2017	2018
Investments	93	61
Life Business	50	42
Derivatives	21	14
Others	1	3
Diversification	-45	-33
Target capital	**119**	**88**

Risk Concentrations

The key risk concentration within property and casualty is the natural catastrophe risk which is modelled by several scenarios that are considered as independent events in our risk modelling approach.

We seek to maintain a balanced portfolio of risks by limiting the net exposure towards single events on a return period of 250 years. The table shows our estimated exposures for the peak scenarios:

Top accumulation scenarios - 1 in 250 years event

in CHF millions	2017	2018
Earthquake Canada	201	278
Storm Europe	258	269
Earthquake Switzerland/Germany	212	227
Pandemic	129	193

A relatively large number of treaties are exposed to the risk from Storm Europe, but also from Earthquake Switzerland/Germany. The exposure to Earthquake Canada comes mainly from a single Group-internal excess of loss treaty and to a smaller extent from international programmes.

The key risk concentration within Life is lethal pandemic. This is the primary risk from many of our non-proportional life transactions and also a significant risk on our more traditional mortality quota share business.

Within Market Risk, there is some risk concentration towards foreign exchange risk as NewRe partially follows an investment strategy in emerging markets.

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 management within the scope of our internal control system. Our internal 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 also assess liquidity risk under a severe stress scenario of simultaneous investment, natural catastrophes, reserve events and a rating downgrade.

Risk mitigation

To reduce the net risk of NewRe from Property & Casualty and Life & Health business, 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 or selected life risks in particular, and to achieve capital efficiency. Hedging is used to reduce the risk from derivative business and financial market guarantees. The Market and Credit Risks are mitigated by a liability driven investment strategy and by clearly defined investment guidelines.

The main tool for monitoring the ongoing effectiveness of the risk mitigation measures is a risk limit system which defines the measurement of risks at different levels, sets the level of risks that are acceptable and defines the monitoring and reporting frequency. In order to avoid risks not within NewRe's risk appetite, a referral process is in place that ensures an interdisciplinary expert group assesses large or new types of risks before they are written.

b) Risk-bearing capital and solvency

Quantitative template "Market-consistent Balance Sheet Solo"

The “Market-consistent Balance Sheet Solo” is almost identical to the SST balance sheet. The only difference is that the “Ceded Share of Technical Provisions” of CHF 126m are shown under the “Outward reinsurance” in the Best Estimate Liabilities.

Quantitative template "Market-consistent Balance Sheet Solo"

in CHF millions	Note		2017	2018
Market-consistent value of investments	1	Real estate	64	98
		Shareholdings	14	12
	2	Fixed-income securities	541	487
		Loans		
		Mortgages		
		Equities		
		Other investments		
	2	Collective investment schemes	2'192	2'050
		Alternative investments		
		Other investments		
		Total investments	2'811	2'649
		Financial investments from unit-linked life insurance		
		Receivables from derivative financial instruments	876	870
Market-consistent value of other assets	3	Cash and cash equivalents	217	536
	3	Receivables from insurance business **see footnote*	2'588	7'032
	3	Other receivables	397	599
		Other assets		
		Total other assets	3'202	8'167
Total market-consistent value of assets		**Total market-consistent value of assets**	**6'890**	**11'685**
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		
	4	Outward reinsurance: life insurance business (excluding ALV)	1'523	6'134
	5	Outward reinsurance: non-life insurance business	1'484	1'333
		Outward reinsurance: health insurance business		1
		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)		
		Direct insurance: non-life insurance business		
		Direct insurance: health insurance business		
		Direct insurance: unit-linked life insurance business		
		Direct insurance: other business		
	3	Outward reinsurance: life insurance business (excluding ALV)	-2	-118
	3	Outward reinsurance: non-life insurance business	-9	-8
		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	42	39
		Interest-bearing liabilities		
	3	Liabilities from derivative financial instruments	771	1'169
	3	Deposits retained on ceded reinsurance	2	118
	3	Liabilities from insurance business	308	333
		Other liabilities	732	728
Total BEL plus market-consistent value of other liabilities		**Total BEL plus market-consistent value of other liabilities**	**4'852**	**9'729**
		Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	**2'038**	**1'956**

Notes on changes

1. New value estimation of own used office building in 2018.
2. Change in market prices resp. positions.
3. In this case SST and local GAAP valuation coincide and the changes are explained under local GAAP.
4. Growth in Life reinsurance business.
5. Slight reduction of Non-life business.

SST-Balance Sheet comparison with local GAAP

The SST balance sheet comparison with the audited financial statements provides insights into the main valuation and differences between the treatment under local GAAP and SST. In the following we comment on items which are differently valued under theses regimes.

ASSETS

in CHF millions	***local GAAP***	***SST***
Real estate	44	98
Fixed interest securities	487	487
Shares	5	12
Other investments	1,876	2,050
Receivables from derivative financial instruments	870	870
Deposits retained on assumed rein. bus.	6,894	6,894
Cash and cash equivalent	536	536
Underwriting provisions ceded	126	126
Tangilble Assets	0.4	-
Deferred Acquisition costs	395	-
Accounts receivable from reins. business	138	138
Other accounts receivable	599	599
Total Assets	**11,971**	**11,811**

Real Estate

The Real Estate position is our own occupied NewRe office building. Under SST, the value is based on the most recent expertise. Under local GAAP, real estate is carried at amortized cost, i.e. buildings are valued at the lower of original acquisition cost (including capitalised cost for improvements) less amortisation or market value.

Fixed Income Securities, Shares, Other Investments

NewRe's Other Investments are collective investments schemes in special funds, which are 100% owned. The vast majority of our Fixed Income Securities, Shares and single positions in the Other Investments are traded assets. Under SST, their valuation is mark to market, based on quoted prices in active markets or observable inputs. Under local GAAP, fixed interest securities are valued at amortised cost less required impairments. The annual amortisation amount is recognised within the investment result. Shares and other investments are valued at the lower of cost or market.

Deferred Acquisition Costs

Acquisition costs are mainly from Life business. Under local GAAP, 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.

Under SST, this position is fully depreciated.

LIABILITIES

in CHF millions	*local GAAP*	*SST*
Technical Provision	8,628	7,468
Non-technical provisions	154	39
Liabilities due to derivative financial instrument	1,169	1,169
Deposits retained on ceded business	118	118
Accounts payable on reinsurance business	333	333
Other Liabilities	728	728
Total Liabilities	**11,131**	**9,855**

Technical Provisions

The Technical Provisions contain all Life and Non-life technical reserve positions. Under local GAAP, liabilities from Non-life business are set on an undiscounted basis and contain various fluctuation reserves. The majority of Life reserves are held for NewRe's balance sheet protection solutions with counterparties in Germany. Expected future profits are generally not accounted for, other than the use of deferred acquisition costs for financing transactions.

The difference between liabilities under local GAAP and SST liabilities arises out of the discounting effect of Property & Casualty liabilities (based on government rates) and the expected present value of future profits from our in-force Life reinsurance business. For SST, the fluctuation reserves are reclassified as Risk-bearing capital.

Non-technical and other provisions

Fluctuation reserve for weather risks are visible under local GAAP. Under SST, this reserve is treated as Risk-bearing capital.

Risk Bearing Capital

The Risk Bearing Capital (RBC) is the difference between assets and liabilities with the deduction of the expected dividend. Consistent to this definition the Risk Bearing Capital can be also derived from the statutory equity by showing the adjustments to the market consistent valuation:

Composition of the RBC

in CHF millions	2017	2018
Statutory shareholder equity	834	840
Unrealised gains on assets	262	236
Adjustments on statutory liabilities	502	445
Fluctuation reserves	439	435
Expected dividend	-128	-133
Risk bearing capital	**1'910**	**1'823**

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	2017	2018
Market consistent balance sheet	2'038	1'956
Expected dividend	-128	-133
Risk bearing capital	**1'910**	**1'823**

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 for a 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 lifetime 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 1'823m, as at 01.01.2019 / 31.12.2018, NewRe's solvency position is very strong, with a solvency ratio of 173%.

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

QUANTITATIVE TEMPLATE "SOLVENCY SOLO"

Financial situation report: Quantitative template "Solvency Solo"

in CHF millions

Composition of RBC	2017	2018
Market-consistent value of assets minus total from best estimate liabilities plus market-consistent value of other liabilities	2'038	1'956
Deductions (expected dividend)	128	133
Core capital	**1'910**	**1'823**
Supplementary capital	'0	'0
RBC	**1'910**	**1'823**

Composition of target capital	2017	2018
Underwriting risk	846	961
Market risk	263	311
Diversification effects	-372	-408
Credit risk	119	88
Market value margin and other effects on target capital	96	180
Target capital	**952**	**1'132**

SST ratio (in %)	2017	2018
(Risk-bearing capital - MVM) / (Target Capital - MVM)	**218%**	**173%**

The explicit amount of the MVM is shown in section 4) a).

The figures reported in this document correspond to the official SST calculation performed as at 01.01.2019. The SST calculation is submitted to FINMA at the same time as this report is published, 30 April 2019, 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 2018.

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.

Our strategy foresees a steady growth of all strategic pillars and an increase of earnings from all business segments as well as continuously growing dividends for our shareholder. This strategy is based on continued strong development of our Life portfolio, especially in the variable annuity business, further growth and diversification of our Weather book and stable to slightly increasing Non-Life business across Europe.

Equity reported in the annual report

In CHF	2018	2017
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	316'431'026	316'374'351
Profit for the year	133'439'993	127'976'675
Total equity	**839'871'019**	**834'351'026**

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 18 April 2019, the Board of Directors of NewRe has approved this Financial Condition Report 2018.

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