

Report of the statutory auditor

Report of the statutory auditor
to the General Meeting of
Swiss Reinsurance Company Ltd
Zurich

Report of the statutory auditor on the Financial Statements

As statutory auditor, we have audited the financial statements of Swiss Reinsurance Company Ltd (the 'Company'), which comprise the income statement, balance sheet and notes (pages 110 to 125) for the year ended 31 December 2017.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

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

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

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

Unobservable or interpolated inputs used for the valuation of certain investments

Key audit matter

Investments are generally valued at lower of cost or market value (prudence principle). In addition to the lower of cost or market value, amortised cost must also be considered for fixed income securities, which is in accordance with the Insurance Supervision Ordinance.

Accordingly market values have to be observed to assess the appropriate application of the prudence principle.

Investment valuation continues to be an area with inherent risk for investments with no observable market price. The risk is not the same for all investment types and is greatest for those listed below, where the investments are more difficult to value because quoted prices are not always available and valuation requires unobservable or interpolated inputs and complex valuation models:

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

How our audit addressed the key audit matter

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

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

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

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

Risk of inappropriate Swiss statutory financial reporting over investments

Key audit matter

Based on the derivative financial instrument error in 2016, which led to an overstatement of the income statement by CHF 226 million (as disclosed in note 19), we identified a significant risk in regards of inappropriate Swiss statutory financial reporting over investments. There is a risk of overstatement of the net income due to inappropriate treatment of investment gains based on the statutory accounting principles.

How our audit addressed the key audit matter

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

- Assessing and testing of the US GAAP to statutory walks.
- Critically reviewing the derivative portfolio as well as the gains and losses booked for US GAAP and statutory reporting.
- Testing application of adjusted accounting principles in regards of the back-to-back derivatives which are now valued at fair value in line with US GAAP.
- Assessing appropriate disclosure of error correction and change in accounting principles.
- Testing of the investment reconciliations.

On the basis of the work performed, we note proper reporting of the investment balances as of 31 December 2017.

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

Key audit matter

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

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

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

How our audit addressed the key audit matter

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

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

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

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

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

Key audit matter

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

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

How our audit addressed the key audit matter

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

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

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

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

Impairment assessment of investments in subsidiaries and affiliated companies

Key audit matter

The Company applies group valuation method when a close business link exists and a similarity in nature is given in accordance with Swiss Accounting Law.

In performing impairment assessments of investments in subsidiaries and affiliated companies, management uses considerable judgement in determining valuation-method inputs.

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

How our audit addressed the key audit matter

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

- Assessing whether the group valuation method is still appropriate.
- Assessing whether the method applied for each subsidiary is reasonable.
- Understanding changes in the approach and discussing these with management to ensure they are in accordance with our own expectation based on our knowledge of the business and industry.
- Engaging our internal valuation specialists to assist in the testing of key assumptions and inputs.

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

Report on other legal requirements

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

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

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

PricewaterhouseCoopers Ltd



Alex Finn
Audit expert
Auditor in charge



Bret Griffin

Zurich, 14 March 2018