Swiss Re

Swiss Re Corporate Solutions Ltd

Half-year Report 2015

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Income statement

For the six months ended 30 June

USD millions	Note	2014	2015
Revenues			
Premiums earned	3	1 644	**1 725**
Net investment income	6	36	**59**
Net realised investment gains	6	71	**147**
Other revenues			**7**
Total revenues		1 751	**1 938**
Expenses			
Claims and claim adjustment expenses	3	–1 012	**–997**
Acquisition costs	3	–216	**–228**
Other expenses		–278	**–328**
Interest expenses			**–12**
Total expenses		–1 506	**–1 565**
Income before income tax expense		245	**373**
Income tax expense		–72	**–100**
Net income before attribution of non-controlling interests		173	**273**
Income/loss attributable to non-controlling interests			**–6**
Net income attributable to common shareholder		173	**267**

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

Statement of comprehensive income

For the six months ended 30 June

USD millions	2014	2015
Net income before attribution of non-controlling interests	173	**273**
Other comprehensive income, net of tax:		
Change in unrealised investment gains/losses	37	**–78**
Change in foreign currency translation	10	**–25**
Total comprehensive income before attribution of non-controlling interests	220	**170**
Comprehensive income attributable to non-controlling interests		**–6**
Total comprehensive income attributable to common shareholder	220	**164**

Reclassification out of accumulated other comprehensive income

For the six months ended 30 June

2014 USD millions	Unrealised investment gains/losses[1]	Foreign currency translation[1,2]	Accumulated other comprehensive income
Balance as of 1 January	98	103	201
Change during the period	123	14	137
Amounts reclassified out of accumulated other comprehensive income	–67		–67
Tax	–19	–4	–23
Balance as of period end	135	113	248

2015 USD millions	Unrealised investment gains/losses[1]	Foreign currency translation[1,2]	**Accumulated other comprehensive income**
Balance as of 1 January	116	55	**171**
Change during the period	–31	–25	**–56**
Amounts reclassified out of accumulated other comprehensive income	–83		**–83**
Tax	36		**36**
Balance as of period end	**38**	**30**	**68**

[1] Reclassification adjustment included in net income is presented in the ''Net realised investment gains/losses'' line.
[2] Reclassification adjustment is limited to translation gains and losses realised upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity.

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

Balance sheet

Assets

USD millions	Note	31.12.14	30.06.15
Investments	6,7,8		
Fixed income securities, available-for-sale, at fair value (including 352 in 2014 and 540 in 2015 subject to securities lending and repurchase agreements) (amortised cost: 2014: 5 116; 2015: 5 762)		5 148	**5 737**
Equity securities, available-for-sale, at fair value (including 121 in 2014 and 211 in 2015 subject to securities lending and repurchase agreements) (cost: 2014: 586; 2015: 867)		732	**955**
Short-term investments, at fair value (including 1 088 in 2014 and 858 in 2015 subject to securities lending and repurchase agreements)		2 348	**1 444**
Other invested assets		55	**206**
Total investments		8 283	**8 342**
Cash and cash equivalents (including 20 in 2014 and 1 in 2015 subject to securities lending)		568	**405**
Accrued investment income		44	**46**
Premiums and other receivables		2 274	**2 037**
Reinsurance recoverable on unpaid claims		7 434	**7 098**
Funds held by ceding companies		388	**387**
Deferred acquisition costs	4	360	**334**
Goodwill		109	**144**
Income taxes recoverable		31	**11**
Deferred tax assets		258	**242**
Other assets		720	**858**
Total assets		20 469	**19 904**

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

Liabilities and equity

USD millions	Note	31.12.14	30.06.15
Liabilities			
Unpaid claims and claim adjustment expenses		11 721	**11 472**
Unearned premiums		2 936	**2 678**
Funds held under reinsurance treaties		1 391	**1 349**
Reinsurance balances payable		406	**428**
Income taxes payable		101	**87**
Deferred and other non-current tax liabilities		425	**409**
Accrued expenses and other liabilities		541	**574**
Long-term debt	9	496	**496**
Total liabilities		18 017	**17 493**
Equity			
Common shares, CHF 1 000 par value 2014: 100 000; 2015: 100 000 shares authorised and issued		119	**119**
Additional paid-in capital		677	**677**
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax		116	**38**
Foreign currency translation, net of tax		55	**30**
Total accumulated other comprehensive income		171	**68**
Retained earnings		1 396	**1 463**
Shareholder's equity		2 363	**2 327**
Non-controlling interests		89	**84**
Total equity		2 452	**2 411**
Total liabilities and equity		20 469	**19 904**

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

Statement of shareholder's equity

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

USD millions	2014	2015
Common shares		
Balance as of 1 January	119	**119**
Issue of common shares		
Balance as of period end	119	**119**
Additional paid-in capital		
Balance as of 1 January	1 276	**677**
Dividends on common shares[1]	–599	
Balance as of period end	677	**677**
Net unrealised investment gains/losses, net of tax		
Balance as of 1 January	98	**116**
Changes during the period	18	**–78**
Balance as of period end	116	**38**
Foreign currency translation, net of tax		
Balance as of 1 January	103	**55**
Changes during the period	–48	**–25**
Balance as of period end	55	**30**
Retained earnings		
Balance as of 1 January	1 091	**1 396**
Net income attributable to common shareholder	393	**267**
Effect of change in Group structure[2]	13	
Dividends on common shares	–101	**–200**
Balance as of period end	1 396	**1 463**
Shareholder's equity	2 363	**2 327**
Non-controlling interests		
Balance as of 1 January	0	**89**
Change during the period	90	**–11**
Income attributable to non-controlling interests	–1	**6**
Balance as of period end	89	**84**
Total equity	2 452	**2 411**

[1] Dividends to the shareholder were paid in the form of a repayment of legal reserves from capital contributions.
[2] During Q3 2014, Swiss Reinsurance Company Ltd transferred the shares of Swiss Re Corporate Solutions Brasil Seguros S.A. to Swiss Re Corporate Solutions Ltd, please refer to Note 1 "Organisation and summary of significant accounting policies".

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

Statement of cash flow

For the six months ended 30 June

USD millions	2014	2015
Cash flows from operating activities		
Net income attributable to common shareholder	173	**267**
Add net income attributable to non-controlling interests		**6**
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items	36	**36**
Net realised investment gains/losses	–71	**–147**
Change in:		
Technical provisions and other reinsurance assets and liabilities, net	68	**–176**
Funds held by ceding companies and under reinsurance treaties	–69	**–42**
Reinsurance recoverable on unpaid claims and policy benefits	355	**283**
Other assets and liabilities, net	7	**–45**
Income taxes payable/recoverable	39	**45**
Trading positions, net	7	**29**
Net cash provided/used by operating activities	545	**256**
Cash flows from investing activities		
Fixed income securities:		
Sales	1 793	**2 218**
Maturities	256	**82**
Purchases	–1 783	**–3 025**
Net purchase/sale/maturities of short-term investments	–457	**857**
Equity securities:		
Sales	602	**319**
Purchases	–395	**–498**
Securities purchased/sold under agreement to resell/repurchase, net[1]	67	**–37**
Cash paid/received for acquisitions/disposal and reinsurance transactions, net		**–108**
Net purchases/sales/maturities of other investments		**–24**
Net cash provided/used by investing activities	83	**–216**
Cash flows from financing activities		
Dividends paid to parent	–300	**–200**
Net cash provided/used by financing activities	–300	**–200**
Total net cash provided/used	328	**–160**
Effect of foreign currency translation	8	**–3**
Change in cash and cash equivalents	336	**–163**
Cash and cash equivalents as of 1 January	404	**568**
Cash and cash equivalents as of 30 June	740	**405**

[1] The Group reviewed the nature of certain items within the statement of cash flow. "Securities purchased/sold under agreement to resell/purchase, net" are reclassified from the operating cash flow to the investing cash flow.

Tax paid was USD 33 million and USD 49 million for the six months ended 30 June 2014 and 2015, respectively.

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

Notes to the Group financial statements

1 Organisation and summary of significant accounting policies

Nature of operations

The Swiss Re Corporate Solutions Group, which is headquartered in Zurich, Switzerland, comprises Swiss Re Corporate Solutions Ltd (the parent company, referred to as "SRCS") and its subsidiaries (collectively, the "Group"). The Group provides a wide range of traditional and non-traditional commercial insurance products and risk transfer solutions through a network of offices around the globe.

SRCS is a wholly owned subsidiary of Swiss Re Ltd. Swiss Re Ltd is the ultimate parent company of the Swiss Re Group, which consists of four business segments: Property & Casualty Reinsurance, Life & Health Reinsurance, Corporate Solutions and Admin Re®. The presentation of each segment's balance sheet is closely aligned with the segment legal entity structure.

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and comply with Swiss law. All significant intra-group transactions and balances have been eliminated on consolidation. The year-end balance sheet data presented was derived from audited financial statements. These interim financial statements do not include all disclosures that US GAAP requires on an annual basis and therefore they should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2014.

During the third quarter of 2014, Swiss Re Corporate Solutions completed the acquisition of the outstanding common shares of Swiss Re Corporate Solutions Brasil Seguros S.A. ("SRCSB") from Swiss Reinsurance Company Ltd ("SRZ"). Following the acquisition, SRCSB ceased to be a subsidiary of SRZ, and therefore is no longer part of the Swiss Reinsurance Company Group (the "SRZ Group"). These financial statements were prepared as if SRCSB had been transferred to SRCS as of 1 January 2014.

Use of estimates in the preparation of financial statements

The preparation of financial statements requires management to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the related disclosure including contingent assets and liabilities. The Group's liabilities for unpaid claims and claim adjustment expenses include estimates for premium, claim and benefit data not received from ceding companies at the date of the financial statements. In addition, the Group uses certain financial instruments and invests in securities of certain entities for which exchange trading does not exist. The Group determines these estimates based on historical information, actuarial analyses, financial modelling and other analytical techniques. Actual results could differ significantly from the estimates described above.

Valuation of financial assets

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

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

For assets or derivative structures at fair value, the Group uses market prices or inputs derived from market prices. A separate internal price verification process, independent of the trading function, provides an additional control over the market prices or market input used to determine the fair values of such assets. Although management considers that appropriate values have been ascribed to such assets, there is always a level of uncertainty and judgment over these valuations. Subsequent valuations

could differ significantly from the results of the process described above. The Group may become aware of counterparty valuations, either directly through the exchange of information or indirectly, for example, through collateral demands. Any implied differences are considered in the independent price verification process and may result in adjustments to initially indicated valuations. As of 30 June 2015, the Group had not provided any collateral on financial instruments in excess of its own market value estimates.

Subsequent events

Subsequent events for the current reporting period have been evaluated up to 29 July 2015. This is the date on which the financial statements are available to be issued.

Recent accounting guidance

In January 2014, the FASB issued ASU 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)", an update to topic 323, "Investments — Equity Method and Joint Ventures". The Low Income Housing Tax Credit, a program created under the US Tax Reform Act of 1986, offers US federal tax credits to investors that provide capital to facilitate the development, construction, and rehabilitation of low-income rental property. ASU 2014-01 modifies the conditions that must be met to present the pre-tax effects and related tax benefits of investments in qualified affordable housing projects as a component of income. Investors that do not qualify for "net" presentation under the new guidance will continue to account for such investments under the equity method or cost method, which results in losses recognised in pre-tax income and tax benefits recognised in income taxes. For investments that qualify for the "net" presentation of investment performance, the ASU introduces a "proportional amortization method" that can be elected to amortise the investment basis. The Group adopted ASU 2014-01 on 1 January 2015. The adoption did not have a material effect on the Group's financial statements.

In January 2014, the FASB issued ASU 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)", an update to topic 310-40, "Receivables–Troubled Debt Restructurings by Creditors". ASU 2014-04 applies to creditors who obtain physical possession resulting from an in substance repossession or foreclosure of residential real estate property collateralising a consumer mortgage loan in satisfaction of a receivable. Existing guidance requires a creditor to reclassify a collateralised mortgage loan with the result that the loan is derecognised and the collateral asset recognised when there has been in substance repossession or foreclosure by the creditor. The ASU provides additional guidance on when a creditor is considered to have received physical possession from an in substance repossession. The Group adopted ASU 2014-04 on 1 January 2015. The adoption did not have an effect on the Group's financial statements.

In April 2014, the FASB issued ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity", an update to topics 205, "Presentation of Financial Statements" and 360, "Property, Plant and Equipment". ASU 2014-08 amends the definition of a discontinued operation and requires entities to provide additional disclosures about disposal transactions that do not meet the discontinued-operations criteria. The new guidance eliminates two of the three existing criteria for classifying components of an entity as discontinued operations and instead requires discontinued operations treatment for disposals of a component or group of components that represents a strategic shift that has or will have a major impact on an entity's operations or financial results. The ASU also expands the discontinued operations classification to include disposals of equity method investments and acquired businesses held for sale. The ASU also requires entities to reclassify assets and liabilities of a discontinued operation for all comparative periods presented in the statement of financial position. The Group is applying the new requirements on a prospective basis to transactions occurring after 1 January 2015. The adoption did not have an effect on the Group's financial statements.

In June 2014, the FASB issued ASU 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures", an update to topic 860, "Transfers and Servicing". ASU 2014-11 requires entities to account for repurchase-to-maturity transactions as secured borrowings rather than as sales with forward repurchase agreements and eliminates previously issued accounting guidance on linked repurchase financing transactions. The ASU includes new disclosure requirements for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. These requirements of ASU 2014-11 were adopted on 1 January 2015 and the adoption did not have an effect on the Group's financial statements. In addition, for transactions accounted for as secured borrowings, including repurchase agreements and securities lending transactions, the ASU requires entities to provide disclosures that disaggregate the related gross obligation by class of collateral pledged, disclose the remaining contractual maturity of the agreements and to provide information on the potential risks of these arrangements and related collateral pledged. In line with the specific effective date provided in the ASU, the Group adopted the new disclosure

requirements for the interim period ending 30 June 2015 and the adoption did not have an effect on the Group's financial statements.

In June 2014, the FASB issued ASU 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period", an update to topic 718, "Compensation – Stock Compensation". ASU 2014-12 states that a performance target that affects vesting of a share-based payment and that could be achieved after the requisite service period is a performance condition, and therefore, the target is not reflected in the estimation of the award's grant date fair value. Compensation cost for such an award would be recognised over the required service period if it is probable that the performance condition will be achieved. The Group adopted ASU 2014-12 on 1 January 2015. The adoption did not have an effect on the Group's financial statements.

In August 2014, the FASB issued ASU 2014-14, "Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure", an update to topic 310-40, "Receivables—Troubled Debt Restructurings by Creditors". ASU 2014-14 affects creditors that hold government-guaranteed mortgage loans. The ASU requires that a mortgage loan be derecognised and that a separate other receivable be recognised upon foreclosure if specific conditions are met, including that the guarantee is not separable from the loan before foreclosure. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance expected to be recovered from the guarantor. The Group adopted ASU 2014-14 on 1 January 2015. The adoption did not have an effect on the Group's financial statements.

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

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2 Information on business segments

The Group provides innovative insurance capacity to mid-sized and large multinational corporations across the globe. Offerings range from standard risk transfer covers and multi-line programmes to customized solutions tailored to the needs of clients. The business segments are determined by the organisational structure and the way in which management reviews the operating performance of the Group.

The Group presents four core operating business segments: Property, Casualty, Specialty and Credit.

The Group does not track and manage its investment portfolio by operating segment, and therefore separate balance sheets are not maintained. Accordingly, the Group does not review and evaluate the financial results of its operating segments based upon balance sheet data.

Accounting policies applied by the business segments are in line with those described in the summary of significant accounting policies (please refer to Note 1).

The Group operating segments are outlined below.

Property
The Property segment includes insurance for fire, wind, water damage and vandalism. It also provides cover for flood, earthquake, tsunami and terrorism. Business interruption insurance is complementary to property insurance. Agriculture is also covered in this segment.

Casualty
The Casualty segment includes liability, motor and non-life accident & health. The Group's general liability insurance products provide coverage against legal liability exposure of a business including product, professional, directors' and officers' (D&O) and environmental liability insurance. Non-life accident and health insurance includes workers compensation and disability coverage.

Specialty
The Specialty business segment consists of dedicated insurance offerings to specific industries on a global scale such as aviation and space, engineering and construction and marine.

Credit
The Credit segment provides innovative trade, commodity and infrastructure finance risk sharing solutions along with surety solutions and political risk insurance covers.

Business segments

For the six months ended 30 June

2014 USD millions	Property	Casualty	Specialty	Credit	Total
Premiums earned	656	484	341	163	1 644
Expenses					
Claims and claim adjustment expenses	–390	–393	–179	–50	–1 012
Acquisition costs	–71	–43	–53	–49	–216
Other expenses	–133	–72	–51	–22	–278
Total expenses before interest expenses	–594	–508	–283	–121	–1 506
Underwriting result	62	–24	58	42	138
Net investment income					36
Net realised investment gains/losses					71
Other revenues					0
Interest expenses					0
Income before income tax expenses					245
Claims ratio in %	59.4	81.2	52.5	30.6	61.6
Expense ratio in %	31.1	23.8	30.5	43.6	30.0
Combined ratio in %	90.5	105.0	83.0	74.2	91.6

2015 USD millions	Property	Casualty	Specialty	Credit	Total
Premiums earned	**656**	**523**	**332**	**214**	**1 725**
Expenses					
Claims and claim adjustment expenses	–302	–385	–201	–109	–997
Acquisition costs	–78	–50	–47	–53	–228
Other expenses	–126	–88	–70	–44	–328
Total expenses before interest expenses	**–506**	**–523**	**–318**	**–206**	**–1 553**
Underwriting result	**150**	**0**	**14**	**8**	**172**
Net investment income					59
Net realised investment gains/losses					147
Other revenues					7
Interest expenses					–12
Income before income tax expenses					**373**
Claims ratio in %	46.0	73.6	60.6	51.0	57.8
Expense ratio in %	31.1	26.4	35.2	45.3	32.2
Combined ratio in %	77.1	100.0	95.8	96.3	90.0

3 Insurance information

For the six months ended 30 June

Premiums written and premiums earned

USD millions	2014	2015
Premiums written		
Direct	1 276	1 258
Reinsurance	485	467
Ceded	–229	–284
Net premiums written	1 532	**1 441**
Premiums earned		
Direct	1 288	1 382
Reinsurance	533	572
Ceded	–177	–229
Net premiums earned	1 644	**1 725**

Claims and claim adjustment expenses

USD millions	2014	2015
Claims paid		
Gross	–994	–1 210
Retro	409	344
Net claims paid	–585	**–866**
Change in unpaid claims and claim adjustment expenses		
Gross	–256	142
Retro	–171	–273
Net unpaid claims and claim adjustment expenses	–427	**–131**
Claims and claim adjustment expenses	–1 012	**–997**

Acquisition costs

USD millions	2014	2015
Acquisition costs		
Gross	–253	–279
Retro	37	51
Net acquisition costs	–216	**–228**

Insurance receivables

Insurance receivables as of 31 December 2014 and 30 June 2015 were as follows:

USD millions	2014	2015
Premium receivables invoiced	412	479
Receivables invoiced from ceded re/insurance business	178	155
Recognised allowance	–24	–22

4 Deferred acquisition costs (DAC)

As of 31 December 2014 and 30 June 2015, the DAC were as follows:

2014 USD millions	Total
Opening balance as of 1 January	332
Deferred	504
Effect of acquisitions/disposals and retrocessions	–13
Amortisation	–461
Effect of foreign currency translation	–2
Closing balance as of 31 December 2014	360

2015 USD millions	**Total**
Opening balance as of 1 January	360
Deferred	201
Effect of acquisitions/disposals and retrocessions	1
Amortisation	–228
Effect of foreign currency translation	0
Closing balance as of 30 June 2015	**334**

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

5 Acquisitions and disposals

Sun Alliance Insurance (China) Limited
On 14 May 2015, Swiss Re Corporate Solutions finalised the acquisition of 100% of Sun Alliance Insurance (China) Limited and is now licensed and operating in mainland China as Swiss Re Corporate Solutions Insurance China Ltd (SRCS China). In this market Corporate Solutions is focused on property, casualty, marine, engineering and construction risks, as well as providing customised solutions for the agriculture and energy sectors. The results of the operations of SRCS China have been included in the consolidated financial statements since 14 May 2015. This transaction supports Swiss Re Corporate Solutions' growth strategy and will enable it to expand business in Asia through local representation. The goodwill of USD 40 million is not expected to be deductible for tax purposes.

6 Investments

Investment income

Net investment income by source for the six months ended 30 June was as follows:

USD millions	2014	**2015**
Fixed income securities	45	65
Equity securities	8	9
Short-term investments	3	3
Other current investments	3	3
Cash and cash equivalents	1	1
Net result from deposit-accounted contracts	1	1
Deposits with ceding companies	11	12
Gross investment income	72	**94**
Investment expenses	–14	–14
Interest charged for funds held	–22	–21
Net investment income	36	**59**

Realised gains and losses

Realised gains and losses for fixed income, equity securities and other investments for the six months ended 30 June were as follows:

USD millions	2014	**2015**
Fixed income securities available-for-sale:		
Gross realised gains	11	23
Gross realised losses	–5	–7
Equity securities available-for-sale:		
Gross realised gains	62	71
Gross realised losses	–3	–6
Other-than-temporary impairments	–4	
Net realised investment gains/losses on trading securities		1
Net realised/unrealised gains/losses on other investments	1	
Net realised/unrealised gains/losses on insurance-related activities	1	58
Foreign exchange gains/losses	8	7
Net realised investment gains/losses	71	**147**

Investments available-for-sale

Amortised cost or cost and estimated fair values of fixed income securities classified as available-for-sale as of 31 December 2014 and 30 June 2015 were as follows:

2014 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Estimated fair value
Debt securities issued by governments and government agencies:				
US Treasury and other US government corporations and agencies	1 534	33	–5	1 562
US Agency securitised products	224		–1	223
States of the United States and political subdivisions of the states	230	5		235
Canada	310	2	–16	296
Germany	31	1	–1	31
France	11		–1	10
Other	220	3	–6	217
Total	2 560	44	–30	2 574
Corporate debt securities	2 089	24	–12	2 101
Mortgage-and asset-backed securities	467	7	–1	473
Fixed income securities available-for-sale	5 116	75	–43	5 148
Equity securities available-for-sale	586	161	–15	732

2015 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Estimated fair value
Debt securities issued by governments and government agencies:				
US Treasury and other US government corporations and agencies	2 100	17	–10	2 107
US Agency securitised products	121			121
States of the United States and political subdivisions of the states	294	2	–3	293
United Kingdom	2			2
Canada	310	3	–29	284
Germany	57		–3	54
France	29		–2	27
Other	237	2	–4	235
Total	3 150	24	–51	3 123
Corporate debt securities	2 138	18	–19	2 137
Mortgage- and asset-backed securities	474	4	–1	477
Fixed income securities available-for-sale	**5 762**	**46**	**–71**	**5 737**
Equity securities available-for-sale	**867**	**115**	**–27**	**955**

Maturity of fixed income securities available-for-sale

The amortised cost or cost and estimated fair values of investments in fixed income securities available-for-sale by remaining maturity are shown below. Fixed maturity investments are assumed not to be called for redemption prior to the stated maturity date. As of 31 December 2014 and 30 June 2015, USD 1 376 million and USD 1 511 million, respectively, of fixed income securities available-for-sale were callable.

		2014		**2015**
USD millions	Amortised cost or cost	Estimated fair value	Amortised cost or cost	Estimated fair value
Due in one year or less	544	536	527	510
Due after one year through five years	1 832	1 829	2 723	2 716
Due after five years through ten years	1 335	1 339	1 200	1 190
Due after ten years	938	971	838	844
Mortgage- and asset-backed securities with no fixed maturity	467	473	474	477
Total fixed income securities available-for-sale	5 116	5 148	**5 762**	**5 737**

Assets pledged

As of 30 June 2015, investments with a carrying value of USD 1 083 million were on deposit with regulatory agencies in accordance with local requirements, and investments with a carrying value of USD 163 million were placed on deposit or pledged to secure certain reinsurance liabilities, including pledged investments in subsidiaries.

As of 31 December 2014 and 30 June 2015, securities of USD 1 581 million and USD 1 610 million, respectively, were transferred to third parties under securities lending transactions and repurchase agreements on a fully collateralised basis. There were no associated liabilities.

Unrealised losses on securities available-for-sale

The following table shows the fair value and unrealised losses of the Group's fixed income securities, aggregated by investment category and length of time that individual securities were in a continuous unrealised loss position as of 31 December 2014 and 30 June 2015. As of 31 December 2014 and 30 June 2015, USD 13 million and USD 26 million, respectively, of the gross unrealised loss on equity securities available-for-sale relates to declines in value for less than 12 months and USD 2 million and USD 1 million, respectively, to declines in value for more than 12 months.

2014 USD millions	Less than 12 months		12 months or more		Total	
	Fair value	Unrealised losses	Fair value	Unrealised losses	Fair value	Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	136	1	202	4	338	5
US Agency securitised products	107	1	29		136	1
States of the United States and political subdivisions of the states	63		18		81	0
Canada	104	5	87	11	191	16
Germany	20	1			20	1
France	8	1			8	1
Other	116	5	11	1	127	6
Total	554	14	347	16	901	30
Corporate debt securities	808	10	42	2	850	12
Mortgage-and asset-backed securities	115		40	1	155	1
Total	1 477	24	429	19	1 906	43

2015 USD millions	Less than 12 months		12 months or more		Total	
	Fair value	Unrealised losses	Fair value	Unrealised losses	Fair value	Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	432	10			432	10
US Agency securitised products	79				79	0
States of the United States and political subdivisions of the states	215	3	1		216	3
Canada	142	12	80	17	222	29
Germany	45	3			45	3
France	16	2			16	2
Other	86	2	13	2	99	4
Total	1 015	32	94	19	1 109	51
Corporate debt securities	1 116	18	10	1	1 126	19
Mortgage-and asset-backed securities	110	1	35		145	1
Total	**2 241**	**51**	**139**	**20**	**2 380**	**71**

7 Fair value disclosures

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

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

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

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

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

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

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

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

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

The fair values of assets are adjusted to incorporate the counterparty risk of non-performance. Similarly, the fair values of liabilities reflect the risk of non-performance of the Group, captured by the Group's credit spread. These valuation adjustments from assets and liabilities measured at fair value using significant unobservable inputs are recognised in net realised gains and losses. For the six months ended 30 June 2015, these adjustments were not material.

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

Valuation techniques

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

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

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

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

Equity securities held by the Group for proprietary investment purposes are mainly classified in levels 1 and 2. Securities classified in level 1 are traded on public stock exchanges for which quoted prices are readily available. Level 2 equities include equity investments fair valued pursuant to the fair value option election and certain hedge fund positions; all valued based on primarily observable inputs.

The category "Other invested assets" includes the Group's private equity funds investments which are made via ownership of funds. Substantially all these investments are classified as level 3 due to the lack of observable prices and significant judgement required in valuation. The Group's holdings in private equity funds are generally valued utilising net asset values (NAV), subject to adjustments, as deemed necessary, for restrictions on redemption (lock-up periods and amount limitations on redemptions).

Governance around level 3 fair valuation

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

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

A formal IPV process is undertaken monthly by members of the Valuation Risk Management team within a Financial Risk Management function. The process includes monitoring and in-depth analyses of approved pricing methodologies and valuations of the Group's financial instruments aimed at identifying and resolving pricing discrepancies. The Risk Management function is responsible for independent validation and ongoing review of the Group's valuation models. The Product Control group within Finance is tasked with reporting of fair values through the vendor- and model-based valuations, the results of which are also subject to the IPV process.

Assets and liabilities measured at fair value on a recurring basis

As of 31 December 2014 and 30 June 2015, the fair values of assets and liabilities measured on a recurring basis by level of input were as follows:

2014 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Fixed income securities held for proprietary investment purposes	1 556	3 579	13	5 148
Debt securities issued by US government and government agencies	1 556	241		1 797
US Agency securitised products		224		224
Debt securities issued by non-US governments and government agencies		553		553
Corporate debt securities		2 088	13	2 101
Mortgage asset-backed securities		473		473
Equity securities held for proprietary investment purposes	732			732
Short-term investments held for proprietary investment purposes	1 723	625		2 348
Derivative financial instruments			11	11
Other invested assets			21	21
Total assets at fair value	4 011	4 204	45	8 260
Liabilities				
Derivative financial instruments			–72	–72
Total liabilities at fair value	0	0	–72	–72

2015 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Fixed income securities held for proprietary investment purposes	2 100	3 630	7	5 737
Debt securities issued by US government and government agencies	2 100	301		2 401
US Agency securitised products		121		121
Debt securities issued by non-US governments and government agencies		601		601
Corporate debt securities		2 130	7	2 137
Mortgage asset-backed securities		477		477
Equity securities held for proprietary investment purposes	955			955
Short-term investments held for proprietary investment purposes	1 017	427		1 444
Derivative financial instruments	14		6	20
Other invested assets			21	21
Total assets at fair value	**4 086**	**4 057**	**34**	**8 177**
Liabilities				
Derivative financial instruments	–5		–43	–48
Total liabilities at fair value	**–5**	**0**	**–43**	**–48**

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

As of 31 December 2014 and 30 June 2015, the reconciliation of the fair value of assets and liabilities measured on a recurring basis using significant unobservable inputs was as follows:

2014 USD millions	Corporate debt securities	Derivative assets	Other invested assets	Total assets	Derivative liabilities	Total liabilities
Assets and liabilities						
Balance as of 1 January	40	0	21	61	0	0
Realised/unrealised gains/losses:						0
Included in net income		25	–4	21	15	15
Included in other comprehensive income	–1		4	3		0
Purchases		15	1	16		0
Issuances				0	–92	–92
Sales	–3	–27	–1	–31	3	3
Settlements	–23	–2		–25	2	2
Transfers into level 3[1]				0		0
Transfers out of level 3[1]				0		0
Impact of foreign exchange movements				0		0
Closing balance as of 31 December	13	11	21	45	–72	–72

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

2015 USD millions	Corporate debt securities	Derivative assets	Other invested assets	**Total assets**	Derivative liabilities	**Total liabilities**
Assets and liabilities						
Balance as of 1 January	13	11	21	**45**	–72	**–72**
Realised/unrealised gains/losses:				**0**		**0**
Included in net income		–2		**–2**	49	**49**
Included in other comprehensive income				**0**		**0**
Purchases		16		**16**		**0**
Issuances				**0**	–35	**–35**
Sales		–11		**–11**	8	**8**
Settlements	–6	–8		**–14**	7	**7**
Transfers into level 3[1]				**0**		**0**
Transfers out of level 3[1]				**0**		**0**
Impact of foreign exchange movements				**0**		**0**
Closing balance as of 30 June	**7**	**6**	**21**	**34**	**–43**	**–43**

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

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

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

USD millions	2014	**2015**
Gains/losses included in net income for the period	–2	47
Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date	–4	17

Quantitative information about level 3 fair value measurements

Unobservable inputs for major level 3 assets and liabilities as of 31 December 2014 and 30 June 2015 were as follows:

USD millions	2014 Fair value	**2015** Fair value	Valuation technique	Unobservable input	Range (weighted average)
Liabilities					
Derivative financial instruments	–72	**–43**			
Weather contracts	–35	–17	Proprietary Option Model	Risk Margin	8% - 10% (9%)
				Correlation	-32% (n.a.)
				Power Option Price	USD 5 - USD 25 (USD 16)
Industry loss warrants	–20	–19	Credit Default Model	Market implied probability of Nat Cat event	2% - 11% (5%)

Sensitivity of recurring level 3 measurements to changes in unobservable inputs

The significant unobservable inputs used in the fair value measurement of the Company's weather contracts are risk margin, correlation and power option price. Where the Company has a long position, a significant increase (decrease) in the risk margin input in isolation would result in a significantly lower (higher) fair value measurement, whereas a significant increase (decrease) in the correlation and power option price inputs would result in a significantly higher (lower) fair value measurement. Where the Company has a short position, a significant increase (decrease) in the risk margin input in isolation would result in a significantly higher (lower) fair value measurement, whereas a significant decrease (increase) in the correlation and power option price inputs in isolation would result in a significantly higher (lower) fair value measurement.

The significant unobservable input used in the fair value measurement of the Company's industry loss warrants is the market implied probability of a natural catastrophe event. A significant increase (decrease) in this input in isolation would result in a significantly higher (lower) fair value measurement.

Other invested assets measured at net asset value

As of 31 December 2014 and 30 June 2015, other assets measured at net asset value were USD 21 million. Additionally there were USD 5 million of unfunded commitments as of 30 June 2015.

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

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

As of 31 December 2014 and 30 June 2015, the subordinated financial debt issued by the Group was valued at USD 493 million and USD 496 million, respectively. The debt position is fair valued based on executable broker quotes and is classified as a level 2 measurement.

8 Derivative financial instruments

The Group enters into various financial contracts covering risks such as weather, weather-contingent price risks, outage contingent power price risks and industry loss warrants, that are accounted for as derivative financial instruments (also referred to as Environmental Commodity Markets and Weather business, or "ECM/Weather contracts/ILW"). The Group also uses derivatives to manage exposure to foreign currency risks. Derivative positions are carried at fair value, generally by obtaining quoted market prices or through the use of valuation models, with changes in fair value recorded in the income statement. The Group currently does not apply hedge accounting.

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

Fair values and notional amounts of derivative financial instruments

As of 31 December 2014 and 30 June 2015, the fair values and notional amounts of the derivatives outstanding were as follows:

2014 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivative financial instruments				
ECM/Weather contracts/ ILW	1 269	11	–72	–61
Total derivative financial instruments	**1 269**	**11**	**–72**	**–61**

2015 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivative financial instruments				
Foreign exchange contracts	39			
ECM/Weather contracts/ ILW	842	20	–48	–28
Total derivative financial instruments	**881**	**20**	**–48**	**–28**

The notional amounts of derivative financial instruments give an indication of the Group's volume of derivative activity and are presented without set off. The fair value assets are included in "Other invested assets" and the fair value liabilities are included in "Accrued expenses and other liabilities".

Gains and losses of derivative financial instruments

The Group primarily uses derivative financial instruments for risk management and trading strategies. Gains and losses of derivative financial instruments are recorded in "Net realised investment gains/losses" in the income statement. For the six months ended 30 June, the gains and losses of derivative financial instruments were as follows:

USD millions	2014	**2015**
Derivative financial instruments		
Foreign exchange contracts	1	
ECM/Weather contracts/ ILW	1	60
Total gain/loss recognised in income	**2**	**60**

Maximum potential loss

In consideration of the rights of set-off and the qualifying master netting arrangements with various counterparties, the maximum potential loss as of 31 December 2014 and 30 June 2015 was approximately USD 11 million and USD 20 million, respectively. The maximum potential loss is based on the positive market replacement cost assuming non-performance of all counterparties.

9 Debt

The Group's debt as of 31 December 2014 and 30 June 2015 was as follows:

USD millions	2014	2015
Long-term subordinated financial debt	496	**496**
Total carrying value	496	**496**
Total fair value	493	**496**

Interest expense on long-term debt

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

USD millions	2014	2015
Subordinated financial debt		11
Total	0	**11**

Cautionary note on forward-looking statements

Certain statements and illustrations contained herein are forward-looking. These statements and illustrations provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to a historical fact or current fact.

Forward-looking statements typically are identified by words or phrases such as "anticipate", "assume", "believe", "continue", "estimate", "expect", "foresee", "intend", "may increase" and "may fluctuate" and similar expressions or by future or conditional verbs such as "will", "should", "would" and "could". These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group's actual results of operations, financial condition, solvency ratios, liquidity position or prospects to be materially different from any future results of operations, financial condition, solvency ratios, liquidity position or prospects expressed or implied by such statements. Such factors include, among others:

- instability affecting the global financial system and developments related thereto;
- deterioration in global economic conditions;
- the Group's ability to successfully implement its business strategy especially during "soft" market cycles;
- the Group's relationship with the rest of the Swiss Re Group;
- the Group's ability to maintain sufficient liquidity and access to capital;
- the effect of market conditions, including the global equity and credit markets, and the level and volatility of equity prices, interest rates, credit spreads, currency values and other market indices, on the Group's investment assets;
- changes in the Group's investment result as a result of changes in its investment policy or the changed composition of its investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
- uncertainties in valuing credit default swaps and other credit-related instruments;
- possible inability to realize amounts on sales of securities on the Group's balance sheet equivalent to their mark-to-market values recorded for accounting purposes;
- the outcome of tax audits, the ability to realize tax loss carryforwards and the ability to realize deferred tax assets (including by reason of the mix of earnings in a jurisdiction or deemed change of control), which could negatively impact future earnings;
- the possibility that the Group's hedging arrangements may not be effective;
- the lowering or loss of the financial strength or other ratings of one or more Swiss Re companies, and developments adversely affecting the Group's ability to achieve improved ratings;
- the cyclicality of the insurance industry;
- uncertainties in estimating reserves;
- uncertainties in estimating future claims for purposes of financial reporting, particularly with respect to large natural catastrophes, as significant uncertainties may be involved in estimating losses from such events and preliminary estimates may be subject to change as new information becomes available;
- the frequency, severity and development of insured claim events;
- acts of terrorism and acts of war;
- policy renewal rates;
- extraordinary events affecting the Group's clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- current, pending and future legislation and regulation affecting us or the Group's clients and other counterparties and interpretations of legislation or regulations by regulators;
- legal actions or regulatory investigations or actions, including those in respect of industry requirements or business conduct rules of general applicability;
- changes in accounting standards;
- the timely and full recoverability of reinsurance placed by us with third parties, or other amounts due to us;
- significant investments, acquisitions or dispositions, and any delays, unexpected costs or other issues experienced in connection with any such transactions;
- changing levels of competition; and
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks.

These factors are not exhaustive. The Group operates in a continually changing environment and new risks emerge continually. Readers are cautioned not to place undue reliance on forward-looking statements. The Group undertakes no obligation to publicly revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.

Note on risk factors

General impact of adverse market conditions

Despite signs of moderate increase in global growth forecasts and positive macro-economic trends in the United States, continued volatility due to the constraints inherent in current monetary policies of the world's principal central banks, among other factors, highlight the continued uncertainties around post-crisis recovery and the risks that the world economy continues to face. In the European Union, the focus has been largely on Greece. An exit of Greece from the eurozone remains a possible scenario, which could also have adverse consequences beyond Greece. More broadly in the region, there continues to be uncertainty as to the pace of economic growth and the consequences of austerity-based polices, which uncertainties could be compounded by domestic political considerations in various EU member states.

Countries in emerging market regions in Asia and Latin America recently have experienced deceleration in GDP growth, and recent stock market volatility in China has fuelled concerns over broader economic issues the country may face. Policy uncertainty and volatile, negative or uncertain economic conditions in developed markets could also adversely impact economies in Asia and Latin America, undermining business confidence. Periods of economic upheaval could also result in sudden government actions such as imposition of capital, price or currency controls, or changes in legal and regulatory requirements.

With fewer options available to policy-makers and with heightened risk that poor conditions in one country or region could adversely affect other countries or regions, volatility can be expected to continue. In addition, political or geopolitical developments, and international responses thereto, also could have an adverse impact on global financial markets and economic conditions.

Further adverse developments or the continuation of adverse trends that in turn have a negative impact on financial markets and economic conditions could limit the ability of Swiss Re Corporate Solutions Ltd ("Swiss Re") and its subsidiaries (collectively, the "Group") to access the capital markets and bank funding markets, and could adversely affect the ability of counterparties to meet their obligations. Any such developments and trends could also have an adverse effect on the Group's investment results, which in the current low interest rate environment and soft insurance cycle could have a material adverse effect on overall results.

Regulatory changes

The Group's activities are regulated in a number of jurisdictions in which the Group conducts business. In addition, the Group could be affected by regulatory changes or developments affecting the overall Swiss Re group, of which the Group is a part (the "Swiss Re Group"). New legislation as well as changes to existing legislation have been proposed and/or recently adopted in a number of jurisdictions that are expected to alter, in a variety of ways, the manner in which the financial services industry is regulated. Although it is difficult to predict which proposals will become law and when and how new legislation ultimately will be implemented by regulators (including in respect of the extraterritorial effect of reforms), it is likely that significant aspects of existing regulatory regimes governing financial services will change. These may include changes as to which governmental bodies regulate financial institutions, changes in the way financial institutions generally are regulated, increased regulatory capital requirements, enhanced governmental authority to take control over operations of financial institutions, restrictions on the conduct of certain lines of business, changes in the way financial institutions account for transactions and securities positions, changes in disclosure obligations and changes in the way rating agencies rate the creditworthiness and financial strength of financial institutions.

Although early regulatory efforts following the credit crisis in 2008 were focused primarily on banking institutions, there has been a noticeable trend in recent years to extend the scope of reforms and oversight beyond such institutions to cover insurance and reinsurance operations. Legislative initiatives directly impacting the Group's industry include the establishment of a pan-European regulator for insurance companies, the European Insurance and Occupational Pensions Authority (the "EIOPA"), which has the power to overrule national regulators in certain circumstances. In addition, the Group is subject to the Swiss Solvency Test, and will be subject to Solvency II, which will enter into force 1 January 2016. The Group is also monitoring the proposed Swiss Federal Act on Financial Market Infrastructure (which will introduce new regulations for over-the-counter derivatives trading in line with international standards) and the proposed Swiss Federal Financial Services Act and Financial Institutions Act (which contain rules for financial services providers that are based on the EU Markets in Financial Instruments Directive ("MiFID") regulations). In the United States, as a possible step towards federal oversight of insurance, the US Congress created the Federal Insurance Office within the Department of Treasury. In addition, provisions of the Wall Street Reform and Consumer Protection Act of 2010, as well as provisions in the proposed European Market Infrastructure Regulation and proposed changes to MiFID, in respect of derivatives could have a significant impact on the Group.

Significant policy decisions on a range of regulatory changes that could affect the Group and its operations or the broader Swiss Re Group remain undecided. The Group cannot predict which legislative and regulatory initiatives ultimately will be enacted or promulgated, what the scope and content of these initiatives ultimately will be, when they will be effective and what the implications will be for the industry, in general, and for the Group, in particular. Certain of these initiatives could have a material impact on the Group's business.

In addition, regulatory changes could occur in areas of broader application, such as competition policy and tax laws. Changes in tax laws, for example, could increase the taxes the Group pays, the attractiveness of products offered by the Group, the Group's investment activities and the value of deferred tax assets. Any number of these changes could apply to the Group and its operations. These changes, or inconsistencies between the various regimes that apply to the Group, could increase the costs of doing business, reduce access to liquidity, limit the scope of business or affect the competitive balance.

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

With respect to equity prices, the Group is exposed to changes in the level and volatility of equity prices, as they affect the value of equity securities themselves as well as the value of securities or instruments that derive their value from a particular equity security, a basket of equity securities or a stock index. The Group is also subject to equity price risk to the extent that the values of life-related benefits under certain products and life contracts, most notably variable annuity business, are tied to financial market values; to the extent market values fall, the financial exposure on guarantees related to these contracts would increase to the extent this exposure is not hedged. Exposure to foreign exchange risk arises from exposures to changes in spot prices and forward prices as well as to volatile movements in exchange rates.

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

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

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

Liquidity risks
The Group's business requires, and its clients expect, that it has sufficient capital and sufficient liquidity to meet its insurance obligations, and that this would continue to be the case following the occurrence of any event or series of events, including extreme catastrophes, that would trigger insurance coverage obligations. The Group's uses of funds include obligations arising in its insurance business, which may include large and unpredictable claims (including catastrophe claims), funding of capital

requirements and operating costs, payment of principal and interest on outstanding indebtedness and funding of acquisitions. The Group also enters into contracts or trading arrangements that could give rise to significant short-term funding obligations and, in connection with the Group's trading operations, it could be subject to unexpected calls to deliver collateral or unwind trading positions at a net cost to it. The Group also has unfunded capital commitments in its private equity and hedge fund investments, which could result in funding obligations at a time when it is subject to liquidity constraints.

The Group manages liquidity and funding risks by focusing on the liquidity stress that is likely to result from extreme capital markets scenarios or from extreme loss events or combinations of the two. Generally, the ability to meet liquidity needs could be adversely impacted by factors that the Group cannot control, such as market dislocations or interruptions, adverse economic conditions, severe disruption in the financial and worldwide credit markets and the related increased constraints on the availability of credit; changes in interest rates, foreign exchange rates and credit spreads, or by perceptions among market participants of the extent of the Group's liquidity needs.

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

Counterparty risks
The Group's general exposure to counterparty risk was heightened during the credit crisis, and this risk could still be exacerbated to the extent defaults, or concerns about possible defaults, by certain market participants trigger more systemic concerns about liquidity. Losses due to defaults by counterparties, including issuers of investment securities (which include structured securities) or derivative instrument counterparties, could adversely affect the Group. In addition, trading counterparties, counterparties under swaps and other derivative contracts, and financial intermediaries may default on their obligations due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons, which could also have a material adverse impact on the Group.

Risks relating to credit rating downgrades
Ratings are an important factor in establishing the competitive position of insurance companies, and market conditions could increase the risk of downgrade. Third-party rating agencies assess and rate the financial strength insurers such as Corporate Solutions. These ratings are intended to measure a company's ability to repay its obligations and are based upon criteria established by the rating agencies.

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

As claims paying and financial strength ratings are key factors in establishing the competitive position of insurers, a decline in ratings alone could make insurance provided by the Group less attractive to clients relative to insurance from competitors with similar or stronger ratings. A decline in ratings could also cause the loss of clients who are required by either policy or regulation to purchase insurance only from insurers with certain ratings. A decline in ratings could also impact the availability and terms of unsecured financing and obligate the Group to provide collateral or other guarantees in the course of its insurance business or trigger early termination of funding arrangements potentially resulting in a need for additional liquidity. As a ratings decline could also have a material adverse impact on the Group's costs of borrowing or ability to access the capital markets, the adverse implications of a downgrade could be more severe.

Legal and regulatory risks

The Group could be named, from time to time, as a defendant in legal actions in connection with its operations. The Group is also involved, from time to time, in investigations and regulatory proceedings, certain of which could result in adverse judgments, settlements, fines and other outcomes. The number of these investigations and proceedings involving the financial services industry has increased in recent years, and the potential scope of these investigations and proceedings has also increased, not only in respect of matters covered by our direct regulators, but also in respect of compliance with broader business conduct rules including those in respect of market abuse, bribery, money laundering, trade sanctions and data protection and privacy. The Group could be subject to risks arising from alleged, or actual, violations of any of the foregoing, and could also be subject to risks arising from potential employee misconduct, including non-compliance with internal policies and procedures. Substantial legal liability could materially adversely affect the Group's business, financial condition or results of operations or could cause significant reputational harm, which could seriously affect its business.

Insurance, operational and other risks

As part of the Group's ordinary course operations, the Group is subject to a variety of risks, including risks that reserves may not adequately cover future claims and benefits, risks that catastrophic events (including hurricanes, windstorms, floods, earthquakes, acts of terrorism, man-made disasters such as industrial accidents, explosions and fires) may expose the Group to unexpected large losses, competitive conditions, cyclicality of the industry, risks related to emerging claims and coverage issues, risks related to investments in emerging markets, and risks related to the failure of, or attacks directed at, the Group's operational systems and infrastructure. In addition, the occurrence of future risks that the Group's risk management procedures fail to identify or anticipate could have a material adverse effect on the Group. Any of the foregoing could also give rise to reputational risk.

Use of models; accounting matters

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

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

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

Risks related to the Swiss Re structure

Corporate Solutions is a wholly owned subsidiary of Swiss Re Ltd ("SRL"), and the Group represents one of the four operating segments of the Swiss Re Group. While a significant portion of the Corporate Solutions business was transferred to the Group as part of the formation of the Group as a separate business unit, for regulatory reasons certain of our operations are conducted by legal entities that continue to be owned by other members of the Swiss Re Group. In addition, a substantial portion of the Group's historical loss reserves remain with other members of the Swiss Re Group.

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

Capital, funding, reserve and cost allocations are made at the Swiss Re Group level across the four operating segments based principally on business plans as measured against U.S. GAAP and Economic Value Management metrics. Decisions at the Swiss Re Group level in respect of the broader group could have an adverse impact on the Group's financial condition, including its capital and liquidity levels, as well as on its SST ratio. As part of the Swiss Re Group's focus on efficient capital allocation, the Group expects to be paying dividends to SRL. Decisions on dividends payable by each of the operating segments, including the Group, are made at the Swiss Re Group level based on legal, capital and liquidity considerations.

While further changes to the Swiss Re Group structure may not have a financial statement impact on a Swiss Re Group consolidated basis, they would impact the Group to the extent that operations are transferred into or from the Group, or as a result of intra-group transactions (from the perspective of the Swiss Re Group) to the extent the Group is a counterparty to any such transactions. The process of optimizing the structure as between the Swiss Re Group and its operating segments will continue to evolve over time.

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