Swiss Re

Half-year Report 2014

Swiss Re Corporate Solutions Ltd

Content

Income statement (unaudited)

For the six months ended 30 June

USD millions	Note	2013	2014
Revenues			
Premiums earned	3	1 279	**1 644**
Net investment income	5	45	**36**
Net realised investment gains (total impairments for the six months ended 30 June were 0 in 2013 and 4 in 2014, of which 0 and 4, respectively, were recognised in earnings)	5	35	**71**
Total revenues		1 359	**1 751**
Expenses			
Claims and claim adjustment expenses	3	–729	**–1 012**
Acquisition costs	3	–165	**–216**
Other expenses		–246	**–278**
Total expenses		–1 140	**–1 506**
Income before income tax expense		219	**245**
Income tax expense		–59	**–72**
Net income attributable to common shareholder		160	**173**

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

Statement of comprehensive income (unaudited)

For the six months ended 30 June

USD millions	2013	2014
Net income attributable to common shareholder	160	**173**
Other comprehensive income, net of tax:		
Change in unrealised gains/losses	–74	**37**
Change in foreign currency translation	–33	**10**
Total comprehensive income attributable to common shareholder	53	**220**

Reclassification out of accumulated other comprehensive income
For the six months ended 30 June

2013 USD millions	Unrealised gains/losses[1]	Foreign currency translation[1,2]	Accumulated other comprehensive income
Balance as of 1 January	113	129	242
Change during the period	–58	–19	–77
Amounts reclassified out of accumulated other comprehensive income	–52		–52
Tax	36	–14	22
Balance as of period end	39	96	135

2014 USD millions	Unrealised 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**

[1] Reclassification adjustment included in net income is presented in the "Net realised investment gains" 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 (unaudited)

Assets

USD millions	Note	31.12.2013	30.06.2014
Investments	5,6		
Fixed income securities, available-for-sale, at fair value (including 565 in 2013 and 674 in 2014 subject to securities lending and repurchase agreements) (amortised cost: 2013: 4 578; 2014: 4 314)		4 551	**4 355**
Equity securities, available-for-sale, at fair value (cost: 2013: 791; 2014: 640)		966	**799**
Short-term investments, at amortised cost which approximates fair value (including 852 in 2013 and 999 in 2014 subject to securities lending and repurchase agreements)		1 587	**2 059**
Other invested assets		133	**67**
Total investments		7 237	**7 280**
Cash and cash equivalents (including 0 in 2013 and 186 in 2014 subject to securities lending)		404	**740**
Accrued investment income		30	**32**
Premiums and other receivables		1 984	**1 941**
Reinsurance recoverable on unpaid claims		7 836	**7 661**
Funds held by ceding companies		364	**380**
Deferred acquisition costs	4	332	**324**
Goodwill		17	**17**
Income taxes recoverable		12	**12**
Deferred tax assets		233	**252**
Other assets		643	**627**
Total assets		19 092	**19 266**

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

Liabilities and equity

USD millions	Note	31.12.2013	30.06.2014
Liabilities			
Unpaid claims and claim adjustment expenses		11364	**11618**
Unearned premiums		2469	**2404**
Funds held under reinsurance treaties		1471	**1417**
Reinsurance balances payable		233	**286**
Income taxes payable		74	**68**
Deferred and other non-current taxes		267	**355**
Accrued expenses and other liabilities		527	**511**
Total liabilities		16405	**16659**
Equity			
Common shares, CHF 1 000 par value			
2013: 100000; 2014: 100000 shares authorised and issued		119	**119**
Additional paid-in capital		1276	**1078**
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax		98	**135**
Cumulative translation adjustments, net of tax		103	**113**
Total accumulated other comprehensive income		201	**248**
Retained earnings		1091	**1162**
Total equity		2687	**2607**
Total liabilities and equity		19092	**19266**

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

Statement of shareholder's equity (unaudited)

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

USD millions	2013	2014
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	1 713	**1 276**
Dividends on common shares[1]	–437	**–198**
Balance as of period end	1 276	**1 078**
Net unrealised gains/losses, net of tax		
Balance as of 1 January	113	**98**
Changes during the period	–15	**37**
Balance as of period end	98	**135**
Foreign currency translation, net of tax		
Balance as of 1 January	129	**103**
Changes during the period	–26	**10**
Balance as of period end	103	**113**
Retained earnings		
Balance as of 1 January	853	**1 091**
Net income attributable to common shareholder	290	**173**
Dividends on common shares	–52	**–102**
Balance as of period end	1 091	**1 162**
Total equity	2 687	**2 607**

[1] Dividends to the shareholder were paid in the form of a repayment of legal reserves from capital contributions.

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

Statement of cash flow (unaudited)

For the six months ended 30 June

USD millions	2013	2014
Cash flows from operating activities		
Net income attributable to common shareholder	160	**173**
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items	35	**36**
Net realised investment gains/losses	–35	**–71**
Change in:		
Technical provisions and other reinsurance assets and liabilities, net	23	**68**
Funds held by ceding companies and under reinsurance treaties	–84	**–69**
Reinsurance recoverable on unpaid claims and policy benefits	209	**355**
Other assets and liabilities, net	–41	**7**
Income taxes payable/recoverable	20	**39**
Trading positions, net	4	**7**
Securities purchased/sold under agreement to resell/repurchase, net	–172	**67**
Net cash provided/used by operating activities	119	**612**
Cash flows from investing activities		
Fixed income securities:		
Sales	2 378	**1 793**
Maturities	92	**256**
Purchases	–2 662	**–1 783**
Net purchase/sale/maturities of short-term investments	642	**–457**
Equity securities:		
Sales	110	**602**
Purchases	–212	**–395**
Net cash provided/used by investing activities	348	**16**
Cash flows from financing activities		
Dividends paid to shareholders	–489	**–300**
Net cash provided/used by financing activities	–489	**–300**
Total net cash provided/used	–22	**328**
Effect of foreign currency translation	–18	**8**
Change in cash and cash equivalents	–40	**336**
Cash and cash equivalents as of 1 January	754	**404**
Cash and cash equivalents as of 30 June	714	**740**

Tax paid was USD 55 million and USD 33 million for the six months ended 30 June 2013 and 2014, 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 "Swiss Re Corporate Solutions Group" or the "Group"). The Swiss Re Corporate Solutions Group provides a wide range of traditional and non-traditional commercial insurance products and risk transfer solutions through more than 40 offices worldwide.

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 three separate business units: the Swiss Re Corporate Solutions Group, Swiss Reinsurance Company Ltd and its subsidiaries (collectively, the "Reinsurance Business Unit"), and Swiss Re Life Capital Ltd and its subsidiaries (collectively, the "Admin Re® Business Unit") as well as other strategic investments.

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. 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 Swiss Re Corporate Solutions Group's audited financial statements for the year ended 31 December 2013.

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 2014, 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 5 August 2014. This is the date on which the financial statements are available to be issued.

Recent accounting guidance
In February 2013, the FASB issued ASU 2013-04, "Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date", an update to Topic 405, "Liabilities". ASU 2013 -04 requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The Group adopted ASU 2013-04 on 1 January 2014. The adoption did not have an effect on the Group's financial statements.

In March 2013, the FASB issued ASU 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity", an update to Topic 830, "Foreign Currency Matters". ASU 2013-05 precludes the release of the cumulative translation adjustment into net income for derecognition events that occur within a foreign entity, unless such events represent a complete or substantially complete liquidation of the foreign entity. Derecognition events related to investments in a foreign entity result in the release of the entire cumulative translation adjustment related to the derecognised foreign entity, even when a non-controlling financial interest is retained. The Group adopted ASU 2013-05 on 1 January 2014. The adoption did not have an effect on the Group's financial statements.

In June 2013, the FASB issued ASU 2013-08, "Amendments to the Scope, Measurement, and Disclosure Requirements", an update to Topic 946, "Financial Services – Investment Companies". ASU 2013-08 changes the approach to the investment company assessment in Topic 946, clarifies the characteristics of an investment company, and provides comprehensive guidance for assessing whether an entity is an investment company. The Group adopted ASU 2013-08 on 1 January 2014. The adoption did not have an effect on the Group's financial statements.

In July 2013, the FASB issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists", an update to Topic 740, "Income Taxes". ASU 2013-11 requires an entity to present an unrecognised tax benefit as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, subject to some exceptions. The Group adopted ASU 2013-11 on 1 January 2014 on a prospective basis. The adoption did not have an effect on the Group's financial statements.

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 to the Group's annual consolidated financial statements).

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 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.

a) Business segments
For the six months ended 30 June

2013 USD millions	Property	Casualty	Specialty	Credit	Total
Premiums earned	475	412	272	120	1 279
Expenses					
Claims and claim adjustment expenses	–271	–315	–126	–17	–729
Acquisition costs	–57	–39	–34	–35	–165
Other expenses	–88	–108	–32	–18	–246
Total expenses	–416	–462	–192	–70	–1 140
Underwriting result	59	–50	80	50	139
Net investment income					45
Net realised investment gains/losses					35
Income before income tax expenses					219
Claims ratio in %	57.1	76.4	46.3	14.1	57.0
Expense ratio in %	30.5	35.7	24.3	44.2	32.1
Combined ratio in %	87.6	112.1	70.6	58.3	89.1

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	**–594**	**–508**	**–283**	**–121**	**–1 506**
Underwriting result	**62**	**–24**	**58**	**42**	**138**
Net investment income					36
Net realised investment gains/losses					71
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

3 Insurance information

For the six months ended 30 June

Premiums written and premiums earned

USD millions	2013	2014
Premiums written		
Direct	1 085	1 276
Reinsurance	389	485
Ceded	–287	–229
Net premiums written	1 187	**1 532**
Premiums earned		
Direct	1 150	1 288
Reinsurance	464	533
Ceded	–335	–177
Net premiums earned	1 279	**1 644**

Claims and claim adjustment expenses

USD millions	2013	2014
Claims paid		
Gross	–1 108	–994
Retro	620	409
Net claims paid	–488	**–585**
Change in unpaid claims and claim adjustment expenses		
Gross	–72	–256
Retro	–169	–171
Net unpaid claims and claim adjustment expenses	–241	**–427**
Claims and claim adjustment expenses	–729	**–1 012**

Acquisition costs

USD millions	2013	2014
Acquisition costs		
Gross	–233	–253
Retro	68	37
Net acquisition costs	–165	**–216**

Insurance receivables

Insurance receivables as of 31 December 2013 and 30 June 2014 were as follows:

USD millions	2013	2014
Premium receivables invoiced	392	377
Receivables invoiced from ceded re/insurance business	305	178
Recognised allowance	–31	–30

4 Deferred acquisition costs (DAC)

As of 31 December 2013 and 30 June 2014, the DAC were as follows:

2013 USD millions	Total
Opening balance as of 1 January	228
Deferred	516
Amortisation	–412
Closing balance as of 31 December 2013	332

2014 USD millions	Total
Opening balance as of 1 January	332
Deferred	209
Amortisation	–217
Closing balance as of 30 June 2014	324

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 Investments

Investment income

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

USD millions	2013	2014
Fixed income securities	50	45
Equity securities	7	8
Short-term investments	3	3
Other current investments	5	3
Share in earnings of equity-accounted investees		
Cash and cash equivalents	2	1
Net result from deposit-accounted contracts	2	1
Deposits with ceding companies	33	11
Gross investment income	**102**	**72**
Investment expenses	–14	–14
Interest charged for funds held	–43	–22
Net investment income	**45**	**36**

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	2013	2014
Fixed income securities available-for-sale:		
Gross realised gains	39	11
Gross realised losses	–10	–5
Equity securities available-for-sale:		
Gross realised gains	24	62
Gross realised losses	–1	–3
Other-than-temporary impairments		–4
Other investments:		
Net realised/unrealised gains/losses	1	1
Net realised/unrealised gains/losses on insurance-related derivatives		1
Foreign exchange gains/losses	–18	8
Net realised investment gains/losses	**35**	**71**

Investments available-for-sale

Amortised cost or cost, estimated fair values and other-than-temporary impairments of fixed income securities classified as available-for-sale as of 31 December 2013 and 30 June 2014 were as follows:

2013 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	1 300	2	–18	1 284
US Agency securitised products	418	1	–2	417
States of the United States and political subdivisions of the states	230		–15	215
Canada	247	3	–3	247
Germany	32	2		34
France	12			12
Other	121	3	–4	120
Total	2 360	11	–42	2 329
Corporate debt securities	1 737	21	–23	1 735
Mortgage- and asset-backed securities	481	12	–6	487
Fixed income securities available-for-sale	4 578	44	–71	4 551
Equity securities available-for-sale	791	178	–3	966

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	1 027	7	–8	1 026
US Agency securitised products	378	1	–1	378
States of the United States and political subdivisions of the states	230	2	–3	229
Canada	229	2	–4	227
Germany	32	3		35
France	11			11
Other	95	3	–3	95
Total	2 002	18	–19	2 001
Corporate debt securities	1 834	37	–4	1 867
Mortgage- and asset-backed securities	478	11	–2	487
Fixed income securities available-for-sale	**4 314**	**66**	**–25**	**4 355**
Equity securities available-for-sale	**640**	**162**	**–3**	**799**

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 as of 31 December 2013 and 30 June 2014 are shown below. Fixed maturity investments are assumed not to be called for redemption prior to the stated maturity date. As of 31 December 2013 and 30 June 2014, USD 1 211 million and USD 1 268 million, respectively, of fixed income securities available-for-sale were callable

USD millions	2013 Amortised cost or cost	2013 Estimated fair value	2014 Amortised cost or cost	2014 Estimated fair value
Due in one year or less	461	463	315	318
Due after one year through five years	2 012	2 020	1 912	1 929
Due after five years through ten years	1 002	973	1 021	1 027
Due after ten years	622	607	588	594
Mortgage- and asset-backed securities with no fixed maturity	481	488	478	487
Total fixed income securities available-for-sale	4 578	4 551	**4 314**	**4 355**

Assets pledged
As of 30 June 2014, investments with a carrying value of USD 1 226 million were on deposit with regulatory agencies in accordance with local requirements.

As of 31 December 2013 and 30 June 2014, securities of USD 1 417 million and USD 1 859 million, respectively, were pledged as collateral in securities lending transactions and repurchase agreements. 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 2013 and 30 June 2014. As of 31 December 2013 and 30 June 2014, USD 2 million and USD 2 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 1 million and USD 1 million, respectively, to declines in value for more than 12 months.

2013 USD millions	Less than 12 months Fair value	 Unrealised losses	12 months or more Fair value	 Unrealised losses	Total Fair value	 Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	797	18			797	18
US Agency securitised products	147	2			147	2
States of the United States and political subdivisions of the states	214	15			214	15
Canada	137	3			137	3
Other	39	3	3	1	42	4
Total	1 334	41	3	1	1 337	42
Corporate debt securities	871	22	8	1	879	23
Mortgage- and asset-backed securities	240	5	8	1	248	6
Total	2 445	68	19	3	2 464	71

2014 USD millions	Less than 12 months Fair value	 Unrealised losses	12 months or more Fair value	 Unrealised losses	Total Fair value	 Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	23	2	235	6	258	8
US Agency securitised products	181	1	12		193	1
States of the United States and political subdivisions of the states	43		125	3	168	3
Canada	18	1	94	3	112	4
Other	2	1	12	2	14	3
Total	267	5	478	14	745	19
Corporate debt securities	186	2	136	2	322	4
Mortgage- and asset-backed securities	88	1	62	1	150	2
Total	**541**	**8**	**676**	**17**	**1 217**	**25**

6 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. 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.

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 a transparent and liquid market.

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

Values of mortgage and asset-backed securities are obtained both from third-party pricing vendors and through quoted prices, some of which may be based on the prices of comparable securities with similar structural and collateral features. Values of certain asset-backed securities (ABS) for which there are no significant observable inputs are developed using benchmarks to similar transactions or indices. 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.

Governance around level 3 fair valuation
The Group Risk & Capital Committee, chaired by the Group Chief Risk Officer, has a primary responsibility for governing and overseeing all of the Group's valuation policies and operating parameters (including level 3 measurements). The Group Risk & Capital Committee ultimately delegates the responsibility for implementation and oversight of consistent application of the Group's pricing and valuation policies to the Pricing and Valuation Committee, which is a management control committee. 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 IPV 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 measured at fair value on a recurring basis

As of 31 December 2013 and 30 June 2014, the fair values of assets and liabilities measured on a recurring basis by level of input were as follows:

2013 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	1 273	3 238	40	4 551
Debt securities issued by US government and government agencies	1 273	226		1 499
US Agency securitised products		417		417
Debt securities issued by non-US governments and government agencies		413		413
Corporate debt securities		1 695	40	1 735
Mortgage and asset-backed securities		487		487
Equity securities held for proprietary investment purposes	966			966
Other invested assets			21	21
Total assets at fair value	2 239	3 238	61	5 538

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	1 017	3 314	24	4 355
Debt securities issued by US government and government agencies	1 017	237		1 254
US Agency securitised products		378		378
Debt securities issued by non-US governments and government agencies		369		369
Corporate debt securities		1 843	24	1 867
Mortgage and asset-backed securities		487		487
Equity securities held for proprietary investment purposes	799			799
Short-term investments held for proprietary investment purposes[1]	1 534	526		2 060
Other invested assets			21	21
Total assets at fair value	**3 350**	**3 840**	**45**	**7 235**
Liabilities				
Derivative financial instruments				
Other contracts			–6	–6
Total liabilities at fair value	**0**	**0**	**–6**	**–6**

[1] In the first quarter 2014, the Group changed the valuation of short-term investments from amortised cost to fair value. There is no material impact to the net income, total assets or shareholders' equity.

Transfers between level 1 and level 2
There were no material transfers between level 1 and level 2 for the six months ended 30 June 2013 and 2014.

Assets measured at fair value on a recurring basis using significant unobservable inputs (level 3)
As of 31 December 2013 and 30 June 2014, the reconciliation of the fair values of assets and liabilities measured on a recurring basis using significant unobservable inputs were as follows:

2013 USD millions	Corporate debt securities	Derivative assets	Other invested assets	Total assets	Derivative liabilities	Total
Assets						
Balance as of 1 January	58	0	27	0	0	85
Realised/unrealised gains/losses:						
Included in net income			−4			−4
Included in other comprehensive income	−2		−1			−3
Purchases			3			3
Issuances						0
Sales	−1		−4			−5
Settlements	−15					−15
Transfers into level 3[1]						0
Transfers out of level 3[1]						0
Impact of foreign exchange movements						0
Closing balance as of 31 December	40	0	21	0	0	61

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

2014 USD millions	Corporate debt securities	Derivative assets	Other invested assets	**Total assets**	Derivative liabilities	**Total liabilities**
Assets						
Balance as of 1 January	40	0	21	**61**	0	**0**
Realised/unrealised gains/losses:						
Included in net income		1	−4	**−3**	1	**1**
Included in other comprehensive income			4	**4**		**0**
Purchases			1	**1**		**0**
Issuances				**0**	−7	**−7**
Sales	−1		−1	**−2**		**0**
Settlements	−15	−1		**−16**		**0**
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	**24**	**0**	**21**	**45**	**−6**	**−6**

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

Quantitative information about level 3 fair value measurements
Unobservable inputs for major level 3 assets and liabilities as of 31 December 2013 and 30 June 2014 were as follows:

USD millions	Fair value 2013	Fair value **2014**	Valuation technique	Unobservable input	Range (weighted average)
Assets					
Corporate debt securities	40	**24**			
Private placement corporate debt	40	24	Corporate spread matrix	Illiquidity premium	43 bps–167 bps (67 bps)

Sensitivity of recurring level 3 measurements to changes in unobservable inputs
The significant unobservable input used in the fair value measurement of the Group's private placement corporates debt securities is illiquidity premium. 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 2013 and 30 June 2014, other assets measured at net asset value were USD 21 million held in private equity funds.

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

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Note on risk factors

General impact of adverse market conditions
The continued volatility in the global financial markets and recent pessimistic global growth forecasts by the Organisation of Economic Cooperation and Development and the International Monetary Fund, among others, highlight the continued uncertainties around the post-crisis recovery and the risks that the world economy continues to face. In the European Union, it remains unclear whether the recently announced single resolution mechanism and other components of a banking union, as well as actions of the European Central Bank, will create the conditions necessary for increased bank lending and greater economic growth. The volatility in the financial and credit markets could increase the severity and duration of economic recession, cause more economic turmoil in the near term, cause further disruptions in the global financial markets and impact foreign currency exchange rates. These uncertainties could be exacerbated by the uncertainty over the pace and extent of future economic growth in emerging markets. Moreover, political or geopolitical crises, and international responses to such crises, as highlighted by the recent events involving Ukraine and the Middle East, could have an adverse impact on global financial markets and economic conditions. These developments in turn could have an adverse impact on the investment results of Swiss Re Corporate Solutions Ltd ("SRCS") and its direct or indirect subsidiaries (collectively, the "Group"), the Group's ability to access the capital markets and the bank funding market and the ability of counterparties to meet their obligations to the Group.

The foregoing developments could have material adverse effects on the Group's industry and on the Group.

Regulatory changes
Swiss Re and its subsidiaries are regulated in a number of jurisdictions in which they conduct business. 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 include changes as to which governmental bodies regulate financial institutions, changes in the way financial institutions generally are regulated, 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.

Legislative initiatives directly impacting the Group's industry include the establishment of a pan- European regulator for insurance companies, the European Insurance and Occupational Pension 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 is expected to enter into force on 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 and, more recently, as a result of the Solvency Modernization Initiative of the

National Association of Insurance Commissioners, the Group is experiencing greater US scrutiny of its global operations and more extensive reporting obligations. 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 the MiFID, in respect of derivatives could have a significant impact on the Group.

Other changes are focused principally on banking institutions, but some could have direct applicability to insurance or reinsurance operations and others could have a general impact on the regulatory landscape for financial institutions, which might indirectly impact capital requirements and/or required reserve levels or have other direct or indirect effects on the Group.

Significant policy decisions on a range of regulatory changes that could affect the Group and its operations 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 could increase the costs of doing business, reduce access to liquidity, limit the scope of business or affect the competitive balance, or could make insurance less attractive to clients.

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

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 (including claims and other payments as well as insurance provision repayments due to portfolio transfers, securitisations and commutations), which may include large and unpredictable claims (including catastrophe claims), funding of capital requirements and operating costs, payment of principal and interest on outstanding indebtedness and funding of acquisitions, as well as payments for services provided by the rest of the Swiss Re group. 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 derivative operations, it could be subject to unexpected calls to deliver collateral or unwind trading positions at a net cost to it. 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

Issuers or borrowers whose securities or loans the Group holds, customers, reinsurers, clearing agents, clearing houses and other financial intermediaries and brokers may default on the amounts they owe to the Group due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons, which could also have a material adverse effect on the Group.

The Group could also be adversely impacted by the insolvency of, or the occurrence of other credit events affecting, key clients.

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 of insurers. These ratings are intended to measure a company's ability to repay its obligations and are based upon criteria established by the rating agencies.

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. Any rating downgrades could also have a material adverse impact on the Group's costs of borrowing and limit its access to the capital markets. Further negative ratings action could also impact reinsurance contracts.

Legal and regulatory risks

In the ordinary course of business, the Group is involved in lawsuits, arbitrations and other formal and informal dispute resolution procedures, the outcomes of which determine rights and obligations under insurance, reinsurance and other contractual agreements. From time to time, the Group may institute, or be named as a defendant in, legal proceedings, and the Group may be a claimant or respondent in arbitration proceedings. These proceedings could involve coverage or other disputes with ceding companies, disputes with parties to which the Group transfers risk under reinsurance arrangements, disputes with other counterparties or other matters. The Group cannot predict the outcome of any of the foregoing, which could be material for the Group.

The Group is also involved, from time to time, in investigations and regulatory proceedings, 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 the Group's direct regulators, but also in respect of compliance with broader business conduct rules, such as market abuse regulations, anti-bribery legislation, anti-money laundering legislation and trade sanctions legislation. The Group also is subject to audits and challenges from time to time by tax authorities, which could result in increases in tax costs, changes to internal structures and interests and penalties. 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 of operations, the Group is subject to a variety of risks, including risks that reserves may not adequately cover future claims and benefits, risks that catastrophic events (including hurricanes, windstorms, floods, earthquakes, acts of terrorism, man-made disasters such as industrial accidents, explosions, and fires, and pandemics) may expose the Group to unexpected large losses (and related uncertainties in estimating future claims in respect of such events); competitive conditions; cyclicality of the insurance industry; risks related to emerging claims and coverage issues (including, for example, trends to establish stricter building standards, which can lead to higher industry losses for earthquake cover based on higher replacement values); risks relating to the Group's loss limitation methods, including reinsurance arrangements; risks related to investments in emerging markets; and risks related to the failure of 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, as well as other concerns in respect of the Group's business, 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. For example, 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, including in this report. These measures are not prepared in accordance with US GAAP or any other comprehensive set of accounting rules or principles, and should not be viewed as 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 realignment of the Swiss Re corporate structure
The Group is a wholly owned subsidiary of Swiss Re Ltd. Furthermore, the Group represents only one of the four operating segments of the Swiss Re Ltd group. Capital, funding, reserve and cost allocations are made at the Swiss Re group level, and such decisions could impact the Group's business and operations. Changes to the Swiss Re Group structure may have a significant effect on the Group to the extent that operations are transferred into or from the Group, or as a result of intra-group transactions (within the Swiss Re Group) to the extent the Group is a counterparty to any such transactions. Other changes made at the Swiss Re Group level that could have an effect on the Group could include changes to the governance model or to management and risk oversight processes. The process of optimizing the structure as between the Swiss Re Group and the Group will continue to evolve over time.

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 realise 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 realise tax loss carryforwards and the ability to realise deferred tax assets (including by reason of the mix of earnings in a jurisdiction or deemed change of control), which could negatively impact future earnings;
- the possibility that the Group's hedging arrangements may not be effective;
- the lowering or loss of financial strength or other ratings of one or more Swiss Re companies, and developments adversely affecting Swiss Re'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 the Group or its clients and other counterparties, and interpretation 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 the Group with third parties, or other amounts due to the Group;
- 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.

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