Swiss Re

Swiss Re Corporate Solutions Ltd

2018 Annual Report

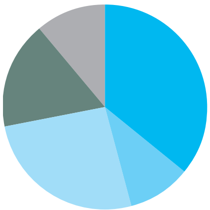
Key Information

Financial highlights
For the years ended 31 December

USD millions, unless otherwise stated	2017	2018	Change in %
Swiss Re Corporate Solutions Group			
Net income attributable to common shareholder	–740	**–447**	–40
Gross premiums written	4 218	**4 694**	11
Premiums earned	3 651	**3925**	8
Combined ratio in %	132.9	**119.3**	
Return on equity[1] in %	–30.5	**–20.4**	

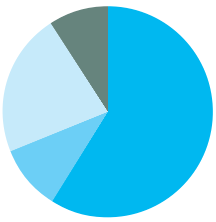
[1] Return on equity is calculated by dividing net income attributable to common shareholder by average common shareholder's equity.

Gross premiums earned by segment, 2018
(Total USD 4 472 million)



36% Property
10% Accident & Health
26% Other liabilities
17% Specialty
11% Credit

Gross premiums earned by regions, 2018
(Total USD 4 472 million)



59% North America
10% Latin America
22% Europe (including Middle East and Africa)
9% Asia-Pacific

Financial Strength Rating of Corporate Solutions Entities

	AM Best	Moody's	Standard & Poor's
Swiss Re Corporate Solutions Ltd	A+	Aa3	AA-
Swiss Re International SE	A+	Aa3	AA-
Westport Insurance Corporation	A+	Aa3	AA-
Other Corporate Solutions US entities (NAS, NAE, NAC, FSIC)	A+		AA-
Swiss Re Corporate Solutions Brasil Seguros		Baa3	
Company Aseguradora de Fianzas S.A. Confianza		Baa2	

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Income statement

For the years ended 31 December

USD millions	Note	2017	2018
Revenues			
Gross premiums written	3	4 218	**4 694**
Net premiums written	3	3 600	**4 122**
Change in unearned premiums		51	**–197**
Premiums earned	3	3 651	**3 925**
Net investment income	6	164	**200**
Net realised investment gains/losses[1]	6	105	**15**
Other revenues		5	**2**
Total revenues		3 925	**4 142**
Expenses			
Claims and claim adjustment expenses	3	–3 558	**–3 241**
Acquisition costs	3	–554	**–607**
Operating expenses		–739	**–834**
Total expenses before interest expenses		–4 851	**–4 682**
Income/loss before interest and income tax expense/benefit		–926	**–540**
Interest expenses		–23	**–24**
Income/loss before income tax expense/benefit		–949	**–564**
Income tax expense/benefit	11	204	**113**
Net income/loss before attribution of non-controlling interests		–745	**–451**
Income/loss attributable to non-controlling interests		5	**4**
Net income/loss attributable to common shareholder		–740	**–447**

[1] Total impairments for the years ended 31 December of USD 4 million in 2017 and nil in 2018 were fully recognised in earnings.

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

Statement of comprehensive income

For the years ended 31 December

USD millions	2017	**2018**
Net income/loss before attribution of non-controlling interests	–745	**–451**
Other comprehensive income/loss, net of tax:		
Change in net unrealised investment gains/losses	10	**–75**
Change in foreign currency translation	18	**–50**
Other comprehensive income/loss attributable to non-controlling interests		**–22**
Total comprehensive income/loss before attribution of non-controlling interests	–717	**–598**
Comprehensive income attributable to non-controlling interests	5	**26**
Total comprehensive income/loss attributable to common shareholder	–712	**–572**

Reclassification out of accumulated other comprehensive income

For the years ended 31 December

2017 USD millions	Net unrealised investment gains/losses[1]	Foreign currency translation	Accumulated other comprehensive income
Balance as of 1 January	12	–6	6
Change during the period	109	8	117
Amounts reclassified out of accumulated other comprehensive income	–103		–103
Tax	4	10	14
Balance as of period end	22	12	34

2018 USD millions	Net unrealised investment gains/losses[1]	Foreign currency translation	**Accumulated other comprehensive income**
Balance as of 1 January	22	12	**34**
Impact of Accounting Standards Updates[2]	–7	3	**–4**
Change during the period	–122	–48	**–170**
Amounts reclassified out of accumulated other comprehensive income	31		**31**
Tax	16	–2	**14**
Balance as of period end	**–60**	**–35**	**–95**

[1] Reclassification adjustment included in net income is presented in "Net realised investment gains/losses".
[2] Impact of ASU 2018-02 and ASU 2016-01. Please refer to Note 1 for more details.

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

Balance sheet

ASSETS

As of 31 December

USD millions	Note	2017	2018
Investments	6, 7, 8		
Fixed income securities, available-for-sale (including 1 711 in 2017 and 1 238 in 2018 subject to securities lending and repurchase agreements) (amortised cost: 2017: 6 647; 2018: 6 314)		6 663	**6 264**
Equity securities, available-for-sale (including 36 in 2017 subject to securities lending and repurchase agreements) (cost: 2017: 271)[1]		273	
Equity securities, at fair value through earnings (including 73 in 2018 subject to securities lending and repurchase agreements)[1]			**180**
Short-term investments (including 109 in 2017 and 84 in 2018 subject to securities lending and repurchase agreements)		455	**393**
Other invested assets		2 102	**2 066**
Total investments		9 493	**8 903**
Cash and cash equivalents (including 60 in 2017 and 244 in 2018 subject to securities lending)		621	**763**
Accrued investment income		42	**44**
Premiums and other receivables		2 371	**2 321**
Reinsurance recoverable on unpaid claims[2]		5 737	**5 486**
Funds held by ceding companies		105	**140**
Deferred acquisition costs	5	454	**488**
Goodwill		213	**206**
Income taxes recoverable		84	**65**
Deferred tax assets	11	363	**566**
Other assets[2]		753	**908**
Total assets		20 236	**19 890**

[1] Change due to ASU 2016-01. Please refer to Note 1 for more details.
[2] The Group changed the presentation of its Long term care and Disability portfolio which is fully retroceded to an external party. Comparative information for 2017 has been adjusted accordingly.

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

LIABILITIES AND EQUITY

USD millions	Note	2017	2018
Liabilities			
Unpaid claims and claim adjustment expenses	4	11 818	**11 929**
Liabilities for life and health policy benefits[1]		279	**501**
Unearned premiums		3 166	**3 320**
Funds held under reinsurance treaties		747	**380**
Reinsurance balances payable		264	**116**
Income taxes payable		18	**23**
Deferred and other non-current tax liabilities	11	243	**256**
Accrued expenses and other liabilities[1]		526	**549**
Long-term debt	10	497	**798**
Total liabilities		17 558	**17 872**
Equity			
Common shares, CHF 1 000 par value 2017: 100 000; 2018: 100 000 shares authorised and issued		119	**119**
Additional paid-in capital		1 719	**1 665**
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax		22	**–60**
Foreign currency translation, net of tax		12	**–35**
Total accumulated other comprehensive income		34	**–95**
Retained earnings		637	**186**
Shareholder's equity		2 509	**1 875**
Non-controlling interests		169	**143**
Total equity		2 678	**2 018**
Total liabilities and equity		20 236	**19 890**

[1] The Group changed the presentation of its Long term care and Disability portfolio which is fully retroceded to an external party. Comparative information for 2017 has been adjusted accordingly.

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

Statement of shareholder's equity

For the years ended 31 December

USD millions	2017	2018
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	687	**1 719**
Capital contribution	1 000	
Impact of sale to non-controlling shareholder	34	
Dividends on common shares		**–50**
Share-based compensation	–2	**–4**
Balance as of period end	1 719	**1 665**
Net unrealised investment gains/losses, net of tax		
Balance as of 1 January	12	**22**
Impact of ASU 2018-02[1]		**1**
Impact of ASU 2016-01[1]		**–8**
Changes during the period	10	**–75**
Balance as of period end	22	**–60**
Foreign currency translation, net of tax		
Balance as of 1 January	–6	**12**
Impact of ASU 2018-02[1]		**3**
Changes during the period	18	**–50**
Balance as of period end	12	**–35**
Retained earnings		
Balance as of 1 January	1 527	**637**
Transactions under common control		**–8**
Net income/loss attributable to common shareholder	–740	**–447**
Dividends on common shares	–150	
Impact of ASU 2018-02[1]		**–4**
Impact of ASU 2016-01[1]		**8**
Balance as of period end	637	**186**
Shareholder's equity	2 509	**1 875**
Non-controlling interests		
Balance as of 1 January	60	**169**
Transactions with non-controlling interests	114	
Income/loss attributable to non-controlling interests	–5	**–4**
Other comprehensive income attributable to non-controlling interests		
Change in foreign currency translation		**–20**
Other		**–2**
Balance as of period end	169	**143**
Total equity	2 678	**2 018**

[1] Impact of Accounting Standards Update. Please refer to Note 1 for more details.

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

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Statement of cash flows

For the years ended 31 December

USD millions	2017	2018
Cash flows from operating activities		
Net income/loss attributable to common shareholder	–740	**–447**
Add net income/loss attributable to non-controlling interests	–5	**–4**
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items	50	**49**
Net realised investment gains/losses	–105	**–15**
Income from equity-accounted investees, net of dividends received	–48	**–37**
Change in:		
Technical provisions and other reinsurance assets and liabilities, net	1 067	**500**
Funds held by ceding companies and under reinsurance treaties	–73	**–399**
Reinsurance recoverable on unpaid claims	322	**175**
Other assets and liabilities, net	–28	**–242**
Income taxes payable/recoverable	–226	**–156**
Trading positions, net	32	**49**
Net cash provided/used by operating activities	246	**–527**
Cash flows from investing activities		
Fixed income securities:		
Sales	2 665	**2 578**
Maturities	584	**307**
Purchases	–4 905	**–2 664**
Net purchases/sales/maturities of short-term investments	786	**74**
Equity securities:		
Sales	1 183	**232**
Purchases	–1 025	**–149**
Securities purchased/sold under agreement to resell/repurchase, net	–80	**77**
Cash paid/received for acquisitions/disposals and reinsurance transactions, net	36	
Net purchases/sales/maturities of other investments	–191	**–25**
Net cash provided/used by investing activities	–947	**430**
Cash flows from financing activities		
Issuance/repayment of long-term debt		**300**
Capital contribution received from parent	1 000	
Dividends paid to parent	–150	**–50**
Net cash provided/used by financing activities	850	**250**

USD millions	2017	2018
Total net cash provided/used	149	**153**
Effect of foreign currency translation	23	**–11**
Change in cash and cash equivalents	172	**142**
Cash and cash equivalents as of 1 January	449	**621**
Cash and cash equivalents as of 31 December	621	**763**

Interest paid was USD 23 million for 2017 and 2018. Tax paid was USD 22 million and USD 43 million for 2017 and 2018, respectively.

Cash and cash equivalents include restricted cash and cash equivalents, for instance pledged cash and cash equivalents (please refer to Note 6, "Investments").

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 Life Capital. 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.

In the half-year 2018 report, the impact of the Accounting Standard Updates (ASUs) 2016-01 and 2018-02 was reflected in the Group's statement of comprehensive income. In the year-end 2018 report, the Group revised the presentation and presented the statement of comprehensive income without the impact of these ASUs totalling USD –4 million. The revision had no impact on the Group's financial position, net income and cash flow. Please refer to the subsection "Adoption of new accounting standards" for more details about the ASUs.

Principles of consolidation

The Group's financial statements include the consolidated financial statements of SRCS and its subsidiaries. Voting entities which SRCS directly or indirectly controls through holding a majority of the voting rights are consolidated in the Group's accounts. Variable interest entities (VIEs) are consolidated when the Group is the primary beneficiary. The Group is the primary beneficiary when it has power over the activities that impact the VIE's economic performance and at the same time has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Companies which the Group does not control, but over which it directly or indirectly exercises significant influence, are accounted for using the equity method or the fair value option and are included in other invested assets. The Group's share of net profit or loss in investments accounted for under the equity method is included in net investment income. Equity and net income of these companies are adjusted as necessary to be in line with the Group's accounting policies. The results of consolidated subsidiaries and investments accounted for using the equity method are included in the financial statements for the period commencing from the date of acquisition.

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 and policy benefits for life and health 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.

Foreign currency remeasurement and translation

Transactions denominated in foreign currencies are remeasured to the respective subsidiary's functional currency at average exchange rates. Monetary assets and liabilities are remeasured to the functional currency at closing exchange rates, whereas non-monetary assets and liabilities are remeasured to the functional currency at historical rates. Remeasurement gains and losses on monetary assets and liabilities and trading securities are reported in earnings. Remeasurement gains and losses on available-for-sale securities, investments in consolidated subsidiaries and investments accounted for using the equity method are reported in shareholder's equity.

For consolidation purposes, assets and liabilities of subsidiaries with functional currencies other than US dollars are translated from the functional currency to US dollars at closing rates. Revenues and expenses are translated at average exchange rates. Translation adjustments are reported in shareholder's equity.

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 judgement 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 31 December 2018, the Group had not provided any collateral on financial instruments in excess of its own market value estimates.

Investments

The Group's investments in fixed income securities are classified as available-for-sale (AFS) or trading. Fixed income securities AFS are carried at fair value, based on quoted market prices, with the difference between the applicable measure of cost and fair value being recognised in shareholder's equity. Trading fixed income securities are carried at fair value with unrealised gains and losses recognised in earnings. A trading classification is used for securities that are bought and held principally for the purpose of selling them in the near term.

For fixed income securities AFS that are other-than-temporary impaired and for which there is not an intention to sell, the impairment is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. The estimated credit loss amount is recognised in earnings, with the remainder of the loss amount recognised in other comprehensive income. In cases where there is an intention or requirement to sell and the fair value is lower than cost expressed in functional currency terms, the cost of fixed income securities AFS is reduced to fair value, with a corresponding charge to realised investment losses. Subsequent recoveries are not recognised in earnings.

Equity investments are carried at fair value with unrealised gains and losses recognised in earnings, with the exception of equity method investments and investments that result in consolidation.

Interest on fixed income securities is recorded in net investment income when earned and is adjusted for the amortisation of any purchase premium or discount. Dividends on equity securities are recognised as investment income on the ex-dividend date. Realised gains and losses on sales are included in earnings and are calculated using the specific identification method.

Short-term investments are measured at fair value with changes in fair value recognised in net income. The Group considers highly liquid investments with a remaining maturity at the date of acquisition of one year or less, but greater than three months, to be short-term investments.

Other invested assets include deposits and time deposits, investments in affiliated companies, investments in equity accounted companies, investment real estate, derivative financial instruments, collateral receivables, securities purchased under agreement to resell, and investments without readily determinable fair value (including limited partnership investments). Investments in limited partnerships where the Group's interest equals or exceeds 3% are accounted for using the equity method. Investments in limited partnerships where the Group's interest is below 3% and equity investments in corporate entities which are not publicly traded are accounted for at estimated fair value with changes in fair value recognised in earnings.

The Group enters into securities lending arrangements under which it loans certain securities in exchange for collateral and receives securities lending fees. The Group's policy is to require collateral, consisting of cash or securities, equal to at least 102% of the carrying value of the securities loaned. In certain arrangements, the Group may accept collateral of less than 102% if the structure of the overall transaction offers an equivalent level of security. Cash received as collateral is recognised along with an obligation to return the cash. Securities received as collateral that can be sold or repledged are also recognised along with an obligation to return those securities. Securities lending fees are recognised over the term of the related loans.

Derivative financial instruments and hedge accounting
The Group enters into various financial contracts covering risks such as weather, weather-contingent price risks and outage contingent power price risks that are accounted for as derivative financial instruments. 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 income. If the derivative is designated as a hedge of the fair value of assets or liabilities, the fair value change of the hedged item is recognised in earnings, together with the changes in fair value of the derivative.

Derivative financial instrument assets are generally included in other invested assets and derivative financial instrument liabilities are generally included in accrued expenses and other liabilities.

Cash and cash equivalents
Cash and cash equivalents include cash on hand, short-term deposits, certain short-term investments in money market funds and highly liquid debt instruments with a remaining maturity at the date of acquisition of three months or less.

Deferred acquisition costs
The Group incurs costs in connection with acquiring new and renewal reinsurance and insurance business. Some of these costs, which consist primarily of commissions, are deferred as they are directly related to the successful acquisition of such business.

Deferred acquisition costs for short-duration contracts are amortised in proportion to premiums earned. Future investment income is considered in determining the recoverability of deferred acquisition costs for short-duration contracts.

Modifications of insurance and reinsurance contracts
The Group accounts for modifications of insurance and reinsurance contracts that result in a substantially unchanged contract as a continuation of the replaced contract. The associated deferred acquisition costs will continue to be amortised. The Group accounts for modifications of insurance and reinsurance contracts that result in a substantially changed contract as an extinguishment of the replaced contract. The associated deferred acquisition costs are written off immediately through income and any new deferrable costs associated with the replacement contract are deferred.

Business combinations
The Group applies the acquisition method of accounting for business combinations. This method allocates the cost of the acquired entity to the assets and liabilities assumed based on their estimated fair values at the date of acquisition. The underlying assets and liabilities acquired are subsequently accounted for according to the relevant US GAAP guidance. This includes specific requirements applicable to subsequent accounting for assets and liabilities recognised as part of the acquisition method of accounting, including goodwill and other intangible assets.

Goodwill
The excess of the purchase price of acquired businesses over the estimated fair value of net assets acquired is recorded as goodwill, which is reviewed periodically for indicators of impairment in value. Adjustments to reflect impairment in value are recognised in earnings in the period in which the determination of impairment is made.

Other assets
Other assets include deferred expenses on retroactive reinsurance, prepaid reinsurance premiums, capitalised software expenses, receivables related to investing activities, real estate for own use, equipment, accrued income, certain intangible assets and prepaid assets.

The excess of estimated liabilities for claims and claim adjustment expenses payable over consideration received in respect of retroactive reinsurance contracts is recorded as a deferred expense. The deferred expense on retroactive reinsurance contracts is amortised through earnings over the expected claims-paying period.

Real estate for own use and equipment are carried at depreciated cost. Depreciation on buildings is recognised over the estimated useful life. Land is recognised at cost and not depreciated.

Capitalised software costs

External direct costs of materials and services incurred to develop or obtain software for internal use, payroll and payroll-related costs for employees directly associated with software development and interest cost incurred while developing software for internal use are capitalised and amortised on a straight-line basis through earnings over the estimated useful life.

Income taxes

Deferred income tax assets and liabilities are recognised based on the difference between financial statement carrying amounts and the corresponding income tax bases of assets and liabilities using enacted income tax rates and laws. A valuation allowance is recorded against deferred tax assets when it is deemed more likely than not that some or all of the deferred tax assets may not be realised.

The Group recognises the effect of income tax positions only if sustaining those positions is more likely than not. Changes in recognition or measurement are reflected in the period in which a change in judgement occurs.

The Group releases stranded tax effects for unrealised gains/losses on AFS securities to earnings on a straight-line basis over the average duration of the relevant AFS portfolio as an approximation of when the individual securities within the portfolio are sold or mature. For foreign currency translation, stranded tax effects are released to earnings in line with the recycling of the underlying foreign currency translation amounts.

Unpaid claims and claim adjustment expenses

Liabilities for unpaid claims and claim adjustment expenses for insurance and reinsurance contracts are accrued when insured events occur and are based on the estimated ultimate cost of settling the claims, using reports and individual case estimates received from ceding companies. A provision is also included for claims incurred but not reported, which is developed on the basis of past experience adjusted for current trends and other factors that modify past experience. The establishment of the appropriate level of reserves is an inherently uncertain process involving estimates and judgements made by management, and therefore there can be no assurance that ultimate claims and claim adjustment expenses will not exceed the loss reserves currently established. These estimates are regularly reviewed, and adjustments for differences between estimates and actual payments for claims and for changes in estimates are reflected in income in the period in which the estimates are changed or payments are made.

The Group does not discount liabilities arising from prospective property and casualty insurance and reinsurance contracts, including liabilities which are discounted for US statutory reporting purposes. Liabilities arising from property and casualty insurance and reinsurance contracts acquired in a business combination are initially recognised at fair value in accordance with the acquisition method of accounting.

Experience features which are directly linked to an insurance and reinsurance asset or liability are classified in a manner that is consistent with the presentation of that asset or liability.

Liabilities for life and health policy benefits

Liabilities for life and health policy benefits from insurance business are generally calculated using the net level premium method, based on assumptions as to investment yields, mortality, withdrawals, lapses and policyholder dividends. Assumptions are set at the time the contract is issued or, in the case of contracts acquired by purchase, at the purchase date. The assumptions are based on projections from past experience, making allowance for possible adverse deviation. Interest rate assumptions for life and health insurance benefit liabilities are based on estimates of expected investment yields. Assumed mortality rates are generally based on experience multiples applied to the actuarial select and ultimate tables based on industry experience. Liabilities for life and health policy benefits are increased with a charge to earnings if it is determined that future cash flows, including investment income, are insufficient to cover future benefits and expenses.

All liabilities for life and health policy benefits are retroceded to an external party.

Funds held assets and liabilities

On the asset side, funds held by ceding companies consist mainly of amounts retained by the ceding company for business written on a funds withheld basis. On the liability side, funds held under reinsurance treaties consist of amounts retained from ceded business written on a funds withheld basis.

Funds withheld assets are assets that would normally be paid to the Group but are withheld by the cedent to reduce a potential credit risk or to retain control over investments. In case of funds withheld liabilities, it is the Group that withholds assets related to ceded business in order to reduce its credit risk or retain control over the investments.

Premiums

Property and casualty insurance and reinsurance premiums are recorded when written and include an estimate for written premiums receivable at period end. Premiums earned are generally recognised in income over the contract period in proportion to the amount of insurance and reinsurance provided. Unearned premiums consist of the unexpired portion of insurance and reinsurance provided.

Reinstatement premiums are due where coverage limits for the remaining life of the contract are reinstated under pre-defined contract terms. The recognition of reinstatement premiums as written depends on individual contract features. Reinstatement premiums are either recognised as written at the time a loss event occurs or in line with the recognition pattern of premiums written of the underlying contract. The accrual of reinstatement premiums is based on actuarial estimates of ultimate losses. Reinstatement premiums are generally earned in proportion to the amount of insurance and reinsurance provided.

Insurance and reinsurance ceded

The Group uses retrocession arrangements to increase its aggregate underwriting capacity, to diversify its risk and to reduce the risk of catastrophic loss on insurance and reinsurance assumed. The ceding of risks to retrocessionaires does not relieve the Group of its obligations to its ceding companies. The Group regularly evaluates the financial condition of its retrocessionaires and monitors the concentration of credit risk to minimise its exposure to financial loss from retrocessionaires' insolvency. Premiums and losses ceded under retrocession contracts are reported as reductions of premiums earned and claims and claim adjustment expenses. Amounts recoverable for retrocession contracts are reported as assets in the accompanying consolidated balance sheet.

The Group provides reserves for uncollectible amounts on reinsurance balances ceded, based on management's assessment of the collectability of the outstanding balances.

Receivables

Premium and claims receivables which have been invoiced are accounted for at face value. Together with assets arising from the application of the deposit method of accounting that meet the definition of financing receivables they are regularly assessed for impairment. Evidence of impairment is the age of the receivable and/or any financial difficulties of the counterparty. Allowances are set up on the net balance, meaning all balances related to the same counterparty are considered. The amount of the allowance is set up in relation to the time a receivable has been due and any financial difficulties of the debtor, and can be as high as the outstanding net balance.

Share-based payment transactions

As of 31 December 2018, the Group has a Leadership Performance Plan, restricted shares and a Global Share Participation Plan. The Group accounts for share-based payment transactions with employees using the fair value method. Under the fair value method, the fair value of the awards is recognised in earnings over the vesting period.

For share-based compensation plans which are settled in cash, compensation costs are recognised as liabilities, whereas for equity-settled plans, compensation costs are recognised as an accrual to additional paid-in capital within shareholder's equity.

Subsequent events

Subsequent events for the current reporting period have been evaluated up to 13 March 2019. This is the date on which the financial statements are available to be issued.

Adoption of new accounting standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers", which creates topic 606, "Revenue from Contracts with Customers". ASU 2014-09 outlines the principles that an entity should follow to provide useful information about the amount, timing and uncertainty of revenue and cash flows arising from contracts with its customers. The standard requires an entity to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Insurance contracts and financial instruments are not in the scope of the new standard. The Group adopted ASU 2014-09 on 1 January 2018 together with the following ASUs related to topic 606: ASU 2016-08 "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)", ASU 2016-10 "Identifying Performance Obligations and Licensing", ASU 2016-12 "Narrow-Scope Improvements and Practical Expedients" and ASU 2016-20 "Technical Corrections and Improvements to Topic 606". The retrospective adoption of ASU 2014-09 and related ASUs did not have a material impact on the Group's financial statements.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities", an update to subtopic 825-10, "Financial Instruments – Overall". The ASU requires the Group to carry investments in equity securities, including partnerships, unincorporated joint ventures and limited liability companies at fair value through earnings, with the exception of equity method investments, investments that result in consolidation or investments for which the measurement alternative has been elected. The Group did not elect the measurement alternative for any of its investments. For financial liabilities to which the fair value option has been applied, the ASU requires an entity to separately present the change in fair value attributable to instrument-specific credit risk in other comprehensive income (OCI) rather than in net income. In addition, the ASU requires an entity to assess whether a valuation allowance is needed on a deferred tax asset (DTA) related to fixed income securities available-for-sale in combination with the entity's other DTAs rather than separately from other DTAs. The Group adopted ASU 2016-01 on 1 January 2018 together with ASU 2018-03, "Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10)". The opening balance sheet impact from the adoption was a reclassification within shareholder's equity from net unrealised investment gains, net of tax, to retained earnings of USD 8 million. This reclassification can be found in the statement of shareholder's equity.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments", a consensus of the FASB Emerging Issues Task Force (EITF) to topic 230, "Statement of Cash Flows". ASU 2016-15 provides guidance on eight issues related to the presentation and classification of cash receipts and cash payments in the statement of cash flows with the objective of reducing existing diversity in practice. The Group adopted ASU 2016-15 retrospectively on 1 January 2018. The adoption did not have a material impact on the Group's statement of cash flows.

In October 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory", an update to topic 740, "Income Taxes". This ASU amends the former guidance which prohibited the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset had been sold to an outside party. This new standard requires that an entity recognises the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The Group adopted ASU 2016-16 on 1 January 2018 on a modified retrospective basis. The adoption did not have a material impact on the Group's financial statements.

In November 2016, the FASB issued ASU 2016-18, "Restricted Cash", a consensus of the FASB EITF to topic 230, "Statement of Cash Flows". The update requires that the statement of cash flows explains the change during the period in the total of cash, cash equivalents and restricted cash and restricted cash equivalents. Restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Group adopted ASU 2016-18 retrospectively on 1 January 2018. The adoption did not have a material impact on the Group's financial statements.

In February 2017, the FASB issued ASU 2017-05, "Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets", an update to subtopic 610-20, "Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets". This update clarifies and provides guidance on the scope of subtopic 610-20 including financial assets meeting the definition of an in-substance non-financial asset. The Group adopted ASU 2017-05 retrospectively on 1 January 2018. The adoption did not have an impact on the Group's financial statements.

In March 2017, the FASB issued ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost", an update to topic 715, "Compensation – Retirement Benefits". The amendments in this update require that an employer separates other components of net benefit cost from the service cost component and presents these components outside a subtotal of income from operations, if one is presented. Further, the ASU only allows the service cost component of net benefit cost to be capitalised. The Group adopted ASU 2017-07 retrospectively on 1 January 2018. The adoption did not have a material impact on the Group's financial statements.

In May 2017, the FASB issued ASU 2017-09, "Scope of Modification Accounting", an update to topic 718, "Compensation – Stock Compensation". The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require to apply modification accounting under topic 718. The Group adopted ASU 2017-09 on 1 January 2018. The adoption did not have an impact on the Group's financial statements.

In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income", an update to topic 220, "Income Statement – Reporting Comprehensive Income". The ASU allows a reclassification from accumulated other comprehensive income to retained earnings of stranded tax effects resulting from the Tax Cuts and Jobs Act. The Group early adopted ASU 2018-02 on 1 January 2018. The adoption resulted in a reclassification within shareholder's equity of USD 4 million of stranded tax charges from accumulated other comprehensive income to retained earnings. The reclassification can be found in the statement of shareholder's equity.

Future adoption of new accounting standards

In February 2016, the FASB issued ASU 2016-02, "Leases", which creates topic 842, "Leases". The core principle of topic 842 is that a lessee should recognise the assets and liabilities that arise from leases. A lessee should recognise in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing the right to use the underlying asset for the lease term. This accounting treatment applies to finance leases and operating leases. The accounting applied by a lessor is largely unchanged from that applied under the current guidance. The Group will adopt this ASU on 1 January 2019. It is expected that the adoption will not have a material impact on the Group's financial statements.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses", an update to topic 326, "Financial Instruments – Credit Losses". ASU 2016-13 replaces the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses. For financial instruments that are measured at amortised cost and available-for-sale debt securities, the standard requires that an entity recognises its estimate of expected credit losses as an allowance. The ASU is effective for annual and interim periods beginning after 15 December 2020. Early adoption is permitted. The Group is currently assessing the impact of the new requirements.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment", an update to topic 350, "Intangibles – Goodwill and Other". This ASU simplifies the subsequent measurement of goodwill and eliminates Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity has to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognised assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this update, an entity should perform its regular goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognise an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognised should not exceed the total amount of goodwill allocated to that reporting unit. The new requirements are effective for goodwill impairment tests in annual and interim periods beginning after 15 December 2020. Early adoption of the ASU is permitted. The Group is currently assessing the impact of the new requirements.

In August 2018, the FASB issued ASU 2018-12, "Targeted Improvements to the Accounting for Long-Duration Contracts", an update to topic 944, "Financial Services—Insurance". This ASU requires that the cash flows and net premium ratio will be updated for changes in insurance assumptions (eg mortality, morbidity, terminations) when measuring the liability for future policy benefits for non-participating traditional and limited-payment insurance and reinsurance contracts. The effect of updating cash flow assumptions will be measured on a retrospective catch-up basis and presented separately from the ongoing policyholder benefit expense in the statement of operations in the period the update is made. There will no longer be a provision for adverse deviation. In addition, the discount rate used to reflect the time value of money in the calculation of the liability for future policy benefits will be standardised. An upper-medium-grade fixed-income instrument yield will be required, which differs from the current requirement to use a discount rate reflecting expected investment yields. Further, a locked-in rate will be used in the periodic calculation of the net premium ratio and accretion of interest on the liability for income statement purposes. For balance sheet remeasurement purposes, the discount rate will be updated at each reporting date, with the effect of discount rate changes on the liability recorded immediately in OCI. The ASU requires deferred acquisition costs (DAC) relating to most long-duration contracts to be amortised on a constant basis over the expected term of the contract, and the resulting amortisation amount should not be a function of revenue or profit. The new standard also introduces a new category called market risk benefits, which are features that protect the contract holder from capital market risk and expose the insurer to that risk. These features have to be measured at fair value, with changes in own credit risk recognised in OCI, and presented separately in the primary financial statements. The ASU also requires significant additional disclosures, including disaggregated roll forwards of the liability for future policy benefits, policyholder account balances, market risk benefits and DAC. The ASU is effective for annual and interim periods beginning after 15 December 2020. Early adoption of the amendments is permitted. The new guidance relating to measurement of the traditional and limited-payment contract liabilities and DAC amortisation has to be adopted under a modified retrospective transition approach, with an option to elect a full retrospective transition if certain criteria are met. Under the modified retrospective approach, for contracts in force at the transition date, an entity would continue to use the existing locked-in investment yield interest rate assumptions to calculate the net premium ratio. However, for balance sheet measurement purposes, policyholder liabilities are discounted at the upper-medium-grade fixed-income instrument yield at the transition date, with the impact of the change recognised against accumulated OCI. The Group is currently assessing the impact of the new requirements.

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 five core operating business segments: Property, Accident & Health, Other liability, 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.

Accident & Health
The Accident & Health segment includes accident and health insurance, primarily consisting of employers stop loss. Employers stop loss policies provide specific and aggregate coverage for self-funded medical benefit plans. Additionally, reserves for run off workers compensation business are held and maintained, though this business is no longer actively written.

Other liability
The Other liability segment includes liability and motor. The Group's liability insurance products provide coverage against legal liability exposure of a business including product, professional, directors' and officers' (D&O) and environmental liability insurance.

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 – income statement
For the year ended 31 December

2017 USD millions	Property	Accident & Health	Other liability	Specialty	Credit	Total
Gross premiums written	1 513	366	1 163	585	591	4 218
Net premiums written	1 219	329	1 012	552	488	3 600
Change in unearned premiums	17	–6	–33	97	–24	51
Premiums earned	1 236	323	979	649	464	3 651
Expenses						
Claims and claim adjustment expenses	–1 708	–226	–928	–538	–158	–3 558
Acquisition costs	–176	–29	–117	–115	–117	–554
Operating expenses	–260	–61	–212	–124	–82	–739
Total expenses before interest expenses	–2 144	–316	–1 257	–777	–357	–4 851
Underwriting result	–908	7	–278	–128	107	–1 200
Net investment income						164
Net realised investment gains/losses						105
Other revenues						5
Interest expenses						–23
Income/loss before income tax expense/benefit						–949
Claims ratio in %	138.2	69.9	94.8	82.9	34.0	97.5
Expense ratio in %	35.3	27.9	33.6	36.8	42.9	35.4
Combined ratio in %	173.5	97.8	128.4	119.7	76.9	132.9

Business segments – income statement

For the year ended 31 December

2018 USD millions	Property	Accident & Health	Other liability	Specialty	Credit	Total
Gross premiums written	1 677	474	1 259	728	556	4 694
Net premiums written	1 424	431	1 129	694	444	4 122
Change in unearned premiums	–83	–18	–79	14	–31	–197
Premiums earned	**1 341**	**413**	**1 050**	**708**	**413**	**3 925**
Expenses						
Claims and claim adjustment expenses	–1 115	–318	–1 035	–651	–122	–3 241
Acquisition costs	–199	–59	–132	–109	–108	–607
Operating expenses	–272	–69	–225	–196	–72	–834
Total expenses before interest expenses	**–1 586**	**–446**	**–1 392**	**–956**	**–302**	**–4 682**
Underwriting result	**–245**	**–33**	**–342**	**–248**	**111**	**–757**
Net investment income						200
Net realised investment gains/losses						15
Other revenues						2
Interest expenses						–24
Income/loss before income tax expense/benefit						**–564**
Claims ratio in %	83.2	77.0	98.6	91.9	29.5	82.6
Expense ratio in %	35.1	31.0	34.0	43.1	43.6	36.7
Combined ratio in %	118.3	108.0	132.6	135.0	73.1	119.3

b) Gross premiums earned by geography

Gross premiums earned by region for the years ended 31 December

USD millions	2017	2018
North America	2 487	2 627
Latin America	489	456
Europe (including Middle East and Africa)	937	998
Asia-Pacific	337	391
Total	4 250	**4 472**

Gross premiums earned by country for the years ended 31 December

USD millions	2017	2018
United States	2 192	2 328
Brazil	243	245
United Kingdom	220	223
Germany	188	188
Canada	155	160
Australia	126	151
Netherlands	87	113
France	97	107
Bermuda	80	86
Italy	66	69
Other	796	802
Total	4 250	**4 472**

Gross premiums earned are allocated by country, based on the underlying contract.

3 Insurance information

For the years ended 31 December

Premiums written and premiums earned

USD millions	2017	2018
Premiums written, thereof:		
Direct	3 279	3 648
Reinsurance	939	1 046
Ceded	–618	–572
Net premiums written	3 600	**4 122**
Premiums earned, thereof:		
Direct	3 229	3 430
Reinsurance	1 021	1 042
Ceded	–599	–547
Net premiums earned	3 651	**3 925**

Claims and claim adjustment expenses

USD millions	2017	2018
Claims paid, thereof:		
Gross	–2 760	–3 261
Ceded	558	764
Net claims paid	–2 202	**–2 497**
Change in unpaid claims and claim adjustment expenses, thereof:		
Gross	–1 003	–505
Ceded	–353	–239
Net unpaid claims and claim adjustment expenses	–1 356	**–744**
Claims and claim adjustment expenses	–3 558	**–3 241**

Acquisition costs

USD millions	2017	2018
Acquisition costs, thereof:		
Gross	–679	–710
Ceded	125	103
Net acquisition costs	–554	**–607**

Reinsurance recoverable on unpaid claims

As of 31 December 2017 and 2018, the Group had a reinsurance recoverable of USD 5 737 million and USD 5 486 million, respectively. The Group changed the presentation of its Long term care and Disability portfolio which is fully retroceded to an external party. Comparative information for 2017 has been adjusted accordingly. The concentration of credit risk is regularly monitored and evaluated.

The Group cedes certain re/insurance contracts to affiliated companies within the Swiss Re Group, but outside of the Group (please refer to Note 13).

Reinsurance receivables

Reinsurance receivables as of 31 December were as follows:

USD millions	2017	**2018**
Premium receivables invoiced	856	902
Receivables invoiced from ceded re/insurance business	126	116
Recognised allowance	–41	–34

4 Unpaid claims and claim adjustment expenses

A reconciliation of the opening and closing reserve balances for unpaid claims and claim adjustment expenses for the years ended 31 December is presented as follows:

USD millions	2017	**2018**
Balance as of 1 January	10 271	11 818
Reinsurance recoverable	–5 429	–5 458
Net balance as of 1 January	4 842	**6 360**
Incurred related to:		
Current year	3 334	2 946
Prior year	208	281
Total incurred	3 542	**3 227**
Paid related to:		
Current year	–521	–469
Prior year	–1 681	–2 028
Total paid	–2 202	**–2 497**
Foreign exchange	90	–102
Effect of acquisitions, disposals, new retroactive reinsurance and other items	88	–44
Net balance as of period end	6 360	**6 944**
Reinsurance recoverable	5 458	4 985
Balance as of period end	11 818	**11 929**

Prior-year development

During 2018, property, accident & health and other liability experienced overall adverse development on prior accident years. The unfavourable development on other liability reflects large man-made losses across all regions, especially in North America within general liability lines. The adverse development on property mainly came from small-to-medium sized losses, which were partially offset by favourable development related to natural catastrophe events in North America. Accident & health experienced adverse development due to small-to-medium sized losses in North America.

A summary of prior-year net claims and claim adjustment expenses development by lines of business for the years ended 31 December is shown below:

USD millions	2017	**2018**
Line of business:		
Property	30	96
Accident & Health	17	51
Other liability	106	141
Specialty	1	
Credit	54	–7
Total	208	**281**

US asbestos and environmental claims exposure

The Group's obligation for claims payments and claims settlement charges also includes obligations for long-latent injury claims arising out of policies written prior to 1986 as well as out of such business acquired subsequently through reinsurance arrangements to other Swiss Re Group Companies, in particular in the area of US asbestos and environmental liability.

At the end of 2018, the Group carried net reserves for US asbestos and environmental liabilities equal to USD 226 million. During 2018, the Group incurred net losses of USD 26 million and paid net against these liabilities of USD 11 million. Incurred claims include a settlement with one cedent on reported asbestos and environmental claims.

Estimating ultimate asbestos and environmental liabilities is particularly complex for a number of reasons, relating in part to the long period between exposure and manifestation of claims and in part to other factors, which include risks and lack of predictability inherent in complex litigation, changes in projected costs to resolve and in the projected number of asbestos and environmental claims, the effect of bankruptcy protection, insolvencies and changes in the legal, legislative and regulatory environment. As a result, the Group believes that projection of exposures for asbestos and environmental claims is subject to far less predictability relative to non-environmental and non-asbestos exposures. Management believes that its reserves for asbestos and environmental claims are appropriately established based upon known facts and the current state of the law. However, reserves are subject to revision as new information becomes available and as claims develop. Additional liabilities may arise for amounts in excess of reserves, and the Group's estimate of claims and claim adjustment expenses may change. Any such additional liabilities or increases in estimates cannot be reasonably estimated in advance but could result in charges that could be material to operating results.

Short duration contract unpaid claims and claim adjustment expenses

Basis of presentation for claims development information

This section provides claims development information on an accident year basis.

Claims development information and information on reserves for claims relating to insured events that have occurred but have not yet been reported or not enough reported ("IBNR") is presented by the five core operating business segments ("disaggregation categories"). Amounts shown are net of external retrocession and ceded re/insurance contracts to affiliated companies within the Swiss Re Group, but outside the Swiss Re Corporate Solutions Group. Claims development information and information on IBNR reserves are shown on a nominal basis, also for cases where the Group discounts claim liabilities from acquisition accounting.

SRCS was incorporated in 2011 and started operations in 2012. Corporate Solutions as a separately managed business unit likewise started operations in 2012 after the transfer of Swiss Reinsurance Company Ltd's investment in SRCS in 2012 to the Swiss Re Group holding company, Swiss Re Ltd. Therefore, seven accident years and reporting periods are shown for the Group. Claims arising from older accident years prior to 2012 are shown as a reconciling item in "All liabilities before 2012" in the claims development tables. All but an immaterial portion of these claims arise from accident years older than 10 years and therefore are out of the required range of disclosure.

Generally, claims reserves acquired in business combinations are presented on a retrospective basis in the claims development tables, as if the Group had always owned the business acquired, to the extent the underlying information can be produced without undue effort and acquired reserves are considered material. Acquired businesses are shown in the existing disaggregation categories. Disposals will be treated similarly. Facts and circumstances may indicate a different presentation for specific transactions, in which case they will be addressed specifically in these notes.

The information presented in the claims development tables is presented at the current balance sheet foreign exchange rates as of the date of these financial statements to permit an analysis of claims development excluding the impact of foreign exchange movements.

Some of the information provided in the following tables is treated as Required Supplementary Information (RSI) under US GAAP. Therefore, it does not form part of these consolidated audited financial statements. Claims development information for all periods except the current reporting period and any information derived from it – including average annual percentage payout of claims incurred – is considered RSI and is identified as RSI in the tables presented. This section of the note provides claims development information on an accident year basis.

Methodology for determining the presented amounts of liabilities for IBNR claims

The liability for unpaid claims and claim adjustment expenses is based on an estimate of the ultimate cost of settling the claims based on both information reported to us by ceding companies and internal estimates.

Cedents report their case reserves and their estimated IBNR to the Group. The Group develops and recognises its own estimate of IBNR claims, which includes circumstances in which the cedent has not reported any claims to the Group or where the Group's estimate of reserves needed to cover reported claims differs from the amounts reported by cedents.

For business reviewed on a portfolio level, the expected ultimate losses are set for most lines and types of business based on analysis performed using standard actuarial techniques. In general, contracts are aggregated into portfolios by combining contracts with similar features.

In most cases, these standard actuarial techniques encompass a number of loss development factor techniques applied to claim tables of paid and reported losses. Other actuarial techniques may be applicable to specific categories. For instance, the analysis of frequency and severity could be applied in all disaggregation categories. In some cases, techniques specific to the projection of future payments for specific risks such as asbestos or pollution claims are applied to both proportional and non-proportional liability claims (see also separate section 'Asbestos and environmental claims exposure' on page 24).

Contract-level reserving is based on standard actuarial techniques but requires more detailed contract, pricing, claim and exposure information than required for the business reviewed on a portfolio level.

In addition, the following applies to all business:

- For the most recent underwriting years, reliance may be made on the Group's costing and underwriting functions for the initial estimates of claims, although the initial reserving estimates may differ from these pricing estimates if there is good reason to believe losses are likely to emerge higher or lower, and in light of the limited claims experience to date. Reviews of those initial estimates are performed regularly, forming a basis for adjustments on both the current and prior underwriting years.

- The reserving process considers any information available in respect of either a specific case or a large loss event and the impact of any unusual features in the technical accounting of information provided by cedents.

Claims frequency information
Claims frequency is displayed for direct business only as individual claims information is generally not available for assumed and ceded business. Claims are counted individually per contract to produce the claims frequency table. For some direct business, summary reports are received and multiple claims are booked under a single claim code. This is usually done at a programme, policy year, state, country and/or line of business level of detail. This approach may be applied to business, which has a high volume of claim counts, but with only minor claims dollars associated with each claim.

Property

Incurred claims and allocated claim adjustment expenses, net of reinsurance

USD millions	Reporting year								
Accident year	2012	2013	2014	2015	2016	2017	**2018**	**thereof IBNR**	**Cumulative number of reported claims (in nominals)**
2012	*480*	*457*	*417*	*421*	*420*	*441*	433	0	3 279
2013		*569*	*486*	*441*	*421*	*415*	414	0	13 686
2014			*652*	*616*	*574*	*571*	567	6	7 231
2015				*508*	*465*	*456*	454	-10	3 744
2016					*571*	*601*	589	2	4 504
2017	*RSI*					*1 535*	1 626	228	5 514
2018							951	354	4 254
Total							**5 034**	**580**	**42 212**

Cumulative claims paid and allocated claim adjustment expenses, net of reinsurance

USD millions	Reporting year						
Accident year	2012	2013	2014	2015	2016	2017	**2018**
2012	*63*	*245*	*334*	*369*	*373*	*374*	375
2013		*103*	*253*	*356*	*397*	*405*	407
2014			*131*	*397*	*493*	*536*	545
2015				*91*	*243*	*367*	392
2016					*143*	*425*	512
2017	*RSI*					*176*	892
2018							157
Total							**3 280**
All liabilities before 2012							11
Liabilities for claims and claim adjustment expenses, net of reinsurance							**1 765**

Average annual percentage payout of incurred claims by age, net of reinsurance

Years	1	2	3	4	5	6	7
Property (RSI)	*19.2%*	*41.8%*	*20.9%*	*7.8%*	*1.5%*	*0.4%*	*0.2%*

The incurred claims and allocated claim adjustment expenses for Property show favourable development on accident years 2016 and prior. Accident years 2012, 2014 and 2016 are primarily impacted by large losses from natural catastrophes in Asia and North America, as well as large man-made losses in North America. Accident years 2017 and 2018 were significantly impacted by hurricanes and wildfires in North America. Negative IBNRs can be a feature for claims arising from Property exposure, due to overstated case reserves.

Change in claim counts in Property for accident years 2013 and 2014 relate mostly to an agriculture programme written in 2013, leading to high claim counts in those years.

Accident & Health

Incurred claims and allocated claim adjustment expenses, net of reinsurance

USD millions	Reporting year								
Accident year	2012	2013	2014	2015	2016	2017	**2018**	**thereof IBNR**	**Cumulative number of reported claims (in nominals)**
2012	79	93	89	89	89	89	89	0	796
2013		122	137	145	145	145	146	0	1 013
2014			110	106	123	122	122	1	724
2015				69	69	76	74	-1	293
2016					200	221	225	1	336
2017	RSI					170	218	8	2 158
2018							240	137	1 011
Total							**1 114**	**146**	**6 331**

Cumulative claims paid and allocated claim adjustment expenses, net of reinsurance

USD millions	Reporting year						
Accident year	2012	2013	2014	2015	2016	2017	**2018**
2012	25	84	89	89	89	89	89
2013		43	130	144	145	145	145
2014			35	101	120	120	121
2015				17	66	74	74
2016					63	208	222
2017	RSI					70	207
2018							102
Total							**960**
All liabilities before 2012							793
Liabilities for claims and claim adjustment expenses, net of reinsurance							**947**

Average annual percentage payout of incurred claims by age, net of reinsurance

Years	1	2	3	4	5	6	7
Accident & Health (RSI)	30.3%	62.2%	9.6%	0.2%	0.3%	0.0%	0.0%

The incurred claims and allocated claim adjustment expenses for Accident & Health experienced a large increase in small-to-mid sized claims relating to accident years 2017 and 2018. Accident & Health was impacted by the IHC Risk Solutions, LLC (IHC) acquisition in reporting year 2016. There was an increase in expected losses and changes in the accident year split for accident year 2016. The liabilities before 2012 relate mainly to accident years 2006 and prior.

Changes in claim count across accident years is volume driven. For accident year 2017, a portion of the Accident & Health business from the IHC acquisition moved from assumed reinsurance to direct business which is driving the increase in direct claim counts in that year relative to accident year 2016.

Other liability

Incurred claims and allocated claim adjustment expenses, net of reinsurance

USD millions	Reporting year								
Accident year	2012	2013	2014	2015	2016	2017	**2018**	**thereof IBNR**	**Cumulative number of reported claims (in nominals)**
2012	*364*	*354*	*335*	*324*	*318*	*351*	354	55	5 250
2013		*481*	*548*	*531*	*483*	*469*	474	107	5 989
2014			*555*	*543*	*527*	*497*	510	202	7 213
2015				*659*	*809*	*854*	886	296	6 438
2016					*670*	*786*	743	416	5 364
2017	*RSI*					*740*	815	519	4 701
2018							800	658	2 698
Total							**4 582**	**2 253**	**37 653**

Cumulative claims paid and allocated claim adjustment expenses, net of reinsurance

USD millions	Reporting year						
Accident year	2012	2013	2014	2015	2016	2017	**2018**
2012	*6*	*35*	*68*	*109*	*176*	*241*	272
2013		*7*	*46*	*138*	*223*	*264*	323
2014			*8*	*38*	*105*	*163*	251
2015				*7*	*84*	*253*	409
2016					*10*	*138*	195
2017	*RSI*					*16*	83
2018							16
Total							**1 549**
All liabilities before 2012							-338
Liabilities for claims and claim adjustment expenses, net of reinsurance							**2 695**

Average annual percentage payout of incurred claims by age, net of reinsurance

Years	1	2	3	4	5	6	7
Other liabilities (RSI)	*1.5%*	*9.4%*	*13.7%*	*14.6%*	*14.9%*	*15.4%*	*8.8%*

Recent accident years were impacted by large general liability losses in North America and volume growth.

Other liability business may have a significant reporting lag between the accident date and the date reported to the Group. The reported claim counts have trended up from 2012 to 2014, which is similar to the incurred losses. The increase in both claims counts and incurred losses are due to volume as well as the increase in large losses. For all recent years, there will be significant increases in reported claim counts over time, which will narrow the gap of claim counts.

Specialty

Incurred claims and allocated claim adjustment expenses, net of reinsurance

USD millions Accident year	Reporting year 2012	2013	2014	2015	2016	2017	2018	thereof IBNR	Cumulative number of reported claims (in nominals)
2012	*340*	*291*	*287*	*258*	*265*	*256*	256	0	2 919
2013		*384*	*374*	*355*	*341*	*350*	348	0	4 281
2014			*437*	*423*	*391*	*384*	379	5	5 236
2015				*530*	*535*	*525*	505	8	5 213
2016					*435*	*459*	461	29	5 368
2017	*RSI*					*469*	478	81	5 542
2018							590	61	3 588
Total							**3 017**	**184**	**32 147**

Cumulative claims paid and allocated claim adjustment expenses, net of reinsurance

USD millions Accident year	Reporting year 2012	2013	2014	2015	2016	2017	2018
2012	*79*	*178*	*209*	*222*	*240*	*245*	246
2013		*109*	*220*	*272*	*300*	*318*	335
2014			*60*	*222*	*315*	*338*	349
2015				*128*	*321*	*406*	448
2016					*73*	*281*	349
2017	*RSI*					*92*	278
2018							101
Total							**2 106**
All liabilities before 2012							6
Liabilities for claims and claim adjustment expenses, net of reinsurance							**917**

Average annual percentage payout of incurred claims by age, net of reinsurance

Years	1	2	3	4	5	6	7
Specialty (RSI)	*22.2%*	*39.3%*	*16.6%*	*6.9%*	*5.0%*	*3.4%*	*0.4%*

The incurred claims and allocated claim adjustment expenses for Specialty show favorable prior year development on accident years 2015 and prior, this was slightly offset by adverse development from 2016 and 2017.

Specialty business may have a moderate reporting lag between the accident date and the date reported to the Group. The reported claim counts have been trending up from 2012 to 2017, which is similar to the incurred losses. For all recent years, there will be moderate increases in reported claim counts over time, which will narrow the gap of claim counts.

Credit

Incurred claims and allocated claim adjustment expenses, net of reinsurance

USD millions	Reporting year								
Accident year	2012	2013	2014	2015	2016	2017	**2018**	**thereof IBNR**	**Cumulative number of reported claims (in nominals)**
2012	*33*	*29*	*21*	*24*	*21*	*20*	19	0	561
2013		*38*	*29*	*32*	*31*	*28*	27	0	932
2014			*73*	*81*	*86*	*101*	97	2	681
2015				*119*	*174*	*181*	173	3	1 372
2016					*135*	*152*	146	12	387
2017	*RSI*					*91*	95	28	206
2018							116	66	116
Total							**673**	**111**	**4 255**

Cumulative claims paid and allocated claim adjustment expenses, net of reinsurance

USD millions	Reporting year						
Accident year	2012	2013	2014	2015	2016	2017	**2018**
2012	*9*	*13*	*13*	*19*	*18*	*19*	18
2013		*9*	*17*	*24*	*26*	*27*	26
2014			*36*	*68*	*85*	*93*	84
2015				*107*	*192*	*192*	179
2016					*83*	*142*	143
2017	*RSI*					*29*	42
2018							39
Total							**531**
All liabilities before 2012							8
Liabilities for claims and claim adjustment expenses, net of reinsurance							**150**

Average annual percentage payout of incurred claims by age, net of reinsurance

Years	1	2	3	4	5	6	7
Credit (RSI)	*43.0%*	*31.2%*	*8.8%*	*9.9%*	*-3.6%*	*0.8%*	*-5.3%*

Credit volume has been increasing since 2012. Credit business tends to have an initial payout and subsequent recovery from the insured. Therefore, payments can exceed incurred amounts. The claims development on accident years 2014, 2015 and 2016 is driven by several large losses.

Credit business may have a moderate reporting lag between the accident date and the date reported to the Group. Some of this business tends to have very small payouts on a high volume of claims. The high volume of small claims increases the variability of the reported claim counts by year, but may not necessarily have a significant impact on incurred losses. For all recent years, there will be significant increases in reported claim counts over time, which will narrow the gap of claim counts.

Reconciliation of gross liability for unpaid claims and claim adjustment expenses

The following table reconciles the Group's net outstanding liabilities to the gross liabilities for unpaid claims and claim adjustment expenses. The net outstanding liabilities correspond to the total liabilities for unpaid claims and claim adjustment expenses, net of reinsurance for each disaggregation category. Other short-duration contract lines include reserves for business that is not material to the Group.

For the year ended 31 December

USD millions	2018
Net outstanding liabilities	
Corporate Solutions:	
Property	1 765
Accident & Health	947
Other liability	2 695
Specialty	917
Credit	150
Total net undiscounted outstanding liabilities excluding other short duration contract lines	6 474
Impact of acquisition accounting	–103
Total net discounted outstanding liabilities excluding other short duration contract lines	6 371
Other short duration contract lines	260
Total net discounted outstanding short duration liabilities	**6 631**
Allocated reinsurance recoverables on unpaid claims	
Corporate Solutions:	
Property	171
Accident & Health	1 286
Other liability	2 420
Specialty	263
Credit	20
Impact of acquisition accounting	–12
Other short duration contract lines	354
Total short duration reinsurance recoverable on outstanding liabilities	**4 502**
Exclusions:	
Unallocated claim adjustment expenses	349
Long duration contracts[1]	447
Total other reconciling items	**796**
Total unpaid claims and claim adjustment expenses	**11 929**

[1] The reserves included in "Long duration contracts" are retroceded to an external party except for an insignificant part which remains with the Group.

5 Deferred acquisition costs (DAC)

As of 31 December, the DAC were as follows:

USD millions	2017	2018
Opening balance as of 1 January	444	454
Deferred	553	634
Effect of acquisitions/disposals and retrocessions	2	
Amortisation	−549	−595
Effect of foreign currency translation	4	−5
Closing balance	454	**488**

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.

6 Investments

Investment income

Net investment income by source was as follows:

USD millions	2017	2018
Fixed income securities	130	163
Equity securities	7	5
Short-term investments	7	9
Other current investments	9	7
Share in earnings of equity-accounted investees	48	37
Cash and cash equivalents	3	7
Net result from deposit-accounted contracts	6	7
Deposits with ceding companies		5
Gross investment income	210	**240**
Investment expenses	–31	–23
Interest charged for funds held	–15	–17
Net investment income	164	**200**

Realised gains and losses

Realised gains and losses for fixed income securities, equity securities and other investments were as follows:

USD millions	2017	2018
Fixed income securities available-for-sale:		
Gross realised gains	17	4
Gross realised losses	–7	–22
Equity securities available-for-sale:		
Gross realised gains[1]	97	
Gross realised losses[1]	–4	
Other-than-temporary impairments	–4	
Net realised investment gains/losses on equity securities[1]		6
Change in net unrealised investment gains/losses on equity securities[1]		–13
Net realised investment gains/losses on trading securities	–1	
Net realised/unrealised gains/losses on other investments	–4	
Net realised/unrealised gains/losses on insurance-related activities	12	29
Foreign exchange gains/losses	–1	11
Net realised investment gains/losses	105	**15**

[1] Change due to ASU 2016-01. Please refer to Note 1 for more details.

Impairment on fixed income securities related to credit losses

Other-than-temporary impairments for debt securities are bifurcated between credit and non-credit components, with the credit component recognised through earnings and the non-credit component recognised in other comprehensive income. The credit component of other-than-temporary impairments is defined as the difference between a security's amortised cost basis and the present value of expected cash flows. Methodologies for measuring the credit component of impairment are aligned to market observer forecasts of credit performance drivers. Management believes that these forecasts are representative of median market expectations.

For securitised products, a cash flow projection analysis is conducted by integrating forward-looking evaluation of collateral performance drivers, including default rates, prepayment rates and loss severities and deal-level features, such as credit enhancement and prioritisation among tranches for payments of principal and interest. Analytics are differentiated by asset class, product type and security-level differences in historical and expected performance. For corporate bonds and hybrid debt instruments, an expected loss approach based on default probabilities and loss severities expected in the current and forecasted economic environment is used for securities identified as credit-impaired to project probability-weighted cash flows. Expected cash flows resulting from these analyses are discounted, and the present value is compared to the amortised cost basis to determine the credit component of other-than-temporary impairments.

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 were as follows:

2017 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	3 059	9	–14	3 054
US Agency securitised products	81			81
States of the United States and political subdivisions of the states	414	11	–3	422
Canada	324	4	–2	326
Brazil	224	2	0	226
Australia	140		–1	139
Other	213	1	–8	206
Total	4 455	27	–28	4 454
Corporate debt securities	1 866	23	–6	1 883
Mortgage- and asset-backed securities	326	1	–1	326
Fixed income securities available-for-sale	6 647	51	–35	6 663
Equity securities available-for-sale	271	2		273

2018 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	2 580	6	–18	2 568
US Agency securitised products	220	1	–1	220
States of the United States and political subdivisions of the states	404	5	–4	405
Canada	417	1	–5	413
Brazil	196	3		199
Australia	144		–1	143
Other	197	1	–5	193
Total	4 158	17	–34	4 141
Corporate debt securities	1 827	4	–34	1 797
Mortgage- and asset-backed securities	329	1	–4	326
Fixed income securities available-for-sale	**6 314**	**22**	**–72**	**6 264**

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 2017 and 2018.

2017 USD millions	Less than 12 months Fair value	Less than 12 months Unrealised losses	12 months or more Fair value	12 months or more Unrealised losses	Total Fair value	Total Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	2 313	8	455	6	2 768	14
US Agency securitised products	10	0	39	0	49	0
States of the United States and political subdivisions of the states	52	1	84	2	136	3
Canada	17	2	14	0	31	2
Brazil	37	0			37	0
Australia	105	0	17	1	122	1
Other	41	1	132	7	173	8
Total	2 575	12	741	16	3 316	28
Corporate debt securities	544	3	90	3	634	6
Mortgage- and asset-backed securities	166	1	36	0	202	1
Total	3 285	16	867	19	4 152	35

2018 USD millions	Less than 12 months Fair value	Less than 12 months Unrealised losses	12 months or more Fair value	12 months or more Unrealised losses	Total Fair value	Total Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	218	0	1 922	18	2 140	18
US Agency securitised products	20	0	18	1	38	1
States of the United States and political subdivisions of the states	13	0	140	4	153	4
Canada	271	5			271	5
Australia	20	0	8	1	28	1
Other	34	0	119	5	153	5
Total	576	5	2 207	29	2 783	34
Corporate debt securities	822	13	638	21	1 460	34
Mortgage- and asset-backed securities	73	0	164	4	237	4
Total	**1 471**	**18**	**3 009**	**54**	**4 480**	**72**

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 2017 and 2018, USD 1 694 million and USD 1 689 million, respectively, of fixed income securities available-for-sale were callable.

USD millions	2017 Amortised cost or cost	2017 Estimated fair value	**2018** Amortised cost or cost	**2018** Estimated fair value
Due in one year or less	765	762	2 054	2 042
Due after one year through five years	3 908	3 905	2 233	2 216
Due after five years through ten years	1 243	1 259	1 193	1 180
Due after ten years	405	411	505	500
Mortgage- and asset-backed securities with no fixed maturity	326	326	329	326
Total fixed income securities available-for-sale	6 647	6 663	**6 314**	**6 264**

Other financial assets and liabilities by measurement category

As of 31 December 2017 and 2018, ''Other invested assets'' and ''Accrued expenses and other liabilities'' by measurement category were as follows:

2017 USD millions	Fair value	Investments measured at net asset value as practical expedient	Amortised Cost or cost	Equity-accounted	Not in scope[1]	Total
Other invested assets						
Derivative financial instruments	22					22
Reverse repurchase agreements			97			97
Equity-accounted investments				1 931		1 931
Other		8	44			52
Other invested assets	**22**	**8**	**141**	**1 931**	**0**	**2 102**
Accrued expenses and other liabilities						
Derivative financial instruments	93					93
Other			73		360	433
Accrued expenses and other liabilities[2]	**93**	**0**	**73**	**0**	**360**	**526**

2018 USD millions	Fair value	Investments measured at net asset value as practical expedient	Amortised Cost or cost	Equity-accounted	Not in scope[1]	Total
Other invested assets						
Derivative financial instruments	14					14
Reverse repurchase agreements			20			20
Equity-accounted investments				1 944		1 944
Other		8	80			88
Other invested assets	**14**	**8**	**100**	**1 944**	**0**	**2 066**
Accrued expenses and other liabilities						
Derivative financial instruments	127					127
Other			65		357	422
Accrued expenses and other liabilities	**127**	**0**	**65**	**0**	**357**	**549**

[1] Amounts do not relate to financial assets or liabilities.
[2] The Group changed the presentation of its Long term care and Disability portfolio which is fully retroceded to an external party. Please refer to the Balance sheet. Comparative information for 2017 has been adjusted accordingly.

Offsetting of derivatives, financial assets and financial liabilities

Offsetting of derivatives, financial assets and financial liabilities as of 31 December was as follows:

2017 USD millions	Gross amounts of recognised financial assets	Collateral set-off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related financial instruments not set-off in the balance sheet	Net amount
Derivative financial instruments – assets	22		22		22
Reverse repurchase agreements	97		97	–97	0
Total	119	0	119	–97	22

2017 USD millions	Gross amounts of recognised financial liabilities	Collateral set-off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related financial instruments not set-off in the balance sheet	Net amount
Derivative financial instruments – liabilities	–93		–93		–93
Total	–93	0	–93	0	–93

2018 USD millions	Gross amounts of recognised financial assets	Collateral set-off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related financial instruments not set-off in the balance sheet	Net amount
Derivative financial instruments – assets	14		14	–1	**13**
Reverse repurchase agreements	20		20	–20	**0**
Total	**34**	**0**	**34**	**–21**	**13**

2018 USD millions	Gross amounts of recognised financial liabilities	Collateral set-off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related financial instruments not set-off in the balance sheet	Net amount
Derivative financial instruments – liabilities	–127		–127	22	**–105**
Total	**–127**	**0**	**–127**	**22**	**–105**

Collateral pledged or received between two counterparties with a master netting arrangement in place, but not subject to balance sheet netting, is disclosed at fair value. The fair values represent the gross carrying value amounts at the reporting date for each financial instrument received or pledged by the Group. Management believes that master netting agreements provide for legally enforceable set-off in the event of default, which substantially reduces credit exposure. Upon occurrence of an event of default, the non-defaulting party may set off the obligation against collateral received regardless if it has been offset on the balance sheet prior to the defaulting event. The net amounts of the financial assets and liabilities presented on the balance sheet were recognised in "Other invested assets" and "Accrued expenses and other liabilities", respectively.

Assets pledged

As of 31 December 2017 and 2018, investments with a carrying value of USD 792 million and USD 924 million, respectively, were on deposit with regulatory agencies in accordance with local requirements, of which USD 21 million and USD 61 million, respectively, were cash and cash equivalents. As of 31 December 2017 and 2018, investments with a carrying value of USD 241 million and USD 259 million, respectively, were placed on deposit or pledged to secure certain reinsurance liabilities, of which nil and USD 3 million, respectively, were cash and cash equivalents. Cash and cash equivalents pledged include some instances where cash is legally restricted from usage or withdrawal.

As of 31 December 2017 and 2018, securities of USD 1 916 million and USD 1 639 million, respectively, were transferred to third parties under securities lending transactions and repurchase agreements on a fully collateralised basis. There were no associated liabilities.

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 (ABS). 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 2018, 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 Swiss Re 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 and 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 ABS for which there are no significant observable inputs are developed using benchmarks to similar transactions or indices. For both residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (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, judgements 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 level 1. Securities classified in level 1 are traded on public stock exchanges for which quoted prices are readily available.

The category "Other invested assets" includes the Group's private equity funds investments which are made via ownership of funds. 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). These investments are included under investments measured at net asset value as a practical expedient.

Governance around level 3 fair valuation

The Asset Valuation Committee, endorsed by the Swiss Re Group Executive Committee, has a primary responsibility for governing and overseeing all of the 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 the 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, the fair values of assets and liabilities measured on a recurring basis by level of input were as follows:

2017 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)	Investments measured at net asset value as practical expedient	Total
Assets					
Fixed income securities held for proprietary investment purposes	3 054	3 609			6 663
Debt securities issued by US government and government agencies	3 054	422			3 476
US Agency securitised products		81			81
Debt securities issued by non-US governments and government agencies		897			897
Corporate debt securities		1 883			1 883
Mortgage- and asset-backed securities		326			326
Equity securities held for proprietary investment purposes	269	4			273
Short-term investments held for proprietary investment purposes	233	222			455
Derivative financial instruments		6	16		22
Other invested assets				8	8
Total assets at fair value	3 556	3 841	16	8	7 421
Liabilities					
Derivative financial instruments		–17	–76		–93
Total liabilities at fair value	0	–17	–76		–93

2018 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)	Investments measured at net asset value as practical expedient	Total
Assets					
Fixed income securities held for proprietary investment purposes	2 569	3 695			6 264
Debt securities issued by US government and government agencies	2 569	404			2 973
US Agency securitised products		220			220
Debt securities issued by non-US governments and government agencies		948			948
Corporate debt securities		1 797			1 797
Mortgage- and asset-backed securities		326			326
Equity securities held for proprietary investment purposes	167	13			180
Short-term investments held for proprietary investment purposes	176	217			393
Derivative financial instruments	2	6	6		14
Other invested assets				8	8
Total assets at fair value	**2 914**	**3 931**	**6**	**8**	**6 859**
Liabilities					
Derivative financial instruments		–6	–121		–127
Total liabilities at fair value	**0**	**–6**	**–121**		**–127**

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

As of 31 December, the reconciliations of the fair values of assets and liabilities measured on a recurring basis using significant unobservable inputs were as follows:

2017 USD millions	Derivative assets	Total assets	Derivative liabilities	Total liabilities
Assets and liabilities				
Balance as of 1 January	13	13	–74	–74
Realised/unrealised gains/losses:				
Included in net income	40	40	–28	–28
Included in other comprehensive income		0		0
Purchases	5	5		0
Issuances		0	–63	–63
Sales	–42	–42	81	81
Settlements		0	8	8
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	16	16	–76	–76

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

2018 USD millions	Derivative assets	**Total assets**	Derivative liabilities	**Total liabilities**
Assets and liabilities				
Balance as of 1 January	16	**16**	–76	**–76**
Realised/unrealised gains/losses:				
Included in net income		**0**	30	**30**
Included in other comprehensive income		**0**		**0**
Purchases	3	**3**		**0**
Issuances		**0**	–140	**–140**
Sales	–3	**–3**	23	**23**
Settlements	–10	**–10**	42	**42**
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	**6**	**6**	**–121**	**–121**

[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 years ended 31 December were as follows:

USD millions	2017	**2018**
Gains/losses included in net income for the period	12	30
Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date	22	3

Quantitative information about level 3 fair value measurements

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

USD millions	2017 Fair value	**2018** Fair value	Valuation technique	Unobservable input	Range (weighted average)
Liabilities					
Derivative financial instruments	–76	**–121**			
Weather contracts	–35	–77	Proprietary option model	Risk margin	5–11% (9.3%)
				Correlation	–71–56% (–0.5%)
				Volatility (power/gas)	28–117% (57.3%)
				Volatility (temperature)	96–775 (268) HDD/CAT[1]
				Index value (temperature)	800–4366 (2451) HDD/CAT[1]
Industry loss warrants	–17	–26	Credit default model	Market implied probability of Nat Cat event	1–14% (5.8%)
Power outage contracts	–24	–18	Proprietary option model	Risk margin	6–14% (7%)
				Average power forward price	USD 36–91 (USD 44.7)

[1] Heating Degree Days (HDD); Cumulative Average Temperature (CAT).

Sensitivity of recurring level 3 measurements to changes in unobservable inputs

The significant unobservable inputs used in the fair value measurement of the Group's weather contracts are risk margin, correlation, volatility and index value. Where the Group has a long position, a significant increase (decrease) in the risk margin input in isolation would result in a significantly higher (lower) fair value measurement. Where the Group has a long volatility or correlation position a significant increase (decrease) in the correlation and volatility inputs would result in a significantly higher (lower) fair value measurement. Where the Group has a long index position, an increase (decrease) in the index value input in isolation would result in a significantly higher (lower) fair value measurement. Where the Group has a short position, a significant increase (decrease) in the risk margin input in isolation would result in a significantly lower (higher) fair value measurement. Where the Group has a short volatility or correlation position a significant increase (decrease) in the correlation and volatility inputs would result in a significantly lower (higher) fair value measurement. Where the Group has a short index position, an increase (decrease) in the index value input in isolation would result in a significantly lower (higher) fair value measurement.

The significant unobservable input used in the fair value measurement of the Group'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 lower (higher) fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Group's power outage contracts are risk margin and average power forward price. A significant increase (decrease) in these inputs in isolation would result in a significantly lower (higher) fair value measurement.

Other invested assets measured at net asset value

As of 31 December 2017 and 2018, other assets measured at net asset value were USD 8 million. Additionally there were USD 1 million of unfunded commitments as of 31 December 2018.

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

	2017			**2018**		
	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Liabilities						
Debt	–519		–519	–467	–300	–767
Total liabilities	–519		–519	**–467**	**–300**	**–767**

The Group's debt position classified as level 2 measurement is fair valued based on executable broker quotes. The Group's level 3 debt position is judged to approximate carrying value due to the highly tailored nature of the obligation and due to the resetting interest rate.

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 and credit 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 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, the fair values and notional amounts of the derivatives outstanding were as follows:

2017 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivatives not designated as hedging instruments				
Foreign exchange contracts	391	6	–1	5
ECM/Weather contracts/ILW	1 106	16	–76	–60
Credit contracts	700		–13	–13
Total	2 197	22	–90	–68
Derivatives designated as hedging instruments				
Foreign exchange contracts	156		–3	–3
Total	156	0	–3	–3
Total derivative financial instruments	2 353	22	–93	–71

2018 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivatives not designated as hedging instruments				
Foreign exchange contracts	461	3	–5	–2
ECM/Weather contracts/ILW	1 190	8	–121	–113
Credit contracts	205		–1	–1
Total	**1 856**	**11**	**–127**	**–116**
Derivatives designated as hedging instruments				
Foreign exchange contracts	149	3		3
Total	**149**	**3**	**0**	**3**
Total derivative financial instruments	**2 005**	**14**	**–127**	**–113**

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".

Non-hedging activities

The Group primarily uses derivative financial instruments for risk management and trading strategies. Gains and losses of derivative financial instruments not designated as hedging instruments are recorded in "Net realised investment gains/losses" in the income statement. The gains and losses of derivative financial instruments not designated as hedging instruments for the years ended 31 December were as follows:

USD millions	2017	2018
Derivatives not designated as hedging instruments		
Foreign exchange contracts	14	–16
ECM/Weather contracts/ILW	10	30
Credit contracts	–4	
Total gains/losses recognised in income	20	**14**

Hedging activities

The Group designates certain derivative financial instruments as hedging instruments. The designation of derivative financial instruments is primarily used for overall portfolio and risk management strategies. As of 31 December 2018, the following hedging relationships were outstanding:

Fair value hedges

The Group enters into foreign exchange swaps to reduce the exposure to foreign exchange volatility for certain fixed income securities. These derivative instruments are designated as hedging instruments in qualifying fair value hedges. Gains and losses on derivative financial instruments designated as fair value hedging instruments are recorded in "Net realised investment gains/losses" in the income statement. For the year ended 31 December, the gains and losses attributable to the hedged risks were as follows:

		2017		2018
USD millions	Gains/losses on derivatives	Gains/losses on hedged items	Gains/losses on derivatives	Gains/losses on hedged items
Fair value hedging relationships				
Foreign exchange contracts	–6	6	13	–13
Total gains/losses recognised in income	–6	6	**13**	**–13**

Maximum potential loss

The maximum potential loss as of 31 December 2017 and 2018 was approximately USD 22 million and USD 14 million. The maximum potential loss is based on the positive market replacement cost assuming non-performance of all counterparties.

Credit risk-related contingent features

Certain derivative instruments held by the Group contain provisions that require its debt to maintain an investment-grade credit rating. If the Group's credit rating were downgraded or no longer rated, the counterparties could request immediate payment, guarantee or an ongoing full overnight collateralisation on derivative instruments in net liability positions.

The total fair value of derivative financial instruments containing credit risk-related contingent features amounted to USD 36 million and USD 47 million as of 31 December 2017 and 2018, respectively. For derivative financial instruments containing credit risk-related contingent features, the Group posted collateral of nil as of 31 December 2017 and 2018. In the event of a reduction of the Group's credit rating to below investment grade, a fair value of USD 47 million additional collateral would have had to be posted as of 31 December 2018. The total equals the amount needed to settle the instruments immediately as of 31 December 2018.

9 Acquisitions

Bradesco Seguros, S.A.

On 3 July 2017, the Group and Bradesco Seguros, S.A. (Bradesco) entered into a partnership combining the large commercial risk business of Bradesco with Swiss Re Corporate Solutions Brasil Seguros S.A. (SRCSB). Upon closing this transaction, SRCSB became one of the leading insurers in the commercial large-risk insurance market in Brazil. The acquisition cost was BRL 210 million paid in cash and 40% shares of SRCSB. The transaction includes Bradesco's related operations, its team of experts and a business portfolio, including existing, new and renewal business.

This transaction strengthens the Group's position in the Brazilian commercial insurance market by combining two diversified portfolios and securing a sustainable and large distribution channel.

10 Debt

The Group's debt as of 31 December was as follows:

USD millions	2017	2018
Long-term subordinated financial debt	497	798
Total carrying value	497	**798**
Total fair value	519	**767**

Maturity of long-term debt

As of 31 December, long-term debt as reported above had the following maturities:

USD millions	2017	2018
Due in 2023	0	300
Due in 2024	497	498
Total carrying value	497	**798**

Subordinated long-term debt

Maturity	Instrument	Issued in	Currency	Nominal in millions	Interest rate	First call in	Book value in USD millions
2028	Subordinated floating rate callable loan	2018	USD	300	5.75%	2023	300
2044	Subordinated fixed rate resettable callable loan note	2014	USD	500	4.50%	2024	498
Total subordinated long-term debt as of 31 December 2018							**798**
Total subordinated long-term debt as of 31 December 2017							497

Interest expense on long-term debt

Interest expense on long-term debt for the years ended 31 December was as follows:

USD millions	2017	2018
Subordinated financial debt	23	24
Total	23	**24**

Long-term debt issued in 2018

In December 2018, Swiss Re Ltd granted a USD 300 million subordinated floating rate callable loan to Swiss Re Corporate Solutions Ltd due in 2028 with a first optional redemption date on 19 December 2023. The loan bears interest at a floating rate of 6 month Libor plus 2.85%. The 6 month Libor rate is reset every 6 months.

11 Income taxes

The Group is generally subject to corporate income taxes based on the taxable net income in various jurisdictions in which it operates. The components of the income tax expense/benefit were:

USD millions	2017	2018
Current taxes	31	66
Deferred taxes	–235	–179
Income tax expense/benefit	–204	**–113**

Tax rate reconciliation

The following table reconciles the expected tax expense/benefit at the Swiss statutory tax rate to the actual tax expense/benefit in the accompanying income statement:

USD millions	2017	2018
Income tax at the Swiss statutory tax rate of 21.15% (2017: 20.61%)	–196	–119
Increase (decrease) in the income tax charge resulting from:		
Foreign income taxed at different rates	23	7
Impact of foreign exchange movements	–12	5
Tax exempt income/dividends received deduction	6	–10
Change in valuation allowance	4	5
Change in statutory rate	–15	–7
Other income based taxes	3	22
Other, net[1]	–17	–16
Total	–204	**–113**

[1] Other, net includes tax return to tax provision adjustments from various jurisdictions.

For the year ended 31 December 2018 the Group reported a tax benefit of USD 113 million on a pre-tax loss of USD 564 million, compared to a benefit of USD 204 million on a pre-tax loss of USD 949 million for 2017. This translates into an effective tax rate in the current and prior-year reporting periods of 20.0% and 21.5%, respectively.

The lower tax rate in the current year is mainly driven by tax benefits from large losses.

Deferred and other non-current taxes

The components of deferred and other non-current taxes were as follows:

USD millions	2017	2018
Deferred tax assets		
Deferred acquisition costs	21	3
Income accrued/deferred	7	26
Unearned premium reserve	42	67
Technical provisions	21	37
Benefit on loss carryforwards	229	352
Currency translation adjustments	24	26
Other	32	70
Gross deferred tax assets	376	581
Valuation allowance	–11	–15
Unrecognised tax benefits offsetting benefits on loss carryforwards	–2	
Total deferred tax assets	363	**566**
Deferred tax liabilities		
Deferred acquisition costs	–34	–71
Present value of future profits	–51	–48
Property amortisation	–3	–1
Income accrued/deferred	–24	–7
Technical provisions	–38	–18
Unrealised gains on investments	–6	–10
Foreign exchange provisions	–21	–25
Currency translation adjustments	–45	–48
Other	–18	–24
Total deferred tax liabilities	–240	**–252**
Liability for unrecognised tax benefits including interest and penalties	–3	–4
Total deferred and other non-current tax liabilities	–243	**–256**

As of 31 December 2018, the aggregate amount of temporary differences associated with investment in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised amount to approximately USD 228 million. In the remote scenario in which these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

As of 31 December 2018, the Group had USD 1 591 million net operating tax loss carryforwards, expiring as follows: USD 1 million in 2019, USD 1 million in 2021, USD 2 million in 2022, USD 1 422 million in 2023 and beyond, and USD 165 million never expire.

As of 31 December 2018, the Group has USD 13 million capital loss carryforwards expiring in 2023.

For the year ended 31 December 2018, USD 3 million net operating losses and nil net capital losses were utilised.

For the years ended 31 December 2017 and 2018, income taxes paid were USD 22 million and USD 43 million, respectively.

Unrecognised tax benefits

A reconciliation of the opening and closing amount of gross unrecognised tax benefits (excluding interest and penalties) is as follows:

USD millions	2017	**2018**
Balance as of 1 January	5	4
Additions for tax positions of current year		1
Reductions for tax positions of prior years	–1	
Statute expiration		–1
Balance as of 31 December	4	**4**

As of 31 December 2017 and 2018 the amount of gross unrecognised tax benefits within the tabular reconciliation that, if recognised, would affect the effective tax rate were approximately USD 4 million and USD 4 million, respectively.

Interest and penalties related to unrecognised tax benefits are recorded in income tax expense. Such expense for 2017 and 2018 were nil. As of 31 December 2017 and 2018, USD 1 million and nil were accrued for the payment of interest and penalties. The accrued interest balance is included within the deferred and other non-current taxes section reflected above and in the balance sheet.

The Group continually evaluates proposed adjustments by taxing authorities. The Group believes that it is reasonably possible (more than remote and less than likely) that the balance of unrecognised tax benefits could increase or decrease over the next 12 months due to settlements or expiration of statutes. However, quantification of an estimated range cannot be made at this time.

The following table summarises jurisdictions and tax years that remain subject to examination:

Australia	2013 – 2018
Brazil	2013 – 2018
Canada	2011 – 2018
China	2009 – 2018
Colombia	2012 – 2018
Denmark	2013 – 2018
France	2016 – 2018
Germany	2014 – 2018
Hong Kong	2016 – 2018
Italy	2013 – 2018
Japan	2010 – 2018
Luxembourg	2014 – 2018
Mexico	2016 – 2018
Netherlands	2014 – 2018
Singapore	2016 – 2018
Slovakia	2014 – 2018
South Africa	2014 – 2018
Spain	2014 – 2018
Switzerland	2015 – 2018
United Kingdom	2012 – 2018
United States	2011 – 2018

12 Benefit plans

SRCS is a wholly owned subsidiary of Swiss Re Ltd. Swiss Re Ltd is the ultimate parent company of the Swiss Re Group. SRCS and its subsidiaries participate in various pension plans sponsored by affiliated companies of the Swiss Re Group. These pension plans include the "Pension Fund Swiss Reinsurance Company (Swiss Re)" among others.

Group contributions for 2018

For the year ended 31 December 2018, the Group contributed USD 25 million to the aforementioned pension plans. The Group contributes into a number of defined contribution plans. The amount expensed in 2018 was USD 15 million.

13 Related parties

The Group assumes and cedes certain re/insurance contracts from/to affiliated companies within the Swiss Re Group, but outside the Group. The Group also conducts various investing activities, including derivatives, with affiliated companies in the Swiss Re Group. The Group enters into financing activities where it borrows funds from affiliated companies in the Swiss Re Group. In addition, the Group enters into various arrangements with affiliated companies in the Swiss Re Group for the provision of services. These activities result in the following related party transactions on the income statement and balance sheet:

USD millions	2017	2018
Revenues		
Gross premiums written	137	99
Net premiums written	–143	–177
Change in unearned premiums	6	16
Premiums earned	–137	–161
Net investment income/loss	–17	–20
Net realised investment gains/losses	2	37
Total revenues	–152	**–144**
Expenses		
Claims and claim adjustment expenses	–188	–85
Acquisition costs	19	4
Operating expenses	–346	–411
Interest expenses		–1
Total expenses	–515	**–493**

USD millions	2017	2018
Assets		
Other invested assets	11	10
Premiums and other receivables	166	160
Reinsurance recoverable on unpaid claims	3 727	3 675
Funds held by ceding companies	56	83
Deferred acquisition costs	1	–10
Other assets	202	480
Total assets	4 163	**4 398**
Liabilities		
Unpaid claims and claim adjustment expenses	283	528
Unearned premiums	108	74
Funds held under reinsurance treaties	652	298
Reinsurance balances payable	269	168
Long-term debt		300
Accrued expenses and other liabilities	137	147
Total liabilities	1 449	**1 515**

In December 2018, Swiss Re Ltd granted a USD 300 million subordinated floating rate callable loan to Swiss Re Corporate Solutions Ltd due in 2028 with a first optional redemption date on 19 December 2023. The loan bears interest at a floating rate of 6 month Libor plus 2.85%. The 6 month Libor rate is reset every 6 months.

Share in earnings from equity-accounted investees for the years ended 31 December 2017 and 2018 were USD 48 million and USD 37 million, respectively.

None of the members of BoD and the Group EC has any significant business connection with the Group or any of its Group companies.

14 Variable interest entities

The Group enters into arrangements with variable interest entities (VIEs) in the normal course of business. The involvement ranges from being a passive investor to designing, structuring and managing the VIEs. The variable interests held by the Group arise primarily as a result of the Group's involvement in certain investment vehicles, which meet the definition of a VIE.

When analysing whether the entity is a VIE, the Group mainly assesses if (1) the equity is sufficient to finance the entity's activities without additional subordinated financial support, (2) the equity holders have the right to make significant decisions affecting the entity's operations and (3) the holders of the voting rights substantively participate in the gains and losses of the entity.

When one of these criteria is not met, the entity is considered a VIE and is assessed for consolidation under the VIE section of the Consolidation Topic.

The party that has a controlling financial interest is called a primary beneficiary and consolidates the VIE. The party is deemed to have a controlling financial interest if it has both:

- the power to direct the activities of the VIE that most significantly impact the entity's economic performance; and
- the obligation to absorb the entity's losses that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

For all its variable interests in VIEs, the Group assesses whether it has a controlling financial interest in these entities and, thus, is the primary beneficiary. The Group identifies the activities that most significantly impact the entity's performance and determines whether the Group has the power to direct those activities. In conducting the analysis, the Group considers the purpose, the design and the risks that the entity was designed to create and pass through to its variable interest holders. Additionally, the Group assesses if it has the obligation to absorb losses or if it has the right to receive benefits of the VIE that could potentially be significant to the entity. If both criteria are met, the Group has a controlling financial interest in the VIE and consolidates the entity.

The Group monitors changes to the facts and circumstances of the existing involvement with legal entities to determine whether they require reconsideration of the entity's designation as a VIE or voting interest entity. For VIEs, the Group regularly reassesses the primary beneficiary determination.

Investment vehicles

The Group's variable interests in investment partnerships arise through ownership of the limited partner interests. Many investment partnerships are VIEs because the limited partners as a group lack kick-out or participating rights. The Group does not hold the general partner interest in the limited partnerships and therefore does not direct investment activities of the entity. Therefore, the Group lacks power over the relevant activities of the vehicles and, consequently, does not qualify as the primary beneficiary. The Group is exposed to losses when the values of the investments held by the investment vehicles decrease. The Group's maximum exposure to loss equals the Group's share of the investment.

The Group is a passive investor in structured securitisation vehicles issuing residential and commercial mortgage-backed securities (RMBS and CMBS, respectively) and other asset-backed securities (ABS). The Group's investments in RMBS, CMBS and other ABS are passive in nature and do not obligate the Group to provide any financial or other support to the issuer entities. By design, RMBS, CMBS and ABS securitisation entities are not adequately capitalised and therefore considered VIEs. The Group is not the primary beneficiary, because it does not have power to direct most significant activities. These investments are accounted for as available-for-sale as described in the investment note and not included in the tables below.

The Group invests in an investment vehicle that is consolidated by Swiss Reinsurance Company. The investment vehicle is a VIE because it is structured as an umbrella company comprised of multiple sub-funds.

The Group did not provide financial or other support to any VIEs during 2018 that it was not previously contractually required to provide.

Non-consolidated VIEs

The following table shows the total assets on the Group's balance sheet related to VIEs in which the Group held a variable interest but was not the primary beneficiary as of 31 December:

USD millions	2017	**2018**
Equity securities available-for-sale	32	
Equity securities at fair value through earnings		27
Other invested assets	1 937	1 951
Total assets	1 969	**1 978**

The following table shows the Group's assets and maximum exposure to loss related to VIEs in which the Group held a variable interest but was not the primary beneficiary as of 31 December:

	2017		2018	
USD millions	Total assets	Maximum exposure to loss[1]	Total assets	Maximum exposure to loss[1]
Investment vehicles	1 969	1 969	1 978	1 978
Total	1 969	1 969	**1 978**	**1 978**

[1] Maximum exposure to loss is the loss the Group would absorb from a variable interest in a VIE in the event that all of the assets of the VIE are deemed worthless.

Report of the statutory auditor

Report of the statutory auditor
to the General Meeting of
Swiss Re Corporate Solutions Ltd
Zurich, Switzerland

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of Swiss Re Corporate Solutions Ltd and its subsidiaries (the 'Company'), which comprise the consolidated balance sheet as of 31 December 2018, and the related consolidated income statement, statement of comprehensive income, statement of shareholder's equity, statement of cash flows and notes for the year ended 31 December 2018.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company at 31 December 2018, the results of operations and the cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America and comply with Swiss law.

Other matter

Accounting principles generally accepted in the United States of America require that the supplementary information based on the requirements of ASU 2015-09, Disclosures about Short-Duration Contracts, on pages 27 to 31 be presented to supplement the consolidated financial statements. Such information, although not part of the consolidated financial statements, is required by the Financial Accounting Standards Board, which considers it an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

Unobservable or interpolated inputs used for the valuation of certain level 2 and 3 investments

Key audit matter

Investment valuation continues to be an area with inherent risk for certain level 2 and 3 investments that have unobservable or interpolated inputs. The risk is not the same for all investment types and is greatest for those listed below. These investments are more difficult to value because quoted prices are not always available and valuation requires unobservable or interpolated inputs and complex valuation models:

- Fixed income securitised products
- Fixed income mortgage and asset-backed securities
- Derivatives

How our audit addressed the key audit matter

We assessed and tested the design and operating effectiveness of selected key controls around the valuation models for level 2 and 3 investments, including the Company's independent price verification process. We also tested management's data integrity and change management controls relating to the valuation models.

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

- Challenging the Company's methodology and assumptions, in particular, the yield curves, discounted cash flows, perpetual growth rates and liquidity premiums used in the valuation models.
- Comparing the assumptions used against appropriate benchmarks and investigating significant differences.
- Engaging our own valuation experts to perform independent valuations of selected level 2 and 3 investments.

Based on the work performed, we consider the methodology and assumptions used by management in determining the valuation to be appropriate.

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

Key audit matter

Valuation of actuarially determined P&C loss reserves involves a high degree of subjectivity and complexity. Reserves for losses and loss adjustment expenses represent estimates of future payments of reported and unreported claims for losses and related expenses at a given date.

The Company uses a range of actuarial methodologies and methods to estimate these reserves. Actuarially determined P&C loss reserves require significant judgement relating to certain factors and assumptions. Among the most significant reserving assumptions are the A-priori loss ratios, which typically drive the estimates of P&C loss reserves for the most recent contract years. Other key factors and assumptions include, but are not limited to, interest rates, inflation trends, claims trends, regulatory decisions, historical claims information and the growth of exposure.

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

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

How our audit addressed the key audit matter

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

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

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

Based on the work performed, we consider the methodologies and assumptions used by management in the valuation of actuarially determined P&C loss reserves to be appropriate.

Completeness and valuation of uncertain tax items

Key audit matter

The Company is carrying a provision for uncertain tax items on its books. The valuations of these items are based on management's estimates and management's assessment whether deferred tax assets are more likely than not to be realised. Changes in the estimates of uncertain tax items have an impact (through income tax expense) on the results.

How our audit addressed the key audit matter

We assessed and tested the design and operating effectiveness of selected key controls in place to determine the completeness of the uncertain tax items and management's assessment of the items for recognition and valuation.

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

- Involving our own tax specialists to critically review management's 'more likely than not' tax assessments to evaluate the Company's judgements and estimates of the probabilities and the amounts.
- Assessing how the Company had considered new information or changes in tax law or case law, and assessing the Company's judgement of how these impact the Company's position or measurement of the required provision.
- Examining tax audit documentation to validate the appropriateness of releases of uncertain tax provisions.
- Evaluating the appropriateness of management's assessment of completeness of the uncertain tax provisions.
- Examining material movements within the uncertain tax positions in each jurisdiction.

Based on the work performed, we determined management's assessment of uncertain tax items to be appropriate.

Report on other legal requirements

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

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

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd

Roy Clark
Audit expert
Auditor in charge

Frank Trauschke

Zurich, 13 March 2019

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Annual Report Swiss Re Corporate Solutions Ltd

The management report follows the regulations as outlined in article 961c of the Swiss Code of Obligations.

Reinsurance and sub-holding company

Swiss Re Corporate Solutions Ltd (the Company), domiciled in Zurich, Switzerland, performs a dual role within the Swiss Re Group as both a reinsurance company and a sub-holding company for the Corporate Solutions Business Unit. The Company is a wholly-owned subsidiary of Swiss Re Ltd, the ultimate parent company domiciled in Zurich, Switzerland. In 2018, the Company directly employed worldwide staff at an average of 296 full-time equivalents (2017: 303 full-time equivalents).

Financial year 2018

Net loss for the financial year 2018 amounted to CHF -498 million, compared to a net loss of CHF -904 million in the prior year.

The financial year under review was marked by several large man-made losses, partially offset by lower natural catastrophe losses compared to prior year and the change of the intragroup retrocession programs with Westport Insurance Corporation.

As a consequence of the new tax regime in the US, effective as of 31 December 2017, the Company restructured its assumed intragroup retrocession programs with the affiliated Westport Insurance Company and its subsidiaries. In 2018, these restructurings led to a net impact of CHF 884 million in the reinsurance result.

The Company paid an ordinary dividend in cash of CHF 48 million.

Reinsurance result

Reinsurance result amounted to CHF -410 million in 2018, compared to CHF -870 million in 2017.

Premiums earned decreased by 35.7% to CHF 1 800 million in 2018 (2017: CHF 2 798 million), mainly due to the change of the intragroup retrocession program with Westport Insurance Corporation, partially offset by higher premiums from Swiss Re International driven by the new intragroup quota share agreement for German credit & surety business. Excluding the effects of foreign exchange movements, premiums earned decreased by 35.5%.

Claims and claim adjustment expenses decreased by 46.7% to CHF 1 519 million in 2018 (2017: CHF 2 849 million). The reduction was mainly driven by lower natural catastrophe losses, partially offset by several large man-made losses, and the change of the intragroup retrocession program with Westport Insurance Corporation. Excluding the effects of foreign exchange movements, claims and claim adjustment expenses decreased by 46.4%.

In 2018, the Company did not change the equalisation provision. The equalisation provision of CHF 183 million was released in the previous year.

Acquisition costs decreased by 37.6% to CHF 545 million in 2018 (2017: CHF 873 million). The decrease was mainly driven by the change of the intragroup retrocession program with Westport Insurance Corporation.

Operating costs increased by CHF 41 million to CHF 226 million in the current year (2017: CHF 185 million) due to higher administrative expenses and lower capitalised project costs.

Investment result

Net investment result amounted to CHF -6 million, compared to CHF 56 million in the prior year. The decrease in investment income in 2018 was driven by lower dividend income from a subsidiary compared to prior year.

Result from other income and expenses

Net result amounted to CHF -57 million , compared to CHF -70 million in the prior year. The increase in the result from other expenses and income was due to higher foreign exchange gains compared to prior year, mainly due to the strengthening of the US dollar against the Swiss franc.

Assets

Total assets decreased by 8.6% to CHF 8 648 million at 31 December 2018 (31 December 2017: CHF 9 466 million). Excluding the effects of foreign exchange movements, total assets increased by 8.7%.

Total investments increased from CHF 5 769 million at 31 December 2017 to CHF 6 024 million at 31 December 2018, driven by higher reinsurance business volume and the increase of a loan from the parent company Swiss Re Ltd.

Funds held by ceding companies decreased by 69.0% to CHF 486 million at 31 December 2018 (31 December 2017: CHF 1 567 million). The reduction was mainly due to reduction of funds held by Westport Insurance Corporation as a result of change of the intragroup retrocession program and discontinuation of funds held with Swiss Re International Zurich Branch.

Liabilities

Total liabilities decreased by 3.5% to CHF 7 542 million at 31 December 2018 (31 December 2017: CHF 7 814 million). Excluding the effects of foreign exchange movements, total liabilities increased by 3.4%.

Technical provisions gross decreased from CHF 6 711 million at 31 December 2017 to CHF 6 308 million at 31 December 2018, mainly driven by the recapture of unearned premiums reserves of previous underwriting years business following the change in the intragroup retrocession program with Westport Insurance Corporation.

Reinsurance balance payables decreased by CHF 138 million mainly with Reinsurance carriers.

Subordinated liabilities increased by CHF 301 million mainly due to a new loan from the parent company Swiss Re Ltd.

Shareholder's equity

Shareholder's equity decreased from CHF 1 652 million at 31 December 2017 to CHF 1 106 million at 31 December 2018. The decrease resulted from the net loss for 2018 of CHF 498 million and the ordinary cash dividend of CHF 48 million.

The nominal share capital of the Company remained unchanged at CHF 100 million at 31 December 2018.

Future prospects and business development

Structural changes

Change in subsidiaries

The Company contributed in kind its shareholding in the service companies in Slovakia, Mexico, Brasil and the United Kingdom to its subsidiary Swiss Re Corporate Solutions Investment Holding Company Ltd.

Reinsurance business

Strategy and priorities

The Company conducts the commercial insurance business of the Swiss Re Group and is committed to deliver long-term profitability and economic growth. Through our network of subsidiaries, future growth aspirations are focused on selected areas, with dedicated strategic initiatives in Primary Lead and further broadening of the footprint. Corporate Solutions offers customised, innovative and multi-line, multi-year risk transfer solutions, taking into account the unique needs of local markets and specialty industries.

Outlook

In 2018, the commercial insurance market was impacted by large natural catastrophe events and an exceptionally high severity and frequency of large man-made losses in industrial business lines across all geographies. While rates and terms and conditions have improved, commercial risks, particularly in the large corporate segment, remain inadequately priced and the industry continues to be unprofitable overall. Corporate Solutions expects an accelerated market hardening and a reinforced focus on terms and conditions over the next 12 to 18 months.

Investments

Strategy and priorities

Financial investments are managed in accordance with Swiss Re's Targeted Standard on Asset Management and the Company's investment guidelines, which are intended to ensure compliance with regulatory requirements. The general principle governing investment management in the Company is the creation of economic value on the basis of returns relative to the liability benchmark, while adhering to the investment guidelines and the general prudence principle. The liability benchmark is determined by approximating an investable benchmark from projected liability cash flows. A cash benchmark is used for the economic surplus.

Outlook

Global economic growth has peaked and is expected to slow in 2019, particularly in advanced markets. In the US and Euro, tighter financial conditions, the waning US fiscal stimulus and lingering political concerns, are likely to weigh on growth. Economic growth in emerging Asia will slow moderately, but remains the strongest region globally, while Latin America will see a modest growth recovery, albeit from a low base. In contrast to last year's outlook, the balance of risks is seen as skewed to the down side, amid increasing protectionism (e.g. US-China trade conflict), ongoing monetary policy tightening, late cycle concerns (especially in the US) and uncertain (geo)politics (such as Brexit, European Parliament election, or elections in India, South Africa and Argentina).

Risk Assessment

The Company's Board of Directors has issued a mandate to establish a Risk Management function to provide independent risk taking oversight for the Company and its subsidiaries. In executing this task, Corporate Solutions' Risk Management function is supported by the Swiss Re Group Risk Management organisation. Significant parts of risk exposure identification, assessment, control and reporting for Swiss Re Corporate Solutions Ltd on a stand-alone basis are integrated in Group Risk Management processes.

The Board of Directors of Swiss Re Corporate Solutions Ltd sets the Company's risk tolerance. In this role, it is advised by the Board of Directors of the Swiss Re Group, which defines the Group's basic risk management principles and risk appetite framework including the Group risk tolerance. The Board of Directors of the Swiss Re Group mainly performs risk oversight and governance through three committees:

- The Finance and Risk Committee defines the Group Risk Policy, reviews risk capacity limits, monitors adherence to risk tolerance, and reviews top risk issues and exposures.
- The Investment Committee reviews the financial risk analysis methodology and valuation related to each asset class, and ensures that the relevant management processes and controlling mechanisms are in place.
- The Audit Committee oversees internal controls and compliance procedures.

The Group Executive Committee (Group EC) is responsible for developing and implementing Swiss Re's Group-wide risk management framework. It also sets and monitors risk capacity limits, oversees the Economic Value Management framework, determines product policy and underwriting standards, and manages regulatory interactions and legal obligations. The Group EC has delegated various risk management responsibilities to the Group Chief Risk Officer (Group CRO) as well as to certain legal entity CROs, including the Company CRO.

The Group CRO is appointed as the principal independent risk controller of Swiss Re. The Group CRO is a member of the Group EC and reports directly to the Group CEO as well as to the Board's Finance and Risk Committee. The Group CRO also advises the Group EC, the Chairman or the respective Group Board Committees, in particular the Finance and Risk Committee, on significant matters arising in his area of responsibility. The Group CRO leads the independent Risk Management function, which is responsible for risk oversight and control across Swiss Re. It thus forms an integral part of Swiss Re's business model and risk management framework. The Risk Management function comprises risk teams for legal entities and regions as well as central teams that provide specialised risk expertise and oversight.

Legal entity risk teams of the Company and its subsidiaries are led by dedicated CROs who report directly or indirectly to their top-level entity CRO (Company CRO), who reports directly to the Group CRO, with a secondary reporting line to the Company CEO. These legal entity CROs are responsible for risk oversight in their respective legal entities, as well as for establishing the proper risk governance to ensure efficient risk identification, assessment and control.

While the risk management organisation is closely aligned to Swiss Re's business structure in order to ensure effective risk oversight, all embedded teams and dedicated CROs remain part of the central Group Risk Management function under the Group CRO, thus ensuring their independence as well as a consistent Group-wide approach to overseeing and controlling risks.

The central teams support the CROs at Group and legal entity levels in discharging their oversight responsibilities. They do so by providing services, such as:

- Financial risk management
- Specialised risk category expertise and accumulation control
- Risk modelling and analytics
- Regulatory relations management
- Maintaining the central risk governance framework

The central departments also oversee Group liquidity and capital adequacy and maintain the Group frameworks for controlling these risks throughout Swiss Re.

Risk Management is also in charge of actuarial reserving and monitoring of reserve holdings. Business Unit Corporate Solutions and Group Risk Management activities are complemented by Swiss Re's Group Internal Audit and Compliance units:

- Group Internal Audit performs independent assessments of adequacy and effectiveness of internal control systems. It evaluates the execution of processes within Swiss Re, including those within Risk Management.
- The Compliance function oversees Swiss Re's compliance with applicable laws, regulations, rules, and the Group Code of Conduct. It also assists the Business Unit and the Group Board of Directors, Executive Committees and other management bodies in identifying, mitigating and managing compliance risks.

Income statement
Swiss Re Corporate Solutions Ltd

For the years ended 31 December

CHF millions	Note	2017	2018
Reinsurance			
Premiums written gross		*3 020*	***1 589***
Premiums written retroceded		*–102*	***–128***
Premiums written net		2 918	**1 461**
Change in unearned premiums gross		*–122*	***338***
Change in unearned premiums retroceded		*2*	***1***
Change in unearned premiums net		–120	**339**
Premiums earned		2 798	**1 800**
Other reinsurance revenues		2	**21**
Allocated investment return		55	**59**
Total revenues from reinsurance business		2 855	**1 880**
Claims paid and claim adjustment expenses gross		*–1 519*	***–1 729***
Claims paid and claim adjustment expenses retroceded		*7*	***4***
Claims paid and claim adjustment expenses net		–1 512	**–1 725**
Change in unpaid claims gross		*–1 398*	***54***
Change in unpaid claims retroceded		*61*	***152***
Change in unpaid claims net		–1 337	**206**
Claims and claim adjustment expenses		–2 849	**–1 519**
Change in equalisation provision		183	**–**
Claims incurred		–2 666	**–1 519**
Acquisition costs gross		*–878*	***–545***
Acquisition costs retroceded		*5*	***0***
Acquisition costs net		–873	**–545**
Operating costs		–185	**–226**
Acquisition and operating costs		–1 058	**–771**
Other reinsurance expenses		–1	**0**
Total expenses from reinsurance business		–3 725	**–2 290**
Reinsurance result		–870	**–410**
Investments	2		
Investment income		124	**64**
Investment expenses		–13	**–11**
Allocated investment return		–55	**–59**
Investment result		56	**–6**
Other financial income		3	**4**
Other financial expenses		–22	**–30**
Operating result		–833	**–442**
Interest expenses on subordinated liabilities		–23	**–24**
Other income		0	**10**
Other expenses		–47	**–43**
Result before income tax expense		–903	**–499**
Income tax expense		–1	**1**
Net result		–904	**–498**

The accompanying notes are an integral part of Swiss Re Corporate Solutions Ltd's financial statements.

Balance sheet
Swiss Re Corporate Solutions Ltd

As of 31 December

Assets

CHF millions	Note	2017	2018
Investments			
Investments in subsidiaries and affiliated companies		1 513	**1 525**
Fixed income securities		1 168	**987**
Loans		945	**1 181**
Shares in investment funds		*1 853*	***1 823***
Short-term investments		*290*	***508***
Other investments		2 143	**2 331**
Total investments		5 769	**6 024**
Financial and reinsurance assets			
Assets in derivative financial instruments		2	**4**
Funds held by ceding companies	3	1 567	**486**
Cash and cash equivalents		16	**18**
Reinsurance recoverable from unpaid claims	3	*97*	***251***
Reinsurance recoverable from unearned premiums	3	*11*	***12***
Reinsurance recoverable on technical provisions retroceded		108	**263**
Deferred acquisition costs	3	449	**336**
Intangible assets		39	**40**
Premiums and other receivables from reinsurance	3	1 410	**1 176**
Other receivables		99	**293**
Other assets		3	**2**
Accrued income		4	**6**
Total financial and reinsurance assets		3 697	**2 624**
Total assets		9 466	**8 648**

The accompanying notes are an integral part of Swiss Re Corporate Solutions Ltd's financial statements.

Liabilities and shareholder's equity

CHF millions	Note	2017	2018
Liabilities			
Technical provisions gross			
Unpaid claims gross	3	4 708	**4 657**
Unearned premiums gross	3	1 953	**1 600**
Provisions for profit commissions gross	3	50	**51**
Equalisation provision gross		–	**–**
Total technical provisions gross		6 711	**6 308**
Non-technical provisions			
Tax provisions		1	**1**
Provision for currency fluctuation		0	**17**
Other provisions		43	**35**
Total non-technical provisions		44	**53**
Liabilities from derivative financial instruments		16	**7**
Reinsurance balances payable	3	480	**342**
Other liabilities		60	**30**
Accrued expenses		16	**14**
Subordinated liabilities		487	**788**
Total liabilities		7 814	**7 542**
Shareholder's equity	4		
Share capital		100	**100**
Legal reserves from capital contributions		*2 344*	***1 439***
Other legal capital reserves		*52*	***52***
Legal capital reserves		2 396	**1 491**
Voluntary profit reserves		46	**903**
Retained earnings brought forward		14	**–890**
Net loss for the financial year		–904	**–498**
Total shareholder's equity		1 652	**1 106**
Total liabilities and shareholder's equity		9 466	**8 648**

The accompanying notes are an integral part of Swiss Re Corporate Solutions Ltd's financial statements.

Notes
Swiss Re Corporate Solutions Ltd

Reinsurance and sub-holding company
Swiss Re Corporate Solutions Ltd (the Company), domiciled in Zurich, Switzerland, performs a dual role within the Swiss Re Group as both a reinsurance company and a sub-holding company for the Corporate Solutions Business Unit. The Company is a wholly-owned subsidiary of Swiss Re Ltd, the ultimate parent company domiciled in Zurich, Switzerland.

1 Significant accounting principles

Basis of presentation
In general, the financial statements are prepared in accordance with Swiss Company Law. As a reinsurance company and based on Art. 111b of the Ordinance on the supervision of private insurance companies (ISO), the Company is also required to follow the Insurance Supervisory Ordinance-FINMA (ISO-FINMA). The ISO-FINMA contains specific guidance for presentation of the balance sheet, the income statement and the notes of insurance companies and overrides the general guidance of the Swiss Code of Obligations (SCO).

Time period
The financial year 2018 comprises the accounting period from 1 January 2018 to 31 December 2018.

Use of estimates in the preparation of annual accounts
The preparation of the annual accounts requires management to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses as well as the related disclosures. Actual results could differ significantly from these estimates.

Foreign currency translation
Assets and liabilities denominated in foreign currencies are converted into Swiss francs at year-end exchange rates with the exception of participations, which are maintained in Swiss francs at historical exchange rates. Income and expenses in foreign currencies are converted into Swiss francs at average exchange rates for the reporting year.

The following table shows the main foreign currencies in which the Company operated:

			2017		2018
Currency exchange rates in CHF per 100 units of foreign currency		Closing rate	Average rate	Closing rate	Average rate
Australian dollar	AUD	76.21	75.43	**69.36**	**73.27**
British pound	GBP	131.81	126.62	**125.51**	**130.82**
Canadian dollar	CAD	77.77	75.82	**72.17**	**75.62**
Chinese yuan renminbi	CNY	14.98	14.55	**14.33**	**14.83**
Euro	EUR	117.02	110.92	**112.66**	**115.62**
Japanese yen	JPY	0.87	0.88	**0.90**	**0.89**
US dollar	USD	97.44	98.45	**98.53**	**97.81**

Investments
Investments in subsidiaries and affiliated companies are carried at cost, less necessary and legally permissible depreciation. The group valuation method is applied for the investments in subsidiaries and affiliated companies, which are economically linked to each other.

Fixed income securities are carried at their amortised cost, less necessary depreciation to address other than temporary market value decreases.

Loans are carried at nominal value. Value adjustments are recorded where the expected recovery value is lower than the nominal value. Infrastructure loans are carried at their amortised cost.

Shares in investment funds are carried at cost or lower market value.

Short-term investments contain investments with original duration between three months and one year. Such investments are generally held until maturity and are maintained at their amortised cost values.

Subsequent recoveries of previously recorded downward value adjustments may be recognised up to the lower of cost or market value at the balance sheet date. The valuation rules prescribed by the Swiss Financial Market Supervisory Authority FINMA are observed.

Assets in derivative financial instruments
Assets in derivative financial instruments are accounted based on the lower of cost or market principle.

Funds held by ceding companies
Funds held by ceding companies consist mainly of assets that belong to the Company but are withheld by the cedent due to regulatory or legal requirements, or to retain control over investments and reduce a potential credit risk. Assets are initially measured based on the consideration received. Subsequently the funds held by ceding companies are measured at the consideration received or market value of the underlying assets.

Cash and cash equivalents
Cash and cash equivalents include cash at bank, short-term deposits and certain investments in money-market funds with original maturity of three months or less. Such current assets are held at nominal value.

Reinsurance recoverable on technical provisions retroceded
Reinsurance recoverable on technical provisions represents the retroceded part of the technical provisions. The respective accounting principle per technical provision category is described further under "Technical provisions gross".

Deferred acquisition costs
Deferred acquisition costs consist principally of commissions and are related to the generation of new reinsurance business. Property and casualty deferred acquisition costs are generally amortised in proportion to premiums earned.

Intangible assets
Intangible assets, consisting of capitalised development costs for software for internal use, are measured at cost less straight-line amortisation over the estimated useful life of the software.

Premiums and other receivables from reinsurance
Premiums and other receivables from reinsurance are carried at nominal value after deduction of known credit risks if applicable. The position mainly consists of receivables from insurance companies and brokers.

Other assets
Other assets include deferred expenses on retroactive reinsurance policies, which are amortised through earnings over the expected claims-paying period.

Technical provisions gross
Unpaid claims are recognised based on information provided by clients and own estimates of expected claims experience, which are drawn from empirical statistics. These include provisions for claims incurred but not reported. Unpaid insurance obligations are set aside at the full expected amount of future payment.

Premiums written relating to future periods are stated as unearned premiums and are normally calculated by statistical methods. The accrual of commissions is determined proportionally and is reported under "Deferred acquisition costs".

Provisions for profit commissions are based on contractual agreements with clients and depend on the results of reinsurance treaties.

The shares of technical provisions pertaining to retroceded business are determined or estimated according to the contractual agreement and the underlying gross business data per treaty.

Liabilities assumed and consideration provided in connection with portfolio transactions are established through the respective lines in the income statement. The initial recognition of assumed outstanding claims is recorded as change in unpaid claims, with the consideration being recognised as negative claims paid. The assumption of the provision for unearned premiums is recorded through the change in unearned premiums, with the respective consideration accounted as premiums written. The initial set up of assets and liabilities in respect of retroactive treaties with external counterparties is accounted as a balance sheet transaction.

For transfers of retroactive treaties with external counterparties, the initial set up of assets and liabilities is accounted as a balance sheet transaction.

Non-technical provisions
The provision for currency fluctuation comprises the net effect of foreign exchange gains and losses arising from the yearly revaluation of the opening balance sheet and the translation adjustment of the income statement from average to closing exchange rates at year-end. These net impacts are recognised in the income statement over a time period of up to three years, based on the average duration of the technical provisions. Where the provision for currency fluctuation is insufficient to absorb net foreign exchange losses for the financial year, the provision for currency fluctuation is reduced to zero and the excess foreign exchange loss is recognised in the income statement.

Other provisions are determined according to business principles and are based on estimated needs. The tax provision is in accordance with tax regulations.

Liabilities from derivative financial instruments
Liabilities from derivative financial instruments are generally maintained at the highest commitment amount as per a balance sheet date during the life of the underlying contracts.

Reinsurance balances payable
Reinsurance balances payable are held at redemption value. The position mainly consists of payables to insurance companies and brokers.

Other liabilities
Other liabilities are held at redemption value.

Subordinated liabilities
Subordinated liabilities are held at redemption values.

Allocated investment return
The allocated investment return contains the calculated interest generated on the investments covering the technical provisions. The interest rate reflects the currency-weighted, five-year average yield on five-year government bonds.

Operating expenses
Operating expenses exclude unallocated loss adjustment expenses (ULAE) which are reclassed to internal claim expenses.

Management expenses
Overall management expenses are allocated to the reinsurance business, the investment business and to other expenses on an imputed basis.

Foreign exchange transaction gains and losses
Foreign exchange gains and losses arising from foreign exchange transactions are recognised in the income statement and reported net in other expenses or other income, respectively.

Capital and indirect taxes
Capital and indirect taxes related to the financial year are included in other expenses. Value-added taxes are included in the respective expense lines in the income statement.

Income tax expense
The income tax expense relates to the financial year under report.

2 Investment result

CHF millions	Income	Value readjustment	Realised gains	2018 Total
Investment income				
Subsidiaries and affiliated companies	2	–	–	**2**
Fixed income securities	20	–	0	**20**
Equity securities	–	–	0	**0**
Loans	36	–	–	**36**
Shares in investment funds	*1*	–	–	***1***
Short-term investments	*4*	–	*0*	***4***
Alternative investments	–	–	*0*	***0***
Other investments	5	–	0	**5**
Income from investment services	1	–	–	**1**
Investment income	**64**	**0**	**0**	**64**

CHF millions	Expenses	Value adjustments	Realised losses	2018 Total
Investment expenses				
Subsidiaries and affiliated companies	–	–	0	**0**
Fixed income securities	–	–	–3	**–3**
Equity securities	–	–	0	**0**
Loans	–	–	–	**–**
Shares in investment funds	–	–	–	**–**
Short-term investments	–	–	*0*	***0***
Alternative investments	–	–	–	**–**
Other investments	–	–	0	**0**
Investment management expenses	–8	–	–	**–8**
Investment expenses	**–8**	**0**	**–3**	**–11**
Allocated investment return				**–59**
Investment result				**–6**

CHF millions	Income	Value readjustment	Realised gains	2017 Total
Investment income				
Subsidiaries and affiliated companies	81	–	–	81
Fixed income securities	11	2	1	14
Equity securities	–	–	–	–
Loans	24	–	–	24
Shares in investment funds	*1*	*0*	–	*1*
Short-term investments	*3*	–	*0*	*3*
Alternative investments	–	–	–	–
Other investments	4	0	0	4
Income from investment services	1	–	–	1
Investment income	121	2	1	124

CHF millions	Expenses	Value adjustments	Realised losses	2017 Total
Investment expenses				
Subsidiaries and affiliated companies	–	–	–	–
Fixed income securities	–	–	–1	–1
Equity securities	–	–	–	0
Loans	–	–	–	–
Shares in investment funds	–	–	–	–
Short-term investments	–	–	*0*	*0*
Alternative investments	–	–	–	–
Other investments	–	0	0	0
Investment management expenses	–12	–	–	–12
Investment expenses	–12	0	–1	–13
Allocated investment return				–55
Investment result				56

3 Assets and liabilities from reinsurance

CHF millions	Gross	Retro	2017 Net	Gross	Retro	2018 Net
Funds held by ceding companies	1 567	–	1 567	**486**	**–**	**486**
Deferred acquisition costs	450	–1	449	**337**	**–1**	**336**
Premiums and other receivables from reinsurance	1 400	10	1 410	**1 163**	**13**	**1 176**
Unpaid claims	4 708	-97[1]	4 611	**4 657**	**-251[1]**	**4406[2]**
Unearned premiums	1 953	-11[1]	1 942	**1 600**	**-12[1]**	**1 588**
Provisions for profit commissions	50	–	50	**51**	**–**	**51**
Reinsurance balances payable	468	12	480	**326**	**16**	**342**

[1] Reported under "Reinsurance recoverable on technical provisions retroceded" on page 65.
[2] Includes prior year corrections resulting in an increase of reserves of CHF 10.7 million.

4 Change in shareholder's equity

CHF millions	Share Capital	Legal capital reserves	Voluntary profit reserves	Loss brought forward	Net loss for the financial year	Total Shareholder's equity
Shareholder's equity 1.1. 2017	100	1 394	26	8	176	1 704
Capital injection 01.11.2017	–	1 002	–	–	–	1 002
Allocation to voluntary profit reserves	–	–	170	–	–170	–
Allocation to retained earnings	–	–	–	6	–6	–
Dividend for the financial year 2016	–	–	–150	–	–	–150
Net result for the year	–	–	–	–	–904	–904
Shareholder's equity 31.12.2017	100	2 396	46	14	–904	1 652
Shareholder's equity 1.1. 2018	100	2 396	46	14	–904	1 652
Allocation to voluntary profit reserves	–	–905	905	–	–	–
Allocation to retained earnings	–	–	–	–904	904	–
Dividend for the financial year 2017	–	–	–48	–	–	–48
Net result for the year	–	–	–	–	–498	–498
Shareholder's equity 31.12.2018	**100**	**1 491**	**903**	**–890**	**–498**	**1 106**

5 Share capital and major shareholder

The nominal share capital of the Company amounted to CHF 100 million. It is divided into 100 000 shares, each with a nominal value of CHF 1 000. The shares were fully paid-in and held directly by Swiss Re Ltd. As of 31 December 2018 and 2017, the Company was a fully owned subsidiary of Swiss Re Ltd.

6 Contingent liabilities

As of 31 December 2018, the Company has issued limited guarantees of notional CHF 920 million (2017: CHF 869 million) to a subsidiary in support of individual transactions.

The Company is part of the Swiss Re value added tax (VAT) group and is therefore jointly liable for existing and future VAT claims from the Swiss Federal Tax Administration.

7 Securities lending

As of 31 December 2018, securities of CHF 509 million (2017: CHF 744 million) were lent to Swiss Reinsurance Company Ltd under securities lending agreements. As of 31 December 2018 and 2017, there were no securities lent to third parties.

CHF millions	2017	2018
Fair value of securities transferred to third parties	–	**–**
Fair value of securities transferred to affiliated companies	744	**509**
Total	744	**509**

8 Security deposits

To secure the technical provisions at the 2018 balance sheet date, securities with a value of CHF 642 million (2017: CHF 484 million) were deposited in favour of ceding companies. Thereof CHF 81 million were security deposits to external third parties (2017: none). The Company further secured reinsurance obligation towards Swiss Re international SE, Luxembourg, Zurich branch with CHF 348 million (2017: none) in CHF denominated and borrowed securities pursuant to regulatory directions.

9 Public placed debentures

As of 31 December 2018, the following public placed debentures were outstanding:

Instrument	Issued in	Currency	Nominal in millions	Interest rate	Maturity/ First call in	Book value CHF millions
Subordinated bond	2014	USD	500	4.500%	2024	493

10 Deposit arrangements

The following balances were related to deposit accounted reinsurance contracts:

CHF millions	2017	**2018**
Other reinsurance revenues	3	**1**
Premiums and other receivables from reinsurance	1	**1**
Reinsurance balances payable	1	**0**

11 Claims on and obligations towards affiliated companies

CHF millions	2017	**2018**
Loans	945	**1 181**
Funds held by ceding companies	1 566	**486**
Premiums and other receivables from reinsurance	1 300	**1 069**
Other receivables	90	**293**
Reinsurance balances payable	470	**342**
Other liabilities	54	**24**
Subordinated liabilities	–	**296**[1]

[1] The subordinated liabilities were against the parent company Swiss Re Ltd.
There were no other outstanding claims on and obligations towards the parent company Swiss Re Ltd at the end of the period 2018 and 2017.

12 Release of undisclosed reserves

In 2018, CHF 23 million of net undisclosed reserves were released (2017: none).

13 Obligations towards employee pension fund

As of 31 December 2018, other liabilities included CHF 0.4 million payable to the employee pension fund (2017: CHF 1 million).

14 Auditor's fees

In 2018, the Swiss Re Group incurred total auditor's fees of CHF 31.3 million (2017: CHF 30 million) and additional fees of CHF 6.9 million (2017: CHF 2 million), of which CHF 0.7 million (2017: CHF 0.5 million) incurred for the Company solely relating to auditor's fees and none (2017: CHF 0.1 million) relating to additional fees.

15 Investments in subsidiaries

As of 31 December 2018 and 2017, Swiss Re Corporate Solutions Ltd held the following direct and indirect investments in subsidiaries and affiliated companies.

As of 31 December 2018	Country	City	% Equity interest	% Voting interest
The Palatine Insurance Company Ltd	United Kingdom	London	100%	100%
Swiss Re Specialty Insurance (UK) Ltd	United Kingdom	London	100%	100%
Swiss Re International SE	Luxembourg	Luxembourg	100%	100%
Swiss Re Corporate Solutions Insurance China Ltd	China	Shanghai	100%	100%
SR Corporate Solutions America Holding Corporation	United States	Wilmington	100%	100%
Flint Hills Insurance Agency, LLC	United States	Overland Park	100%	100%
Swiss Re Accident and Health Risk Solutions, LLC	United States	Delaware	100%	100%
Swiss Re Corporate Solutions Global Markets Inc	United States	New York	100%	100%
Westport Insurance Corporation	United States	Jefferson City	100%	100%
First Specialty Insurance Corporation	United States	Jefferson City	100%	100%
North American Capacity Insurance Company	United States	Manchester	100%	100%
North American Elite Insurance Company	United States	Manchester	100%	100%
North American Specialty Insurance Company	United States	Manchester	100%	100%
Washington International Insurance Company	United States	Manchester	100%	100%
Westport Insurance Corporation - Escritório de Representação no Brasil Ltda.	Brazil	São Paulo	100%	100%
Wing RE III Inc.	United States	Missouri	100%	100%
Swiss Re Corporate Solutions Brasil Seguros S.A.	Brazil	São Paulo	60%	60%
Compania Aseguradora de Fianzas S.A. Confianza	Colombia	Bogotá	51%	51%
Swiss Re Corporate Solutions Advisors South Africa (Pty) Ltd	South Africa	Johannesburg	100%	100%
Swiss Re Corporate Solutions Investment Holding Company Ltd	Switzerland	Zurich	100%	100%
Compania Aseguradora de Fianzas S.A. Confianza	Colombia	Bogotá	0%	0%
Swiss Re Corporate Solutions México Seguros, S.A. de C.V.	Mexico	Mexico City	0%	1%
Swiss Re Corporate Solutions México Servicios, S. de R.L. de C.V.	Mexico	Mexico City	100%	67%
Swiss Re Corporate Solutions Services Ltd	United Kingdom	London	100%	100%
Swiss Re Corporate Solutions Services s.r.o.	Slovakia	Bratislava	100%	100%
Swiss Re Serviços de Consultoria em Seguros e Resseguros Ltda	Brazil	São Paulo	100%	100%
Swiss Re Corporate Solutions México Seguros, S.A. de C.V.	Mexico	Mexico City	100%	99%
Swiss Re Corporate Solutions México Servicios, S. de R.L. de C.V.	Mexico	Mexico City	0%	33%
Swiss Re Serviços de Consultoria em Seguros e Resseguros Ltda	Brazil	São Paulo	0%	0%
Westport Insurance Corporation - Escritório de Representação no Brasil Ltda.	Brazil	São Paulo	0%	0%

As of 31 December 2017	Country	City	% Equity interest	% Voting interest
The Palatine Insurance Company Ltd	United Kingdom	London	100%	100%
Swiss Re Specialty Insurance (UK) Ltd	United Kingdom	London	100%	100%
Swiss Re International SE	Luxembourg	Luxembourg	100%	100%
Swiss Re Corporate Solutions Insurance China Ltd	China	Shanghai	100%	100%
SR Corporate Solutions America Holding Corporation	United States	Wilmington	100%	100%
Flint Hills Insurance Agency, LLC	United States	Overland Park	100%	100%
Swiss Re Accident and Health Risk Solutions, LLC	United States	Delaware	100%	100%
Swiss Re Corporate Solutions Global Markets Inc	United States	New York	100%	100%
Westport Insurance Corporation	United States	Jefferson City	100%	100%
First Specialty Insurance Corporation	United States	Jefferson City	100%	100%
North American Capacity Insurance Company	United States	Manchester	100%	100%
North American Elite Insurance Company	United States	Manchester	100%	100%
North American Specialty Insurance Company	United States	Manchester	100%	100%
Washington International Insurance Company	United States	Manchester	100%	100%
Westport serviços e participações Ltda	Brazil	São Paulo	100%	100%
Swiss Re Corporate Solutions Brasil Seguros S.A.	Brazil	São Paulo	60%	60%
Compania Aseguradora de Fianzas S.A. Confianza	Colombia	Bogotá	51%	51%
Swiss Re Corporate Solutions Advisors South Africa (Pty) Ltd	South Africa	Johannesburg	100%	100%
Swiss Re Corporate Solutions Investment Holding Company Ltd	Switzerland	Zurich	100%	100%
Compania Aseguradora de Fianzas S.A. Confianza	Colombia	Bogotá	0%	0%
Swiss Re Corporate Solutions México Servicios, S. de R.L. de C.V.	Mexico	Mexico City	0%	33%
Swiss Re Serviços de Consultoria em Seguros e Resseguros Ltda	Brazil	São Paulo	0%	0%

As of 31 December 2017	Country	City	% Equity interest	% Voting interest
Swiss Re Corporate Solutions México Seguros, S.A. de C.V.	Mexico	Mexico City	100%	99%
Swiss Re Corporate Solutions México Servicios, S. de R.L. de C.V.	Mexico	Mexico City	100%	67%
Swiss Re Corporate Solutions Services Ltd	United Kingdom	London	100%	100%
Swiss Re Serviços de Consultoria em Seguros e Resseguros Ltda	Brazil	São Paulo	100%	100%

16 Personnel information and administrative expenses

As of 31 December 2018, the Company employed a worldwide staff at an average of 296 (2017: 303) full time equivalents.

Personnel expenses for the 2018 financial year amounted to CHF 100 million (2017: CHF 94 million).

Proposal for allocation of disposable result

The Board of Directors proposes to the Annual General Meeting of the Company, to be held on 27 March 2019, to approve the following allocation:

Retained earnings

CHF millions	2017	2018
Retained earnings brought forward	14	**–890**
Net result for the financial year	–904	**–498**
Disposable result	–890	**–1 388**
Allocation to voluntary profit reserves	–	**–**
Retained earnings after allocation	–890	**–1 388**

Legal reserves from capital contributions

CHF millions	2017	2018
Legal reserves from capital contributions brought forward	1 342	**1 439**
Capital injection on 1.11.2017 from Swiss Re Ltd	1 002	**–**
Proposed allocation to voluntary profit reserves	–905	**–1 000**
Legal reserves from capital contributions after proposed allocation to voluntary profit reserves	1 439	**439**

Voluntary profit reserves

CHF millions	2017	2018
Voluntary profit reserves brought forward	46	**903**
Allocation from legal reserves from capital contributions	905	**1 000**
Voluntary profit reserves after proposed allocation of legal reserves from capital contributions and before cash dividend	951	**1 903**
Cash dividend	-48[1]	**–**
Voluntary profit reserves after proposed allocation of legal reserves from capital contributions and after cash dividend	903	**1 903**

[1] The 2017 figure was recalculated based on the final cash dividend, converted into CHF at spot rate on the settlement date.

Zurich, 13 March 2019

Report of the statutory auditor

Report of the statutory auditor
to the General Meeting of
Swiss Re Corporate Solutions Ltd
Zurich, Switzerland

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Swiss Re Corporate Solutions Ltd (the 'Company'), which comprise the income statement, balance sheet and notes (pages 64 to 75) for the year ended 31 December 2018.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2018 comply with Swiss law and the Company's Articles of Association.

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

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

Unobservable or interpolated inputs used for the valuation of certain investments

Key audit matter

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

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

Investment valuation continues to be an area with inherent risk for certain investments that have unobservable or interpolated inputs. The risk is not the same for all investment types and is greatest for derivatives, which are more difficult to value because quoted prices are not always available.

How our audit addressed the key audit matter

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

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

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

Based on the work performed, we consider the methodology and assumptions used by management in determing the valuation to be appropriate.

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

Key audit matter

Valuation of actuarially determined P&C loss reserves involves a high degree of subjectivity and complexity. Reserves for losses and loss adjustment expenses represent estimates of future payments of reported and unreported claims for losses and related expenses at a given date.

The Company uses a range of actuarial methodologies and methods to estimate these reserves. Actuarially determined P&C loss reserves require significant judgement relating to certain factors and assumptions. Among the most significant reserving assumptions are the A-priori loss ratios, which typically drive the estimates of P&C loss reserves for the most recent contract years. Other key factors and assumptions include, but are not limited to, interest rates, inflation trends, claims trends, regulatory decisions, historical claims information and the growth of exposure.

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

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

How our audit addressed the key audit matter

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

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

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

Based on the work performed, we consider the methodologies and assumptions used by management in the valuation of actuarially determined P&C loss reserves to be appropriate.

Impairment assessment of investments in subsidiaries and affiliated companies

Key audit matter
The Company applies group valuation method when a close business link exists and a similarity in nature is given.

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

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

How our audit addressed the key audit matter
In relation to the matter set out opposite, our substantive testing procedures included the following:
- Assessing whether the group valuation method is still appropriate.
- Assessing whether the method applied for each subsidiary is reasonable.
- Understanding changes in the approach and discussing these with management to ensure they are in accordance with our own expectation based on our knowledge of the business and industry.

Based on the work performed, we consider the methods and assumption used by management to be appropriate.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers Ltd

Roy Clark
Audit expert
Auditor in charge

Frank Trauschke

Zurich, 13 March 2019

Cautionary note on forward-looking statements

Certain statements contained herein are forward-looking. These statements (including as to plans, objectives, targets and trends) 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 that may cause our actual results of operations, financial condition, liquidity position or prospects to be materially different from any future results of operations, financial condition, liquidity position or prospects expressed or implied by such statements. Among the key factors that have a direct bearing on our results of operations, financial condition, liquidity position or prospects are:

- further instability affecting the global financial system and developments related thereto, including as a result of concerns over, or adverse developments relating to, sovereign debt of eurozone countries;
- further deterioration in global economic conditions;
- our 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 interest rates, credit spreads, equity prices, currency values and other market indices, on our investment assets;
- changes in our investment result as a result of changes in our investment policy or the changed composition of our investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
- possible inability to realise amounts on sales of securities on our balance sheet equivalent to their mark-to-market values recorded for accounting purposes;
- mortality, morbidity and longevity rates;
- policy renewal and lapse rates;
- uncertainties in estimating reserves;

- extraordinary events affecting our counterparties;
- current, pending and future legislation and regulation affecting us, and interpretations of legislation or regulations by regulators, particularly in respect of minimum capital requirements;
- 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;
- 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. We operate in a continually changing environment and new risks emerge continually. Readers are cautioned not to place undue reliance on forward-looking statements. We undertake no obligation to publicly revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.

This communication is not intended to be a recommendation to buy, sell or hold securities and does not constitute an offer for the sale of, or the solicitation of an offer to buy, securities in any jurisdiction, including the United States. Any such offer will only be made by means of a prospectus or offering memorandum, and in compliance with applicable securities laws.

Note on risk factors

General impact of adverse market conditions

The operations of Swiss Re Corporate Solutions Ltd ("Swiss Re") and its subsidiaries (collectively, the "Group") as well as its investment returns are subject to market volatility and macro-economic factors, which are outside of the Group's control and are often inter-related.

Financial, credit and foreign exchange markets are experiencing continued periods of volatility reflecting a range of political, economic and other uncertainties, some of the more significant of which are inter-related. These include the planned withdrawal of the United Kingdom from the European Union and significant uncertainty regarding the basis of that withdrawal and the future relationship between the United Kingdom and the European Union; the possible emergence of trade barriers and other protection policies across a range of economies, including a sustained trade war between the United States and China; geopolitical tensions more broadly; a prolonged slowdown in one or more of the principal global economies, particularly in China, and possible recession; continued challenges faced by the Eurozone; the tightening of monetary policy; sustained challenges to multilateral institutions and frameworks; the domestic political situation in the United States, various member states of the European Union and potentially other countries; and heightened scrutiny of technology companies.

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 Group's ability to access the capital markets and bank funding markets, could adversely affect the ability of counterparties to meet their obligations to the Group and could adversely affect the confidence of the ultimate buyers of insurance.

Any of the foregoing factors, developments and trends could have an adverse effect on the Group's investment results, which in the current low interest rate environment and soft (albeit hardening) insurance cycle could have a material adverse effect on the Group's overall results, make it difficult to determine the value of certain assets in the Group's portfolio, make it more difficult to acquire suitable investments to meet its risk and return criteria and otherwise have a material adverse effect on its business and operations.

Regulatory changes

Swiss Re and its subsidiaries operate in a highly regulated environment. The regulatory regimes to which members of the Group are subject have changed significantly in recent years and are expected to continue to evolve. During this period, there has been a noticeable trend to extend the scope of reforms and oversight, which initially targeted banks, beyond such institutions to cover insurance operations.

While some regulation is national in scope, the global nature of the Group's business means that its operations are subject in effect to a patchwork of global, national and regional standards. Swiss Re and its subsidiaries are subject to applicable regulation in each of the jurisdictions in which they conduct business, particularly Switzerland, the United States, the United Kingdom, countries in the European Union (including Luxembourg), Australia, Japan, Canada, Singapore and Dubai. In addition, the Group could be affected by regulatory changes or developments affecting the overall Swiss Re group, comprising Swiss Re Ltd ("SRL") and its consolidated subsidiaries, of which the Group is a part (the "Swiss Re Group").

While certain regulatory processes are designed in part to foster convergence and achieve recognition of group supervisory schemes, the Group continues to face risks of extra-territorial application of regulations, particularly as to group supervision and group solvency requirements. In addition, regulators in jurisdictions beyond those where the Group has core operations increasingly are playing a far greater oversight role, requiring more localised resources and, despite a predominantly local focus, also raise issues of a cross-border nature. Furthermore, evolving regulatory schemes and requirements may be inconsistent or may conflict with each other, thereby subjecting the Group, particularly in light of the increasing focus on legal entities in isolation, to higher compliance and legal costs, as well as the possibility of higher operational, capital and liquidity costs. The effect of these trends could be exacerbated to the extent that the current political environment results in a return to more bilateral, and less harmonised, cross-border regulatory efforts.

The Group cannot predict which legislative and/or regulatory initiatives 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. The Group may be subject to changes in views of its regulators in respect of the models that the Group uses for capital and solvency purposes, and could be adversely affected if, for example, it is required to use standard models rather than internal models. Generally, legal and regulatory changes could have a material impact on the Group's business. Uncertainty regarding the future relationship between the United Kingdom and the European Union could also impact the legislative and/or regulatory regimes to which the Group is subject, both in the United Kingdom and in the European Union.

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. These changes, or inconsistencies between the various regimes that apply to the Group, could increase the costs of doing business (including due to increased capital requirements), reduce access to liquidity, limit the scope of current or future business or affect the competitive balance, or could make insurance less attractive to primary insurers.

Market risk

Volatility and disruption in the global financial markets could 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 industry, 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. 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.

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. While the Group has an extensive hedging programme covering its existing variable annuity business that it believes is sufficient, certain risks cannot be hedged, including actuarial, basis and correlation risks. 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 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 write-downs in other areas of its portfolio, including other 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.

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 under those facilities.

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 foreseeable 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 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.

Unexpected liquidity needs (including to meet collateral calls) could require the Group to incur indebtedness or liquidate investments or other assets. 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 is exposed to the risk of defaults, or concerns about defaults, by its counterparties. Securities 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 have a material adverse effect on the Group.

The Group could also be adversely affected by the insolvency of, or other credit constraints affecting, counterparties in its insurance operations. Moreover, the Group could be adversely affected by liquidity issues at clients or at third parties to whom the Group has retroceded risk, and such risk could be exacerbated to the extent any such exposures are concentrated.

Risks relating to credit rating downgrades

Ratings are an important factor in establishing the competitive position of insurance companies. 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. Ratings may be revised downward or revoked at the sole discretion of 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, and market conditions could increase the risk of downgrade. 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 and/or the ratings of its key legal entities. 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 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 policy or regulation to purchase insurance only from insurers with certain ratings. Moreover, a decline in ratings could impact the availability and terms of unsecured financing (potentially impacting both the Group's ability to roll over facilities and obtain new facilities) 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

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 the Group's 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 clients, 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, 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, including those in respect of market abuse, bribery, money laundering, trade sanctions and data protection and privacy. Aggressive tax enforcement is becoming a higher priority for many tax authorities, and 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 interest and penalties.

Tax authorities may also actively pursue additional taxes based on retroactive changes to tax laws. 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 and malfeasance, such as undertaking or facilitating cyber attacks on internal systems. 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 natural disasters, such as hurricanes, windstorms, floods, earthquakes, and man-made disasters, such as acts of terrorism and other disasters such as industrial accidents, explosions, and fires, and pandemics) are inherently unpredictable in terms of both their frequency and severity and have exposed, and may expose, the Group to unexpected large losses (and related uncertainties in estimating future claims in respect of such events); competitive conditions (including as a result of consolidation and the availability of significant levels of alternative capacity); cyclicality of the industry; risks related to emerging claims and coverage issues; macro developments giving rise to emerging risks, such as climate change and technological developments (including greater exposure to cyber risks (where accumulation risk is yet to be fully understood, but also risks relating to wearable health devices and autonomous cars), which could have a range of consequences from operational disruption, to loss of proprietary or customer data, to greater regulatory burdens and potential liability); risks arising from the Group's dependence on policies, procedures and expertise of the Group's clients; 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, including its information technology networks and systems. Any of the foregoing, as well as 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, and 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, including 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. In addition, 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. Moreover, regulators could require the use of standard models instead of permitting the use of internal models. 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. Changes in accounting standards could impact future reported results or require restatement of past reported results. 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.

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 substitutes 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 corporate structure
Swiss Re is a wholly owned subsidiary of SRL, and the Group represents only one of the four principal operating segments 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, auditing services, risk management oversight and legal and compliance) and technical services (including actuarial services support, underwriting services support and claims operations support). In addition, the Group 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 Group's business operations.

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 US GAAP and economic value management metrics. Decisions at the Swiss Re Group level in respect of the broader Swiss Re 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 entity, regulatory, capital and liquidity considerations. While to date the Group remains wholly owned by SRL, in the future, the Swiss Re Group may partner (for purposes of acquisitions or otherwise) with other investors in, or within, one or more of its business units or sub-groups within its business units (including the Group), which, subject to applicable regulatory requirements, have the potential to alter its historical approaches taken in respect of capital, liquidity, funding and/or dividends, as well as other governance matters, including strategy for such business unit or sub-group and board composition at the relevant corporate level. The Group's structure could also change in connection with acquisitions or dispositions. To the extent it undertakes acquisitions, it is subject to the risks inherent in acquiring and integrating new operations.

While further changes to the overall 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.

Swiss Re Corporate Solutions Ltd
Mythenquai 50/60
P.O. Box
8022 Zurich
Switzerland

Telephone +41 43 285 2121
Fax +41 43 285 2999
www.swissre.com