Swiss Re

Swiss Re Corporate Solutions Ltd

Half-Year 2020 Report

Content

Group financial statements **2**
Income statement 2
Statement of comprehensive income 3
Balance sheet 4
Statement of shareholder's equity 6
Statement of cash flows 7

Notes to the Group financial statements **8**
Note 1 Organisation and summary of significant accounting policies 8
Note 2 Information on business segments 11
Note 3 Insurance information 13
Note 4 Unpaid claims and claim adjustment expenses 14
Note 5 Deferred acquisition costs (DAC) 16
Note 6 Investments 17
Note 7 Fair value disclosures 23
Note 8 Derivative financial instruments 29
Note 9 Debt 31
Note 10 Variable interest entities 32
Note 11 Benefit plans 34

General information **35**
Cautionary note on forward looking statements 35
Note on risk factors 37

Income statement

For the six months ended 30 June

USD millions	Note	2019	2020
Revenues			
Gross premiums written	3	2 201	**2 238**
Net premiums written	3	1 831	**1 661**
Change in unearned premiums		232	**343**
Premiums earned	3	2 063	**2 004**
Net investment income	6	109	**98**
Net realised investment gains/losses[1]	6	77	**–19**
Other revenues		1	**3**
Total revenues		2 250	**2 086**
Expenses			
Claims and claim adjustment expenses	3	–2 031	**–1 820**
Acquisition costs	3	–313	**–304**
Operating expenses		–432	**–373**
Total expenses before interest expenses		–2 776	**–2 497**
Income/loss before interest and income tax expense/benefit		–526	**–411**
Interest expenses		–20	**–19**
Income/loss before income tax expense/benefit		–546	**–430**
Income tax expense/benefit		115	**100**
Net income/loss before attribution of non-controlling interests		–431	**–330**
Income/loss attributable to non-controlling interests		4	**–4**
Net income/loss attributable to common shareholder		–427	**–334**

[1] Total impairments for the six months ended 30 June 2019 and 2020 were nil.

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

Statement of comprehensive income

For the six months ended 30 June

USD millions	2019	**2020**
Net income/loss before attribution of non-controlling interests	–431	**–330**
Other comprehensive income, net of tax:		
Change in net unrealised investment gains/losses	186	**135**
Change in foreign currency translation	14	**–52**
Other comprehensive income attributable to non-controlling interests	2	**–29**
Total comprehensive income/loss before attribution of non-controlling interests	–229	**–276**
Comprehensive income attributable to non-controlling interests	2	**25**
Total comprehensive income/loss attributable to common shareholder	–227	**–251**

Reclassification out of accumulated other comprehensive income

For the six months ended 30 June

2019 USD millions	Net unrealised investment gains/losses[1]	Foreign currency translation	Accumulated other comprehensive income
Balance as of 1 January	–60	–35	–95
Change during the period	250	14	264
Amounts reclassified out of accumulated other comprehensive income	–12		–12
Tax	–52		–52
Balance as of period end	126	–21	105

2020 USD millions	Net unrealised investment gains/losses[1]	Foreign currency translation	**Accumulated other comprehensive income**
Balance as of 1 January	124	–30	**94**
Change during the period	193	–53	**140**
Amounts reclassified out of accumulated other comprehensive income	–22		**–22**
Tax	–36	1	**–35**
Balance as of period end	**259**	**–82**	**177**

[1] Reclassification adjustment included in net income is presented in "Net realised investment gains/losses".

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

Balance sheet

Assets

USD millions	Note	31.12.2019	30.06.2020
Investments	6,7,8		
Fixed income securities, available-for-sale (including 1 041 in 2019 and 715 in 2020 subject to securities lending and repurchase agreements) (amortised cost: 2019: 5 923; 2020: 5 730)		6 048	**6 023**
Equity securities, at fair value through earnings		172	**171**
Short-term investments (including 16 in 2019 and 57 in 2020 subject to securities lending and repurchase agreements)		368	**993**
Other invested assets		1 649	**1 328**
Total investments		8 237	**8 515**
Cash and cash equivalents (including 138 in 2019 and 22 in 2020 subject to securities lending)		1 581	**906**
Accrued investment income		47	**44**
Premiums and other receivables		2 538	**2 248**
Reinsurance recoverable on unpaid claims		7 058	**6 860**
Funds held by ceding companies		129	**108**
Deferred acquisition costs	5	483	**435**
Goodwill		204	**185**
Income taxes recoverable		100	**72**
Deferred tax assets		687	**792**
Other assets		1 085	**766**
Total assets		22 149	**20 931**

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

Liabilities and equity

USD millions	Note	31.12.2019	30.06.2020
Liabilities			
Unpaid claims and claim adjustment expenses	4	12 881	**12 959**
Liabilities for life and health policy benefits		728	**727**
Unearned premiums		3 456	**3 226**
Funds held under reinsurance treaties		480	**492**
Reinsurance balances payable		1 051	**475**
Income taxes payable		11	**10**
Deferred and other non-current tax liabilities		287	**333**
Accrued expenses and other liabilities		696	**425**
Long-term debt	9	798	**498**
Total liabilities		20 388	**19 145**
Equity			
Common shares, CHF 1 000 par value 2019: 100 000; 2020: 100 000 shares authorised and issued		119	**119**
Additional paid-in capital		2 265	**2 570**
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax		124	**259**
Foreign currency translation, net of tax		–30	**–82**
Total accumulated other comprehensive income		94	**177**
Retained earnings		–849	**–1 187**
Shareholder's equity		1 629	**1 679**
Non-controlling interests		132	**107**
Total equity		1 761	**1 786**
Total liabilities and equity		22 149	**20 931**

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

Statement of shareholder's equity

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

USD millions	2019	2020
Common shares		
Balance as of 1 January	119	**119**
Issue of common shares		
Balance as of period end	119	**119**
Additional paid-in capital		
Balance as of 1 January	1 665	**2 265**
Capital contribution	600	**300**
Share-based compensation		**5**
Balance as of period end	2 265	**2 570**
Net unrealised investment gains/losses, net of tax		
Balance as of 1 January	–60	**124**
Changes during the period	184	**135**
Balance as of period end	124	**259**
Foreign currency translation, net of tax		
Balance as of 1 January	–35	**–30**
Changes during the period	5	**–52**
Balance as of period end	–30	**–82**
Retained earnings		
Balance as of 1 January	186	**–849**
Transactions under common control	–103	**–4**
Net income/loss attributable to common shareholder	–932	**–334**
Balance as of period end	–849	**–1 187**
Shareholder's equity	1 629	**1 679**
Non-controlling interests		
Balance as of 1 January	143	**132**
Income/ loss attributable to non-controlling interests	–11	**4**
Other comprehensive income attributable to non-controlling interests		
Change in foreign currency translation	–3	**–29**
Other	3	
Balance as of period end	132	**107**
Total equity	1 761	**1 786**

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

Statement of cash flows

For the six months ended 30 June

USD millions	2019	2020
Cash flows from operating activities		
Net income/loss attributable to common shareholder	–427	**–334**
Add net income/loss attributable to non-controlling interests	–4	**4**
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items	25	**34**
Net realised investment gains/losses	–77	**19**
Income from equity-accounted investees, net of dividends received	–21	**–31**
Change in:		
Technical provisions and other reinsurance assets and liabilities, net	563	**–329**
Funds held by ceding companies and under reinsurance treaties	–208	**34**
Reinsurance recoverable on unpaid claims	–146	**119**
Other assets and liabilities, net	–214	**162**
Income taxes payable/recoverable	–143	**–83**
Trading positions, net	–33	**–81**
Net cash provided/used by operating activities	–685	**–486**
Cash flows from investing activities		
Fixed income securities:		
Sales	1 274	**1 355**
Maturities	376	**426**
Purchases	–1 257	**–1 459**
Net purchases/sales/maturities of short-term investments	–362	**–615**
Equity securities:		
Sales	80	**53**
Purchases	–71	**–63**
Securities purchased/sold under agreement to resell/repurchase, net	16	**–73**
Net purchases/sales/maturities of other investments	1	**196**
Net cash provided/used by investing activities	57	**–180**
Cash flows from financing activities		
Issuance/repayment of short-term debt		**–300**
Capital contribution	600	**300**
Net cash provided/used by financing activities	600	**0**
Total net cash provided/used	–28	**–666**
Effect of foreign currency translation		**–9**
Change in cash and cash equivalents	–28	**–675**
Cash and cash equivalents as of 1 January	763	**1 581**
Cash and cash equivalents as of 30 June	735	**906**

Interest paid was USD 9 million and USD 7 million for the six months ended 30 June 2019 and 2020, respectively. Tax paid was USD 28 million and USD -17 million for the six months ended 30 June 2019 and 2020, respectively.

A non-cash transaction of USD 201 million in the period ended 30 June 2020 increased "Fixed income securities, available-for-sale" and decreased "Other invested assets".

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). All significant intra-group transactions and balances have been eliminated on consolidation. The year-end balance sheet data presented was derived from audited financial statements. These interim financial statements do not include all disclosures that US GAAP requires on an annual basis and therefore they should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2019.

The Board of Directors of SRCS has decided that as of 1 January 2024 the Group's consolidated financial statements will be prepared in accordance with International Financial Reporting Standards (IFRS). Financial statements for periods ending on or prior to 31 December 2023 will continue to be prepared in accordance with US GAAP.

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

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

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

For assets or derivative structures at fair value, the Group uses market prices or inputs derived from market prices. A separate internal price verification process, independent of the trading function, provides an additional control over the market prices or market input used to determine the fair values of such assets. Although management considers that appropriate values have been ascribed to such assets, there is always a level of uncertainty and 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 30 June 2020, the Group has not provided any collateral on financial instruments in excess of its own market value estimates.

Subsequent events

Subsequent events for the current reporting period have been evaluated up to 30 July 2020. This is the date on which the financial statements are available to be issued.

Adoption of new accounting standards

In August 2018, the FASB issued ASU 2018-13, "Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement", an update to topic 820, "Fair Value Measurement". The amendments in this ASU add, remove and modify some disclosure requirements on fair value measurement. The Group adopted the standard retrospectively on 1 January 2020 with the exception of the amendments which require prospective adoption. The applicable amendments of ASU 2018-13 are reflected in Note 7 Fair value disclosures.

In August 2018, the FASB issued ASU 2018-15, "Customer's Accounting for Implementation Cost Incurred in a Cloud Computing Arrangement That Is a Service Contract", a consensus of the FASB Emerging Issues Task Force (EITF) to Subtopic 350-40, "Internal-Use Software". The amendments in this ASU align the requirements for capitalising implementation costs incurred in a cloud computing arrangement (CCA) that is a service contract with the requirements for capitalising implementation costs incurred to develop or obtain internal use software. The update requires that implementation costs related to a CCA that is a service contract need to be capitalised based on the phase and nature of the costs. The Group adopted ASU 2018-15 prospectively on 1 January 2020. The adoption did not have a material impact on the Group's financial statements.

In October 2018, the FASB issued ASU 2018-17, "Targeted Improvements to Related Party Guidance for Variable Interest Entities", an update to Topic 810, "Consolidation". The standard requires that indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. The Group adopted the ASU retrospectively on 1 January 2020. The adoption did not have an impact on the Group's financial statements.

In November 2018, the FASB issued ASU 2018-18, "Clarifying the Interaction between Topic 808 and Topic 606", an update to Topic 808, "Collaborative Arrangements". The amendments in this ASU provide guidance on whether certain transactions between collaborative arrangement participants should be accounted for with revenue under Topic 606 "Revenue from Contracts with Customers". In particular, the update requires that in a transaction with a collaborative arrangement participant that is not directly related to sales to third parties, the presentation of the transaction together with revenue recognised under Topic 606 is precluded. The Group adopted ASU 2018-18 on 1 January 2020 retrospectively to the date of initial application of Topic 606. The adoption did not have an impact on the Group's financial statements.

In April 2019, the FASB issued ASU 2019-04, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments". The ASU provides selective clarifications and corrections of guidance on credit losses, hedging, and recognising and measuring financial instruments. The Group adopted the standard on 1 January 2020 with the exception of the guidance relating to ASU 2016-13 "Measurement of Credit Losses". The adoption did not have an impact on the Group's financial statements. The amendments related to credit losses will be adopted together with ASU 2016-13 as required by the standard.

In March 2020, the FASB issued ASU 2020-03, "Codification Improvements to Financial Instruments". The amendments in this ASU address seven specific issues identified related to financial instruments with the aim to improve and clarify the Codification, correct unintended application of current guidance and eliminate inconsistencies. The Group adopted issues 1, 2, 3, 4 and 5 on 9 March 2020, which is the issuance date of the ASU. The adoption did not have an impact on the Group's financial statements. Issues 6 and 7 will be adopted together with ASU 2016-13 "Measurement of Credit Losses" as required by the standard.

In March 2020, the FASB issued ASU 2020-04, "Facilitation of the Effects of Reference Rate Reform on Financial Reporting", an update to Topic 848, "Reference Rate Reform". In response to concerns about structural risks of interbank offered rates (IBORs) and, particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR), regulators in several jurisdictions around the world have undertaken reference rate reform initiatives to identify alternative reference rates. The amendments in this update provide optional expedients and exceptions for applying US GAAP accounting principles to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of these reference rate reform initiatives. The Group adopted ASU 2020-04 on 12 March 2020, which is the issuance date of the standard. There is a choice to apply the guidance by Topic or industry Subtopic at any time

prospectively during the effective period from 12 March 2020 through 31 December 2022. As of 30 June 2020, the Group did not apply the guidance to any Topic or Subtopic.

Future adoption of new accounting standards
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. The standard is applicable to all financial assets such as financial instruments that are measured at amortised cost, available-for-sale debt securities and reinsurance recoverables. The objective of the expected credit loss model is that a reporting entity recognises its estimate of expected credit losses incorporating forward-looking information in a valuation allowance for financial assets in scope. As amended by ASU 2019-10 "Effective Dates", ASU 2016-13 is effective for annual and interim periods beginning after 15 December 2022. For most affected financial assets, the ASU must be adopted using a modified retrospective approach, with a cumulative effect adjustment recorded to opening retained earnings on the adoption date. 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 of its assets and liabilities (including unrecognised assets and liabilities) at the impairment testing date 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. As amended by ASU 2019-10 "Effective Dates", ASU 2017-04 is effective for goodwill impairment tests in annual and interim periods beginning after 15 December 2022. Early application 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 nonparticipating traditional and limited-payment insurance and reinsurance contracts. 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. Further, 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. As amended by ASU 2019-09 "Effective Date", ASU 2018-12 is effective for annual periods beginning after 15 December 2023, and interim periods beginning after 15 December 2024. Due to the decision of the Board of Directors of SRCS to prepare the Group's consolidated financial statements in accordance with IFRS beginning 1 January 2024, the Group does not plan to adopt ASU 2018-12.

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 customised solutions tailored to the needs of clients.

The Group presents five core operating business segments: Property, Accident & Health, Other liability, Specialty and Credit, which are determined by the organisational structure and the way in which management reviews the operating performance of the Group.

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

Credit

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

Business segments – income statement
For the six months ended 30 June

2019

USD millions	Property	Accident & Health	Other liability	Specialty	Credit	Total
Gross premiums written	720	348	549	309	275	2 201
Net premiums written	550	324	459	274	224	1 831
Change in unearned premiums	151	–104	83	83	19	232
Premiums earned	701	220	542	357	243	2 063
Expenses						
Claims and claim adjustment expenses	–601	–178	–766	–368	–118	–2 031
Acquisition costs	–92	–25	–72	–61	–63	–313
Operating expenses	–129	–37	–112	–114	–40	–432
Total expenses before interest expenses	–822	–240	–950	–543	–221	–2 776
Underwriting result	–121	–20	–408	–186	22	–713
Net investment income						109
Net realised investment gains/losses						77
Other revenues						1
Interest expenses						–20
Income/loss before income tax expense						–546
Claims ratio in %	85.8	80.9	141.4	103.1	48.5	98.5
Expense ratio in %	31.5	28.2	33.9	49.0	42.4	36.1
Combined ratio in %	117.3	109.1	175.3	152.1	90.9	134.6

2020

USD millions	Property	Accident & Health	Other liability	Specialty	Credit	Total
Gross premiums written	780	356	503	402	197	2 238
Net premiums written	508	336	346	325	146	1 661
Change in unearned premiums	211	–101	138	19	76	343
Premiums earned	**719**	**235**	**484**	**344**	**222**	**2 004**
Expenses						
Claims and claim adjustment expenses	–772	–177	–430	–251	–190	–1 820
Acquisition costs	–100	–24	–62	–57	–61	–304
Operating expenses	–126	–34	–91	–83	–39	–373
Total expenses before interest expenses	**–998**	**–235**	**–583**	**–391**	**–290**	**–2 497**
Underwriting result	**–279**	**0**	**–99**	**–47**	**–68**	**–493**
Net investment income						98
Net realised investment gains/losses						–19
Other revenues						3
Interest expenses						–19
Income/loss before income tax expense						**–430**
Claims ratio in %	107.4	75.3	88.9	73.0	85.6	90.8
Expense ratio in %	31.4	24.7	31.6	40.7	45.0	33.8
Combined ratio in %	138.8	100.0	120.5	113.7	130.6	124.6

3 Insurance information

For the six months ended 30 June

Premiums written and premiums earned

USD millions	2019	2020
Premiums written, thereof:		
Direct	1 770	1 859
Reinsurance	431	379
Ceded	–370	–577
Net premiums written	1 831	**1 661**
Premiums earned, thereof:		
Direct	1 840	1 913
Reinsurance	487	491
Ceded	–264	–400
Net premiums earned	2 063	**2 004**

Claims and claim adjustment expenses

USD millions	2019	2020
Claims paid, thereof:		
Gross	–1 692	–1 813
Ceded	348	396
Net claims paid	–1 344	–1 417
Change in unpaid claims and claim adjustment expenses, thereof:		
Gross	–619	–244
Ceded	–68	–159
Net unpaid claims and claim adjustment expenses	–687	**–403**
Claims and claim adjustment expenses	–2 031	–1 820

Acquisition costs

USD millions	2019	2020
Acquisition costs, thereof:		
Gross	–368	–366
Ceded	55	62
Net acquisition costs	–313	**–304**

Insurance receivables

Insurance receivables as of 31 December 2019 and 30 June 2020 were as follows:

USD millions	2019	2020
Premium receivables invoiced	966	1 134
Receivables invoiced from ceded re/insurance business	304	257
Recognised allowance	–25	–26

4 Unpaid claims and claim adjustment expenses

A reconciliation of the opening and closing reserve balances for unpaid claims and claim adjustment expenses as of 31 December 2019 and 30 June 2020 is presented as follows:

USD millions	2019	**2020**
Balance as of 1 January	11 929	12 881
Reinsurance recoverable	−4 985	−6 330
Deferred expense on retroactive reinsurance	0	273
Net balance as of 1 January	6 944	**6 824**
Incurred related to:		
Current year	3 065	1 830
Prior year	722	−23
Impacts of retroactive reinsurance	373	8
Total incurred	4 160	**1 815**
Paid related to:		
Current year	−573	1 040
Prior year	−2 414	−2 457
Total paid	−2 987	−1 417
Foreign exchange	6	−71
Effect of acquisitions, disposals, new retroactive reinsurance and other items	−1 299	−44
Net balance as of period end	6 824	**7 107**
Reinsurance recoverable	6 330	6 133
Deferred expense on retroactive reinsurance	−273	−281
Balance as of period end	12 881	**12 959**

Prior-year development

In the first half year 2020, the Group reported a favourable development on prior accident years, mainly driven by property and specialty due to a low claims activity. This was partially offset by adverse development on the other lines of business, driven by large man-made losses.

A summary of prior-year net claims and claim adjustment expenses development by lines of business for the year ended 31 December 2019 and for the six months ended 30 June 2020 is shown below[1]:

USD millions	2019	**2020**
Line of business:		
Property	288	–82
Accident & Health	30	28
Other liability	217	30
Specialty	57	–18
Credit	130	19
Total	722	**–23**

[1] Adverse development is positive and represents a charge to the income statement. Favourable development is negative and represents a credit to the income statement.

5 Deferred acquisition costs (DAC)

As of 31 December 2019 and 30 June 2020, the DAC were as follows:

USD millions	2019	**2020**
Opening balance as of 1 January	488	483
Deferred	621	250
Amortisation	–626	–298
Effect of foreign currency translation		
Closing balance	483	**435**

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 for the six months ended 30 June was as follows:

USD millions	2019	2020
Fixed income securities	84	69
Equity securities	3	2
Short-term investments	5	3
Other current investments	4	1
Share in earnings of equity-accounted investees	21	31
Cash and cash equivalents	6	5
Net result from deposit-accounted contracts		2
Deposits with ceding companies	1	1
Gross investment income	124	**114**
Investment expenses	–13	–12
Interest charged for funds held	–2	–4
Net investment income	109	**98**

Realised gains and losses

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

USD millions	2019	2020
Fixed income securities available-for-sale:		
Gross realised gains	8	29
Gross realised losses	–3	–7
Net realised investment gains/losses on equity securities	2	
Change in net unrealised investment gains/losses on equity securities	25	–10
Net realised investment gains/losses on trading securities		1
Net realised/unrealised gains/losses on other investments	–2	7
Net realised/unrealised gains/losses on insurance-related activities	52	–46
Foreign exchange gains/losses	–5	7
Net realised investment gains/losses	77	**–19**

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 2019 and 30 June 2020 were as follows:

2019 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	2 443	57	–6	2 494
US Agency securitised products	323	7		330
States of the United States and political subdivisions of the states	395	16		411
Canada	465	2	–1	466
Brazil	207	5		212
Australia	209	2	–1	210
Other	230	2	–1	231
Total	4 272	91	–9	4 354
Corporate debt securities	1 309	38		1 347
Mortgage- and asset-backed securities	342	5		347
Fixed income securities available-for-sale	5 923	134	–9	6 048

2020 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	2 165	176		2 341
US Agency securitised products	687	16		703
States of the United States and political subdivisions of the states	368	21		389
Canada	446	7	–3	450
Brazil	137	4		141
Australia	127	2	–1	128
Other	230	7	–1	236
Total	4 160	233	–5	4 388
Corporate debt securities	1 375	64	–2	1 437
Mortgage- and asset-backed securities	195	4	–1	198
Fixed income securities available-for-sale	**5 730**	**301**	**–8**	**6 023**

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 2019 and 30 June 2020.

2019 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	450	6	10	0	460	6
US Agency securitised products	43	0	3	0	46	0
States of the United States and political subdivisions of the states			8	0	8	0
Canada	211	1			211	1
Brazil	14	0			14	0
Australia	47	0	8	1	55	1
Other	67	0	34	1	101	1
Total	832	7	63	2	895	9
Corporate debt securities	69	0	8	0	77	0
Mortgage- and asset-backed securities	53	0	25	0	78	0
Total	954	7	96	2	1 050	9

2020 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	0			2	0
US Agency securitised products	8	0			8	0
States of the United States and political subdivisions of the states					0	0
Canada	90	3			90	3
Brazil	8	0			8	0
Australia			8	1	8	1
Other	16	0	13	1	29	1
Total	124	3	21	2	145	5
Corporate debt securities	96	2			96	2
Mortgage- and asset-backed securities	52	1	5	0	57	1
Total	**272**	**6**	**26**	**2**	**298**	**8**

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 2019 and 30 June 2020, USD 1 500 million and USD 1 442 million, respectively, of fixed income securities available-for-sale were callable.

USD millions	2019 Amortised cost or cost	2019 Estimated fair value	2020 Amortised cost or cost	2020 Estimated fair value
Due in one year or less	1 055	1 059	920	925
Due after one year through five years	2 231	2 254	2 349	2 422
Due after five years through ten years	1 496	1 556	1 210	1 327
Due after ten years	799	832	1 056	1 151
Mortgage- and asset-backed securities with no fixed maturity	342	347	195	198
Total fixed income securities available-for-sale	5 923	6 048	5 730	6 023

Assets pledged

As of 31 December 2019 and 30 June 2020, investments with a carrying value of USD 1 050 million and USD 1 112 million, respectively, were on deposit with regulatory agencies in accordance with local requirements, of which USD 33 million and USD 103 million, respectively, were cash and cash equivalents. As of 31 December 2019 and 30 June 2020, investments with a carrying value of USD 413 million and USD 372 million, respectively, were placed on deposit or pledged to secure certain reinsurance liabilities, of which USD 281 million and USD 133 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 2019 and 30 June 2020, securities with a value of USD 1 195 million and USD 794 million, respectively, were transferred to third parties under securities lending transactions and repurchase agreements on a fully collateralised basis. There were no associated liabilities.

Other financial assets and liabilities by measurement category

As of 31 December 2019 and 30 June 2020, "Other invested assets" and "Accrued expenses and other liabilities" by measurement category were as follows:

2019 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	25					25
Reverse repurchase agreements			27			27
Equity accounted investments				1 513		1 513
Other		6	78			84
Other invested assets	25	6	105	1 513	0	1 649
Accrued expenses and other liabilities						
Derivative financial instruments	107					107
Other			48		541	589
Accrued expenses and other liabilities	107	0	48	0	541	696

2020 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	17					17
Reverse repurchase agreements			100			100
Equity accounted investments				1 149		1 149
Other		6	56			62
Other invested assets	**17**	**6**	**156**	**1 149**	**0**	**1 328**
Accrued expenses and other liabilities						
Derivative financial instruments	72					72
Other			54		299	353
Accrued expenses and other liabilities	**72**	**0**	**54**	**0**	**299**	**425**

[1] Amounts do not relate to financial assets or liabilities.

Offsetting of derivatives, financial assets and financial liabilities

Offsetting of derivatives, financial assets and financial liabilities as of 31 December 2019 and 30 June 2020 was as follows:

2019 USD millions	Gross amounts of recognised financial assets	Amounts 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	25		25	–2	23
Reverse repurchase agreements	27		27	–27	0
Total	52	0	52	–29	23

2019 USD millions	Gross amounts of recognised financial liabilities	Amounts 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	–107		–107	17	–90
Total	–107	0	–107	17	–90

2020 USD millions	Gross amounts of recognised financial assets	Amounts 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	18		18	–1	**17**
Reverse repurchase agreements	100		100	–100	**0**
Total	**118**	**0**	**118**	**–101**	**17**

2020 USD millions	Gross amounts of recognised financial liabilities	Amounts 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	–72		–72	15	**–57**
Total	**–72**	**0**	**–72**	**15**	**–57**

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 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.

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 unadjusted, 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. The types of instruments include most US government and sovereign obligations, active listed equities, certain exchange-traded derivative instruments and most money market securities.

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); (iv) inputs derived from, or corroborated by, observable market data; and (v) quoted prices provided by third-party brokers. The types of instruments that trade in markets that are not considered to be active include most government agency securities, investment-grade corporate bonds, certain mortgage- and asset-backed products, certain exchange-traded derivative instruments, catastrophe bonds, less liquid listed equities and state, municipal and provincial obligations.

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. 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. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

The fair values of assets are adjusted to incorporate the counterparty risk of non-performance. Similarly, the fair values of liabilities reflect the risk of non-performance of the Group, captured by the Group's credit spread. These valuation adjustments from assets and liabilities measured at fair value using significant unobservable inputs are recognised in net realised gains and losses. For the six months ended 30 June 2020, 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 the 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.

Assets and liabilities measured at fair value on a recurring basis

As of 31 December 2019 and 30 June 2020, the fair values of assets and liabilities measured on a recurring basis by level of input were as follows:

2019 USD millions	Quoted prices in active markets for identical assets and liabilities (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Total
Assets				
Fixed income securities held for proprietary investment purposes	2 495	3 553		6 048
Debt securities issued by US government and government agencies	2 495	410		2 905
US Agency securitised products		330		330
Debt securities issued by non-US governments and government agencies		1 119		1 119
Corporate debt securities		1 347		1 347
Mortgage- and asset-backed securities		347		347
Equity securities held for proprietary investment purposes	171	1		172
Short-term investments held for proprietary investment purposes	126	242		368
Derivative financial instruments	6	11	8	25
Total assets at fair value	2 798	3 807	8	6 613
Liabilities				
Derivative financial instruments		–11	–96	–107
Total liabilities at fair value	0	–11	–96	–107

2020 USD millions	Quoted prices in active markets for identical assets and liabilities (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Total
Assets				
Fixed income securities held for proprietary investment purposes	2 341	3 682		6 023
Debt securities issued by US government and government agencies	2 341	389		2 730
US Agency securitised products		703		703
Debt securities issued by non-US governments and government agencies		955		955
Corporate debt securities		1 437		1 437
Mortgage- and asset-backed securities		198		198
Equity securities held for proprietary investment purposes	164	7		171
Short-term investments held for proprietary investment purposes	431	562		993
Derivative financial instruments	5	9	4	18
Total assets at fair value	**2 941**	**4 260**	**4**	**7 205**
Liabilities				
Derivative financial instruments	–1	–8	–63	–72
Total liabilities at fair value	**–1**	**–8**	**–63**	**–72**

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

As of 31 December 2019 and 30 June 2020, the reconciliation of the fair values of assets and liabilities measured on a recurring basis using significant unobservable inputs was as follows:

2019 USD millions	Derivative assets	Total assets	Derivative liabilities	Total liabilities
Assets and liabilities				
Balance as of 1 January	6	6	–121	–121
Realised/unrealised gains/losses:				
Included in net income[1]	–4	–4	84	84
Included in other comprehensive income		0		0
Purchases	18	18		0
Issuances		0	–114	–114
Sales	–2	–2	22	22
Settlements	–10	–10	33	33
Transfers into level 3		0		0
Transfers out of level 3		0		0
Impact of foreign exchange movements		0		0
Closing balance as of 31 December	8	8	–96	–96

[1] Fair value changes are reported in "Net realised investment gains/losses".

2020 USD millions	Derivative assets	**Total assets**	Derivative liabilities	**Total liabilities**
Assets and liabilities				
Balance as of 1 January	8	**8**	–96	**–96**
Realised/unrealised gains/losses:				
Included in net income[1]	–1	**–1**	–45	**–45**
Included in other comprehensive income		**0**		**0**
Purchases	1	**1**		**0**
Issuances		**0**	–51	**–51**
Sales		**0**	6	**6**
Settlements	–4	**–4**	123	**123**
Transfers into level 3		**0**		**0**
Transfers out of level 3		**0**		**0**
Impact of foreign exchange movements		**0**		**0**
Closing balance as of 30 June	**4**	**4**	**–63**	**–63**

[1] Fair value changes are reported in "Net realised investment gains/losses".

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

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

USD millions	2019	2020
Gains/losses included in net income for the period	53	–46
Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date	32	–39

Quantitative information about level 3 fair value measurements

Unobservable inputs for major level 3 assets and liabilities as of 31 December 2019 and 30 June 2020 were as follows:

USD millions	2019 Fair value	2020 Fair value	Valuation technique	Unobservable input	Range (weighted average[1])
Liabilities					
Derivative financial instruments	–96	**–63**			
Weather contracts	–76	–41	Proprietary option model	Risk margin	5–11% (10%)
				Correlation	–36–60% (39%)
				Volatility (power/gas)	32–113% (94%)
				Volatility (temperature)	30–432 (189) HDD/CAT[2]
				Index value (temperature)	670–10 736 (5 577) HDD/CAT[2]
Industry loss warrants	–15	–18	Credit default model	Market implied probability of Nat Cat event	2–13% (6%)
Power outage contracts	–5	–4	Proprietary option model	Risk margin	6% (n/a)
				Average power forward price	USD 23–75 (USD 57.9)

[1] Unobservable inputs were weighted by the relative fair value of the instruments.
[2] Heating Degree Days (HDD); Cumulative Average Temperature (CAT).

Uncertainty of recurring level 3 measurements from the use of significant 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 have resulted 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 have resulted 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 have resulted 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 have resulted 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 have resulted 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 have resulted 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 have resulted 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 have resulted in a significantly lower (higher) fair value measurement.

Other invested assets measured at net asset value

As of 31 December 2019 and 30 June 2020, other assets measured at net asset value were USD 6 million and USD 6 million, respectively. Additionally, there were USD 6 million of unfunded commitments as of 30 June 2020.

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. The period of time over which the underlying assets are expected to be liquidated is indeterminate as investees provide liquidation notices.

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

			2019			2020
	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	–525	–300	–825	–517		–517
Total liabilities	–525	–300	–825	**–517**	**0**	**–517**

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 risks 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 OTC 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 2019 and 30 June 2020, the fair values and notional amounts of the derivatives outstanding were as follows:

2019 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	702	9	–3	6
ECM/Weather contracts/ILW	1 176	14	–96	–82
Credit contracts	310	2	–6	–4
Total	2 188	25	–105	–80
Derivatives designated as hedging instruments				
Foreign exchange contracts	172		–2	–2
Total	172	0	–2	–2
Total derivative financial instruments	2 360	25	–107	–82

2020 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	763	3	–2	1
ECM/Weather contracts/ILW	875	10	–64	–54
Credit contracts	627	4	–6	–2
Total	**2 265**	**17**	**–72**	**–55**
Derivatives designated as hedging instruments				
Foreign exchange contracts	166	1		1
Total	**166**	**1**	**0**	**1**
Total derivative financial instruments	**2 431**	**18**	**–72**	**–54**

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 six months ended 30 June were as follows:

USD millions	2019	2020
Derivatives not designated as hedging instruments		
Foreign exchange contracts		152
Credit contracts	–2	8
ECM/Weather contracts/ILW	51	–45
Total gains/losses recognised in income	49	**115**

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 30 June 2019 and 2020, 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.

For the six months ended 30 June, the gains and losses attributable to the hedged risks were as follows:

USD millions	2019 Net realised investment gains/losses	2020 Net realised investment gains/losses
Total amounts of income and expense line items	77	–19
Foreign exchange contracts		
Gains/losses on derivatives	-7	8
Gains/losses on hedged items	7	–8

As of 31 December 2019 and 30 June 2020, the carrying values of the hedged assets recognised in the balance sheet were as follows:

USD millions	2019	2020
Assets		
Fixed income securities available-for-sale	173	**165**

Maximum potential loss

In consideration of the rights of set-off and the qualifying master netting arrangements with various counterparties, the maximum potential loss as of 31 December 2019 and 30 June 2020 was approximately USD 25 million and USD 18 million, respectively. The maximum potential loss is based on the positive market replacement cost assuming non-performance of all counterparties, excluding cash collateral.

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 30 million and USD 15 million as of 31 December 2019 and 30 June 2020, respectively. For derivative financial instruments containing credit risk-related contingent features, the Group posted collateral of nil as of 31 December 2019 and 30 June 2020. In the event of a reduction of the Group's credit rating to below investment grade, a fair value of USD 15 million additional collateral would have had to be posted as of 30 June 2020. The total equals the amount needed to settle the instruments immediately as of 30 June 2020.

9 Debt

The Group's debt as of 31 December 2019 and 30 June 2020 was as follows:

USD millions	2019	2020
Long-term subordinated financial debt	798	498
Total carrying value	798	498
Total fair value	825	**517**

Interest expense on long-term debt

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

USD millions	2019	2020
Subordinated financial debt	20	18
Total	20	18

Long-term debt issued in 2020

No long-term debt was issued in the first half of 2020.

10 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 on the following page.

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 2020 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 2019 and 30 June 2020:

USD millions	2019	**2020**
Equity securities at fair value through earnings	34	30
Other invested assets	1 519	1 154
Total assets	1 553	**1 184**

The following table shows the Group's assets and maximum exposure to loss related to the VIEs in which the Group held a variable interest but was not the primary beneficiary as of 31 December 2019 and 30 June 2020:

USD millions	Total assets	2019 Maximum exposure to loss[1]	Total assets	**2020** Maximum exposure to loss[1]
Investment vehicles	1 553	1 553	1 184	1 184
Total	1 553	1 553	**1 184**	**1 184**

[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.

11 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 2020

For the six months ended 30 June 2020, the Group contributed USD 6 million to the aforementioned pension plans.

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:

- the frequency, severity and development of insured claim events, particularly natural catastrophes, man-made disasters, pandemics, acts of terrorism or acts of war;
- central bank intervention in the financial markets, trade wars or other protectionist measures relating to international trade arrangements, adverse geopolitical events, domestic political upheavals or other developments that adversely impact global economic conditions;
- increased volatility of, and/or disruption in, global capital and credit markets;
- our ability to maintain sufficient liquidity and access to capital markets, including sufficient liquidity to cover potential recapture of reinsurance agreements, early calls of debt or debt-like arrangements and collateral calls due to actual or perceived deterioration of our financial strength or otherwise;
- our inability to realize amounts on sales of securities on our balance sheet equivalent to their values recorded for accounting purposes;
- our inability to generate sufficient investment income from its investment portfolio, including as a result of fluctuations in the equity and fixed income markets, the composition of the investment portfolio or otherwise;
- changes in legislation and regulation, or the interpretations thereof by regulators and courts, affecting us or our ceding companies, including as a result of comprehensive reform or shifts away from multilateral approaches to regulation of global operations;
- the lowering or loss of one of the financial strength or other ratings of one or more of our companies, and developments adversely affecting its ability to achieve improved ratings;
- uncertainties in estimating reserves, including differences between actual claims experience and underwriting and reserving assumptions;
- uncertainties in estimating future claims for purposes of financial reporting, particularly with respect to large natural catastrophes and certain large man-made losses, as significant uncertainties may be involved in estimating losses from such events and preliminary estimates may be subject to change as new information becomes available;
- the availability and effectiveness of reinsurance arrangements, and any failures of counterparties to perform their obligations under such arrangements;
- legal actions or regulatory investigations or actions, including in respect of industry requirements or business conduct rules of general applicability;
- the outcome of tax audits, the ability to realize tax loss carryforwards and the ability to realize deferred tax assets (including by reason of the mix of earnings

in a jurisdiction or deemed change of control), which could negatively impact future earnings, and the overall impact of changes in tax regimes on our business model;

- changes in accounting estimates or assumptions that affect reported amounts of assets, liabilities, revenues or expenses, including contingent assets and liabilities;
- changes in accounting standards, practices or policies;
- strengthening or weakening of foreign currencies;
- reforms of, or other potential changes to, benchmark reference rates;
- failure of our hedging arrangements to be effective;
- significant investments, acquisitions or dispositions, and any delays, unforeseen liabilities or other costs, lower-than-expected benefits, impairments, ratings action or other issues experienced in connection with any such transactions;
- changing levels of competition;
- the effects of business disruption due to terrorist attacks, cyberattacks, natural catastrophes, public health emergencies, hostilities or other events;
- limitations on the ability of our subsidiaries to pay dividends or make other distributions; and
- operational factors, including the efficacy of risk management and other internal procedures in anticipating and 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

The operations, investments and other activities of Swiss Re Corporate Solutions Ltd ("SRCS") and its subsidiaries (collectively, the "Group") are subject to a range of risks that could adversely impact the Group's business, financial condition, results of operations, liquidity and cash flows. The Group is part of the broader Swiss Re group (collectively, "Swiss Re"), the holding company for which is Swiss Re Ltd ("SRL").

Coronavirus

The global spread of the novel coronavirus and the disease it causes ("COVID-19"), and the actions taken to mitigate their effects, have led to significant volatility in the financial markets, have had an adverse impact on global economic activity and have had adverse effects on the global economy, including recession. While many countries have reduced the level of COVID-19 infections, in others the level of infections continues to increase and, in the absence of a vaccine and/or alternative treatment solutions, the threat of new outbreaks still looms, raising the prospect of further mitigation efforts and the attendant consequences of such actions. As such, it remains difficult to predict the ultimate extent of the pandemic's impact going forward on the Group's business, operations, financial condition, results of operations, liquidity or solvency ratio.

The COVID-19 crisis presents a series of potential coverage challenges for the industry. A number of state legislatures in the United States are considering legislation to retroactively change existing primary insurance coverage for business interruption and loss of use to cover coronavirus-related losses, and other jurisdictions may do the same. Court cases against businesses alleging liability in respect of responses to the COVID-19 crisis as well as cases in a number of jurisdictions, including class actions in the United States and a test case brought by the Financial Conduct Authority in the United Kingdom, brought by or on behalf of policyholders relating to insurance contract terms and interpretations thereof already have been filed, and both these trends are likely to continue.

Swiss Re estimates that insurance demand will slow sharply in 2020 due to what is projected to be a deep, but short-lived recession, with an expectation of recovery of premium levels in 2021 alongside recovery of the global economy. Swiss Re notes that the upper end of the range of total property and casualty claims by third party insurance analysts is in the range of USD 100 billion. The future impact of the COVID-19 crisis will depend on a range of factors, including the duration of mitigation efforts and the availability of vaccines and/or alternative treatment solutions, the severity of the impact of mitigation efforts on businesses and business activity, the scope and efficacy of governmental stimulus and other relief efforts, the extent to which legislative or regulatory efforts or court cases succeed in shifting some of the burden of the pandemic to insurers (particularly for business interruption) on a retroactive basis, and the severity and duration of, and the speed of recovery from, recessionary impacts. Swiss Re's disclosures and other public statements should be read in the context of the evolving COVID-19 crisis and the related uncertainties, whether or not specific reference is made thereto.

General impact of adverse market conditions

The Group's operations as well as its investment returns are subject to conditions in the financial markets and macroeconomic factors, which are outside of its control. Financial, credit and foreign exchange markets are experiencing continued periods of volatility reflecting a range of political, geopolitical, economic and other uncertainties, some of the more significant of which are inter-related. 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 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. The most significant of these is the current impact of the COVID-19 crisis.

Regulatory changes

The Group operates in a highly regulated environment, which continues to change over time. The regulatory regimes to which members of the Group are subject have changed significantly in recent years and are expected to continue to evolve. 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 group supervision and Swiss Re's subsidiaries are also subject to applicable regulation in each of the jurisdictions in which they conduct business. The Group could be affected by regulatory changes or developments affecting Swiss Re.

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, particularly if these efforts lead to national policies based on more protectionist philosophies.

On the international level, certain large insurance companies have been designated as global systemically important insurers ("G-SIIs"). While further designations have been suspended until 2022, the determination to discontinue G-SII designations altogether will only be made in 2022, based on an assessment of progress made by the International Association of Insurance Supervisors ("IAIS"), in establishing a new holistic framework for systemic risk that was adopted in November 2019 and implemented as of the beginning of 2020. The new framework embraces an enhanced set of policy measures targeted at the exposures and activities that can lead to systemic risks from the insurance sector as a whole. As the systemic risk process is an evolving one, the implementation and implications of which are still evolving, both the direct consequences as well as the indirect consequences remain uncertain. Swiss Re cannot predict what additional regulatory changes will be implemented as the IAIS systemic risk process evolves and what any such changes may mean for how the Group or Swiss Re is structured in any particular jurisdiction and how aspects of the Group's business may be affected. Moreover, Swiss Re cannot predict whether the Financial Stability Board will endorse the new IAIS holistic framework or retain the existing G-SII approach, or what regulatory changes may apply in the future to the Group's counterparties in the context of broader designations of reinsurers as systemically important.

In addition, large internationally active insurance groups ("IAIGs"), which include G-SIIs, may become subject to a risk-based group-wide global insurance capital standard ("ICS"). ICS Version 2.0 was adopted in November 2019, and is expected to take effect in 2025, following a five-year confidential reporting period during which no supervisory action will be taken on the basis of the monitoring. In November 2019, the IAIS also adopted the Common Framework for the Supervision of Internationally Active Insurance Groups ("ComFrame"), as well as some changes to a number of Insurance Core Principles ("ICPs") – guidance and standards on

supervision of insurers and which apply to insurance companies regardless of size and international exposures. ComFrame strengthens ICP requirements for IAIGs and proposes that the group-wide supervisor, in consultation with the host supervisors, should exercise discretion in requiring IAIGs to submit resolution plans. Swiss Re expects that it will be classified as an IAIG.

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 (including the United Kingdom's solvency capital regime, which is currently drawn largely from EU directives and regulations), both in the United Kingdom and in the European Union.

Regulatory changes also could occur in areas of broader application, such as competition policy and tax laws. For example, changes in tax laws, or the interpretation of the tax laws or tax regulations in jurisdictions in which the Group does business, or withdrawals of tax rulings in jurisdictions such as Switzerland that have issued such rulings to Swiss Re, could increase the taxes the Group pays, or impact the attractiveness of products offered by the Group, the Group's investment activities or 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.

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 volatility is heightened by COVID-19-related concerns. 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, low interest rates continue to pose significant challenges to the insurance industry, with earnings capacity under stress unless lower investment returns can be offset by lower combined ratios or higher returns from other asset classes, which in a soft market cycle is a challenge. 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 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. 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.

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 a possible mismatch between investments and liability benchmarks – that in turn can lead to reinvestment risk. The Group seeks to manage the risks inherent in its investment portfolio by repositioning the portfolio from time to time, as needed, and to reduce risk and fluctuations through the use of hedges and other risk management tools.

Credit risk

If the credit markets were to deteriorate, 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. 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, among other things, its obligations arising in its insurance business (including claims and other payments as well as insurance provision repayments due to portfolio transfers, securitisations and commutations), which may include large and unpredictable claims (including catastrophe claims), funding of capital requirements and operating costs, payment of principal and interest on outstanding indebtedness and funding of acquisitions.

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 increase levels of indebtedness or to liquidate investments or other assets. Should the Group require liquidity at a time when access to bank funding and the capital markets is limited, it may be unable to secure new sources of funding. The Group's ability to meet liquidity needs through asset sales may be constrained by market conditions and the related stress on valuations. In addition, the Group's ability to meet liquidity needs through the incurrence of debt may be limited by constraints on the general availability of credit in the case of bank funding, and adverse market conditions, in the case of capital markets debt. Failure to meet covenants in lending arrangements could further constrain access to liquidity. 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 are otherwise not tradeable. Finally, any adverse ratings action against the Group could trigger a need for further liquidity (for example, by triggering termination provisions or margin calls/collateral delivery requirements in contracts to which it is a party) at a time when the Group's ability to obtain liquidity from external sources is limited by such ratings action. See also "—Risks relating to credit rating downgrades."

Counterparty risks

The Group is exposed to the risk of defaults, or concerns about defaults, by its counterparties. Issuers or borrowers whose securities or loans the Group holds, trading counterparties,

counterparties under swaps and other derivative contracts, clearing agents, clearing houses and other financial intermediaries may default on their obligations to the Group due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operations failure, fraud or other reasons, which could also have a material adverse effect on the Group. The Group has increased its allocation to higher return-generating strategies, including high-quality corporate debt and some alternative assets, which tend to also be subject to potentially greater counterparty risk. Moreover, the Group could be adversely affected by liquidity issues 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, such as Swiss Re. 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 solicited or unsolicited and 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 the Group's ratings could be downgraded or withdrawn in the future. Rating agencies may increase the frequency and scope of ratings reviews, revise their criteria or take other actions that may negatively impact the Group's ratings and/or the ratings of its legal entities, which it cannot predict. In addition, changes to the process or methodology of issuing ratings, or the occurrence of events or developments affecting the Group, could adversely affect the Group's existing ratings or make it more difficult for the Group to achieve improved ratings which it would otherwise have expected.

As claims paying and financial strength ratings are key factors in establishing the competitive position of insurers, a decline in ratings 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. Certain larger insurance and derivative contracts may contain terms that would allow counterparties to terminate the contract if the Group's ratings or those of its subsidiaries are downgraded beyond a certain threshold. Furthermore, ratings directly impact the availability and terms of unsecured financing (potentially impacting the Group's ability to rollover existing facilities or obtain new facilities) and declines in the Group's ratings or the ratings of legal entities within the Group could also obligate the Group to provide collateral or other guarantees in the course of its 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 or 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 could in the future be involved 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 remains high, and the scope of these investigations and proceedings over time has 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. 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 litigation or enforcement actions arising from potential employee misconduct, including non-compliance with internal policies and procedures, negligence 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 catastrophes, such as hurricanes, cyclones, tornadoes, windstorms, hail storms, wildfires, floods and earthquakes, as well as extreme space weather events such as solar storms and geomagnetic activity, and man-made disasters, such as acts of terrorism, cyberattacks and other disasters such as explosions, industrial accidents and fires, as well as pandemics) are inherently unpredictable in terms of both their frequency and severity and have exposed, and may continue to expose, the Group to unexpected large losses (and related uncertainties in estimating future claims in respect of such events); changes in the insurance industry that affect the Group, particularly those that further increase sensitivity to counterparty risk; 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 (including social inflation), which trend may potentially be exacerbated by the COVID-19 crisis; 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), 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 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 its management uses, for example, as part of its risk models as well as those that affect the reported amounts of assets, liabilities, revenues and expenses in the Group's financial statements (such as assumptions related to the Group's capital requirements and anticipated liabilities), including assumed business. For example, the Group estimates premiums pending receipt of actual data from clients, which actual data could deviate from the estimates (and could be adversely affected if premiums turn out to be lower, while claims stay the same). 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 (in the case of accounting judgments), 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 financial reporting. These measures are not prepared in accordance with US GAAP or any other comprehensive set of accounting rules or principles and should not be viewed as a substitute for measures prepared in accordance with US GAAP. Moreover, these may be different from, or otherwise inconsistent with, non-GAAP financial measures used by other companies. These measures have inherent limitations, are not required to be uniformly applied and are not audited.

Risks related to the Swiss Re corporate structure

SRCS is a wholly owned subsidiary of SRL, and the Group represents one of the four principal operating segments of Swiss Re (expected to be reduced to three by the end of 2020). 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 Swiss Re'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. The structure of Swiss Re will continue to evolve over time, which could impact the Group to the extent that operations are transferred into or from the Group. The Group's structure could also change in connection with acquisitions or dispositions, and to the extent it undertakes acquisitions, it is subject to the risks inherent in acquiring and integrating new operations.

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

© 2020 Swiss Re. All rights reserved.

07/20