Swiss Re

Swiss Re
Life Capital Reinsurance Ltd

Predict.
Prepare.
Protect.

Financial Condition Report 2018

Introduction

About this report

Scope and requirements

This Financial Condition Report (Report or Financial Condition Report) is a mandatory public disclosure for Swiss regulated re/insurance entities required by FINMA Circular 2016/2 Disclosure – insurers (Circular). The publication requirements are set forth in the Circular. This Report includes qualitative and quantitative information on business activities, performance, risk management and the Swiss Solvency Test (SST) of the Swiss Re Group (Group) as well as its Swiss-regulated re/insurance entities: Swiss Reinsurance Company Ltd, Swiss Re Corporate Solutions Ltd, Swiss Re Life Capital Reinsurance Ltd and Swiss Re International SE, Luxembourg (Zurich branch). A large part of the required information included in the Report is available in other public disclosures provided by Swiss Re, such as the Group's Financial Report, which is part of the Annual Report available under www.swissre.com/investors/financial_information/. Readers of this Report should in addition consult these public disclosures. Information not included in other publicly available disclosures can be found mainly in the valuation and solvency sections of this Report.

Cautionary note on the Financial Condition Report

The preparation of the SST requires management to make a number of estimates and assumptions. The valuation of assets and liabilities reflects best estimates of underlying cash flows (eg premiums, claims, commissions, expenses, etc), using models and taking into consideration all relevant information available at the balance sheet date. In line with other valuation methods based on projections of future cash flows, economic valuations involve significant judgement when establishing which assumptions to use. The Group and its Swiss-regulated re/insurance entities actively and carefully review assumptions, selecting those that are considered most appropriate and seeking consistency among business activities. Valuations are updated at each balance sheet date as experience develops and more information becomes available. In-force business assets and liabilities include estimates for premiums as well as claims and benefit payments not yet received from ceding companies at the balance sheet date. In addition, the Group and its Swiss-regulated re/insurance entities have certain assets and liabilities for which liquid market prices do not exist.

All of the foregoing estimates are determined on a market-consistent basis using all relevant information available at the time of valuation. However, actual results could differ significantly from these estimates.

Please see also the > Cautionary note on forward-looking statements and the > Note on risk factors in this Report.

Accounting and risk basis

The financial information included in this Report is based on the following accounting frameworks:

- The consolidated financial statements of the Group are prepared in accordance with US Generally Accepted Accounting Principles (US GAAP) and reported in US dollars.
- The statutory financial statements of Swiss-regulated legal entities are prepared in accordance with Swiss law and reported in Swiss francs (they are converted into US dollars for the SST balance sheet comparison with Swiss statutory).

- SST information uses Swiss Re's internal model which has been approved by FINMA. The internal Economic Value Management (EVM) framework is the basis for preparing the SST balance sheets as both frameworks are based on market-consistent valuation principles. Valuation differences between EVM and SST mainly affect capital costs and deferred taxes. EVM is the Group-proprietary integrated economic valuation and steering framework, consistently measuring economic performance across all businesses. EVM and SST financial statements are reported in US dollars.

The risk exposure basis for SST is a projection for the period from 1 January to 31 December 2019 and is based on the economic balance sheet as of 31 December 2018 and adjustments to reflect 1 January 2019 business shifts. Potential SST model or data limitations identified during the SST process are reported to FINMA as part of the SST Report 2019 with an impact assessment whenever possible. Risk figures are reported in US dollars.

The reported solvency information for 2019 is consistent with the information provided in the SST Report 2019 filed with FINMA in April 2019.

Audit

This Report has not been audited. The US GAAP financial statements of the Group and the statutory financial statements of Swiss Re Ltd and its Swiss regulated re/insurance entities are audited. Please refer to the audit reports accompanying those financial statements and referred to in this Report.

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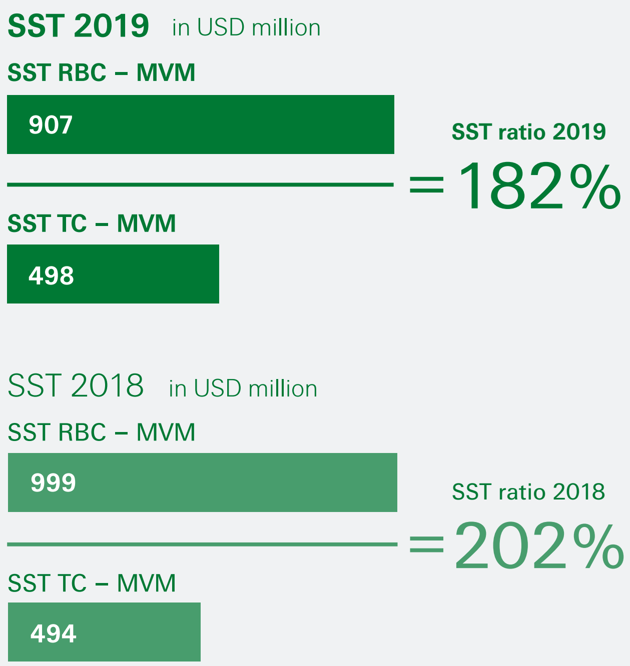
Swiss Re Life Capital Reinsurance Ltd

Management summary

In SST 2019, the SST ratio of Swiss Re Life Capital Reinsurance Ltd (SRLC Re) decreases to 182%, 20 points lower than in SST 2018. The main driver for the lower ratio is a deduction for the projected dividend to be paid in 2019.

Solvency overview
Figure 4



SST RBC: SST risk-bearing capital
SST TC: SST target capital
MVM: Market value margin

This Report provides qualitative and quantitative information about the financial condition of SRLC Re.

Business activities

Reinsurance business

Strategy and priorities

SRLC Re was created to pool risks and optimise the capital position across the businesses of the Life Capital Business Unit. SRLC Re will continue to enable Life Capital's growth strategy, reinsuring as much risk as appropriate to minimise new business capital strain from growth in the open-book entities of Life Capital. Additionally, it will be available to support the Group's strategic initiatives where necessary.

In 2018, SRLC Re reviewed the Business Unit's ownership structure in an effort to improve capital efficiency. In the proposed new corporate structure, SRLC Re will be the owner of the open-book entities of Life Capital and will continue to provide reinsurance to those businesses. Completion of the restructuring is expected in 2019, subject to internal and regulatory approvals.

SRLC Re's priorities for 2019 include:

- Further optimising the funding of Life Capital businesses' growth
- Implementation of the new corporate structure
- Further restructuring of its intra-group retrocession agreements with affiliated companies in the US

Outlook

SRLC Re is an internal reinsurer primarily dedicated to the Life Capital Business Unit. Life Capital businesses provide access to attractive and growing primary risk pools: Elips Life Ltd, Elips Insurance Ltd, iptiQ Life S.A. and Lumico Life Insurance Company (the existing open-book entities of Life Capital) continue to operate in the Group and Individual L&H protection risk pools. The Admin Re US business provides access to the closed-book pool. SRLC Re has no reinsurance arrangement with the ReAssure business.

The Life Capital Business Unit will continue its strategy to grow its individual and group businesses. The ambition is to build a leading primary life and health business. During 2018, the open-book businesses continued their trend of significant policy growth, reaching new partners and distributors as well as expanding geographically.

In 2018, Life Capital added a further unit, iptiQ EMEA P&C S.A., as an indirect subsidiary of SRLC Re, which will provide access to the personal lines P&C risk pool, thereby further diversifying the business portfolio. The set-up of iptiQ EMEA P&C S.A. (together with the existing open-book entities of Life Capital) began in 2018 with new business expected to be written from 2019. Further new business including Group US business is expected in 2019 and beyond.

Investments

Strategy and priorities

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

Outlook

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

For the UK, continued uncertainty around the ultimate Brexit end-state will weigh on the UK economy (eg through business investments).

Reinsurance and sub-holding companies

SRLC Re is a wholly-owned subsidiary of Swiss Re Life Capital Ltd (SRLC), the holding company for the Life Capital Business Unit. SRLC Re does not own any interest in the UK-based ReAssure Ltd, its parent entities or subsidiaries. SRLC Re is domiciled in Zurich, Switzerland.

Claims on and obligations towards affiliated companies

CHF millions	2017	2018
Premiums and other receivables from reinsurance	1 037	1 550
Funds held by ceding companies	8 501	7 337
Other receivables	221	207
Funds held under reinsurance treaties	2 786	1 619
Reinsurance balances payable	896	1 490
Other liabilities		2

None of these balances are towards the parent company Swiss Re Life Capital Ltd

Share capital and major shareholder

The share capital of SRLC Re amounted to CHF 10 million. It is divided into 10 000 registered shares, each with a nominal value of CHF 1 000. The shares were fully paid-in and held directly by SRLC. As of 31 December 2018, SRLC Re was a wholly-owned subsidiary of SRLC.

Variable interest Entities

SRLC Re and its subsidiaries do not have arrangements with variable interest entities.

Significant events

During 2018, SRLC Re received capital contributions of CHF 65 million to support new business growth, in particular the open-book business new business strain and additionally fund set up costs for the new iptiQ P&C business.

In the last quarter of 2018, SRLC Re restructured its intra-group retrocession agreement with Swiss Reinsurance Company Ltd (SRZ) for the Canadian life and health business, moving from a full funds withheld structure to a partial funds withheld and a trust structure.

SRLC Re is retroceding certain portions of business jointly originated with the Reinsurance Business Unit (Reinsurance) to SRZ to allow for an equal participation in the business between the two Business Units, Life Capital and Reinsurance.

It is expected that some of the retrocession agreements with the Reinsurance business will be recaptured in the course of 2019.

Report of the statutory auditors

PricewaterhouseCoopers Ltd is the auditor of SRLC Re. For more information, please see the Report of the statutory auditor.

Performance

CHF millions	Total 2017	Total 2018	Life 2017	Life 2018	Accident, health 2017	Accident, health 2018
Premiums written gross	740	1 410	320	714	420	696
Premiums written retroceded	–299	–881	–130	–498	–169	–383
Premiums written net	441	529	190	216	251	313
Change in unearned premiums gross	–67	0	–1		–66	
Change in unearned premiums retroceded	66	0			66	
Premiums earned	440	529	189	216	251	313
Other reinsurance revenues	571	514	508	491	63	23
Total revenues from reinsurance business	**1 011**	**1 043**	**697**	**707**	**314**	**336**
Claims paid and claim adjustment expenses gross	6 667	–1 356	5 345	–827	1 322	–529
Claims paid and claim adjustment expenses retroceded	–1 191	675	–773	409	–418	266
Change in unpaid claims and life and health benefits gross	–7 526	–82	–5 843	22	–1 683	–104
Change in unpaid claims and life and health benefits retroceded	1 305	59	810	–10	495	69
Change in unpaid claims for unit-linked life insurance						
Claims incurred	**–745**	**–704**	**–461**	**–406**	**–284**	**–298**
Acquisition and operating costs gross	–124	–283	–59	–159	–65	–124
Acquisition and operating costs retroceded	28	128	11	77	17	51
Acquisition and operating costs net	–96	–155	–48	–82	–48	–73
Other reinsurance expenses	–163	–128	–92	–109	–71	–19
Total expenses from reinsurance business	**–1 004**	**–987**	**–601**	**–597**	**–403**	**–390**
Investment income	1	5				
Investment expenses	–3	0				
Investment result	**–2**	**5**				
Investment result from unit-linked life insurance						
Other financial income	0	0				
Other financial expenses	0	0				
Operating result	**5**	**61**				
Interest expenses on debt and subordinated liabilities						
Other income	0					
Other expenses	–1	–8				
Extraordinary income and expenses	0					
Income before income tax expense	**4**	**53**				
Income tax expense	–1	–11				
Net income	**3**	**42**				

Reinsurance results

The reinsurance result (revenues minus expenses) amounted to CHF 56 million in 2018, compared to CHF 7 million in 2017. The results in 2018 were mainly driven by the US closed-book performance which included favourable changes in actuarial assumptions and reserving, partly offset by new business strain on the life open-book businesses arising from continued growth.

Premiums earned increased from CHF 440 million in 2017 to CHF 529 million in 2018. The increase was predominantly driven by growth in the open-book businesses including a large medex transaction for iptiQ Life S.A.

Claims and claim adjustment expenses and life and health benefits decreased from CHF –745 million in 2017 to CHF –704 million in 2018.

The claims and claim adjustment expenses and life and health benefits positions in 2017 were significantly affected by the novation of reinsurance contracts by SRZ and Swiss Re Europe S.A. to SRLC Re and by SRLC Re entering into a new retrocession of significant blocks of US Life Capital business. The effect did not recur in 2018.

Acquisition and operating costs net increased from CHF –96 million in 2017 to CHF –155 million in 2018, mainly driven by the growth in the open-book life and health insurance businesses.

Investment result

CHF millions	Income	Value readjustments	Realised gains	2018 total
Investment income				
Fixed-income securities	4			4
Short-term investments	*1*			*1*
Other investments	1			1
Investment income	**5**			**5**

CHF millions	Expenses	Value readjustments	Realised losses	2018 total
Investment expenses				
Fixed-income securities				0
Short-term investments				*0*
Other investments				0
Investment management expenses				0
Investment expenses				**0**
Investment result	**5**			**5**

CHF millions	Income	Value readjustments	Realised gains	2017 total
Investment income				
Fixed-income securities	1			1
Short-term investments				*0*
Other investments				0
Investment income	**1**			**1**

CHF millions	Expenses	Value readjustments	Realised losses	2017 total
Investment expenses				
Fixed-income securities				
Short-term investments	*–2*			*–2*
Other investments	–2			–2
Investment management expenses	–1			–1
Investment expenses	**–3**			**–3**
Investment result	**–2**			**–2**

Investments

Investment income increased from CHF –2 million in 2017 to CHF 5 million in 2018 largely due to higher interest income on government bonds.

Governance and risk management

Board of Directors and Executive Management

Board of Directors
- Thierry Léger, Chairman
- Ian Patrick, Member of the Board of Directors
- Réjean Besner, Member of the Board of Directors
- Felix Stutz, Member of the Board of Directors
- Christian Herzog, Member of the Board of Directors

Changes in 2018
- Réjean Besner was elected as a new member of the Board of Directors.
- Philip Long did not stand for re-election.

Executive Management
- Julien Descombes, Chief Executive Officer
- Neil Rolfe, Member of the Executive Committee
- Simone Lieberherr, Member of the Executive Committee
- Dave Bell, Member of the Executive Committee
- Chris Mehta, Chief Risk Officer
- Hansjörg Furrer, Appointed Actuary

Changes in 2018
- Simone Lieberherr and Dave Bell were appointed members of the Executive Committee.
- Walter Wild and Jan Coetzee decided to step down as members of the Executive Committee.

Governance and risk management

Swiss Re's 2018 Financial Report describes the governance and risk management framework for the Group and its legal entities. For more information, please refer to the > Group governance and risk management section. This information also applies to SRLC Re, with the following deviations to mention:

SRLC Re, a subsidiary of SRLC, is a Swiss-regulated entity that is authorised by FINMA to write reinsurance. It acts as an internal risk pooling vehicle, optimising the capital base of the Life Capital Business Unit by reinsuring risks from across the business segment, providing capital support for new business and contains the Admin Re US closed-book business.

All risk-related activities of SRLC Re are subject to Swiss Re's risk management framework. SRLC Re is subject to the corporate governance and risk governance requirements of a Level I entity. These include clear separation of management and Board supervision, mandatory representation of external directors and governance documentation to establish the roles and responsibilities of SRLC Re's governing bodies. In addition, SRLC Re fully adopt Swiss Re's risk management principles, including roles for delegated risk-taking and oversight, as well as risk culture and behaviour. Moreover, risk management activities at SRLC Re are complemented by Swiss Re's Group Internal Audit and Compliance units.

As an exception to Level I governance requirements (due to the current size of SRLC Re), the Group Chairman's & Governance Committee has waived the requirement to establish Audit and Finance & Risk Committees at Board level. Instead, the considerations and obligations normally performed by the Audit or Finance & Risk Committees are assumed by the Board.

SRLC Re has set out its risk governance, responsibilities, risk appetite and risk limits in SRLC Re's Risk Management Standards. These standards are reviewed annually or in the event of a significant change in the business structure or governance arrangements of SRLC Re. They have been issued by SRLC Re's Board as an addendum to the Group and SRLC risk management documents, which the Board of SRLC Re has reviewed and endorsed for use within SRLC Re.

SRLC Re fully adopts Swiss Re's risk control framework, which has been reviewed and endorsed for use by the Board for use at legal entity level. To meet some of the requirements within the framework, SRLC Re leverages synergies with other Group Risk Management functions.

SRLC Re Risk Management's participation in the planning process is described in SRLC Re Risk Management Standards as well as in the Group Risk Management Standards. In particular, SRLC Re Risk Management performs a risk review on any prospective intra-group transactions from both a quantitative and qualitative perspective. In addition, SRLC Re receives certain support services from other Group Risk Management functions for certain tasks in its risk oversight of planning.

SRLC Re makes use of Swiss Re's internal risk model and follows the Group Risk Management Standards, Group Risk Category Standards and model-related standards in their approach to integrated risk measurement, including model development and governance.

The production of integrated risk measurement calculations is performed by Group Risk Management functions under the responsibility of the SRLC Re Chief Risk Officer, including calculations required for SST reporting as well as for business planning and calculating compliance with legal entity risk appetite and limits. At the same time, the Chief Risk Officer of SRLC Re retains the responsibility for reviewing, challenging and signing off integrated risk calculations before they are reported to SRLC Re's Executive Committee and Board as well as to FINMA.

SRLC Re fully adopts the Group's approaches to risk exposure control through capital adequacy, liquidity adequacy and risk capacity limits.

Regular risk reporting is produced by SRLC Re based on the outcomes of other risk control processes. Regular risk reports are produced for SRLC Re's Executive Committee and the Board which cover all material risk exposures of SRLC Re, these include risks contained within the regulatory capital requirements as well as risks that use different metrics (eg liquidity), are assessed qualitatively or are managed through the internal control system (eg operational).

Risk profile

SRLC Re assumes all its business via intra-group transactions from other entities within the Swiss Re Group. SRLC Re is exposed to insurance and financial risks, as well as other risks that are not explicitly part of the economic capital requirement but are actively monitored and controlled due to their significance for the entity. These include operational, liquidity, model, valuation, regulatory, political and strategic risks (see Swiss Re's risk landscape, 2018 Financial Report, p. 88).

On the insurance risk side, SRLC Re is exposed to life and health risk, which is driven by lapse, lethal pandemic, income protection and mortality trend risk. Going forward, SRLC Re will also be exposed to property and casualty risks written by a newly formed subsidiary, iptiQ EMEA P&C S.A., but these are expected to remain immaterial in 2019.

The financial risk of SRLC Re arises from both financial market risk and credit risk. Key drivers of financial market risk are credit spread and foreign exchange risk. Credit risk is mainly driven by the default risk on the US funds withheld credit assets.

Total risk

Total risk is based on 99% tail VaR and represents the average unexpected loss that occurs with a frequency of less than once in 100 years over a one-year time horizon.

USD millions	SST 2018	**SST 2019**	Change since SST 2018
Property and casualty			0
Life and health	351	415	64
Financial market	394	361	–33
Credit	79	74	–5
Diversification	*–296*	*–287*	*9*
Total risk	**528**	**563**	**35**

Total risk increases by USD 35 million to USD 563 million due to higher life and health risk, partly offset by lower financial market risk.

- The increase in life and health risk results from model improvements, new business growth within the open-book cedents, and the inclusion of a previously non-modelled stop loss treaty with Elips Life AG (Elips Life Ltd). These increases are partly offset by the impact of higher US dollar interest rates.
- The decrease in financial market risk mainly results from a reduction in credit spread exposure due to spread widening throughout the period.
- The slight decrease in credit risk reflects the impact of market movements which reduce the value of the US funds-withheld credit assets.

Operational risk

SRLC Re uses the Group-wide risk matrix methodology and Swiss Re's Global Risk Register to capture operational risks which exceed or approach SRLC Re's risk tolerance limit. Adherence to risk tolerance is monitored and reported at least on a quarterly basis.

SRLC Re has proper processes and procedures in place in order to identify and implement mitigation strategies, closely monitor their developments and – if required – act timely upon changes to these risks.

As of SST 2019, SRLC Re's operational risk management efforts are directed towards mitigating risks related to people risk and key person dependency.

Other significant risks

For details on other significant risks, including liquidity, model, valuation, regulatory, political, strategic and sustainability risks, see the Group's 2018 Financial Report sections on Liquidity management on page 80, Swiss Re's risk landscape on pages 88 and 89, and Management of other significant risks on pages 94–97.

Risk concentration

SRLC Re uses 99% tail VaR to measure its risk concentrations. Additionally, risk concentrations can also be measured via value at risk calculations for lethal pandemic and lapse risk, stress calculations for credit default, as well as sensitivities to key financial market parameters.

SRLC Re assesses potential annualised losses from insurance peak scenarios (lethal pandemic, lapse) with a return period of 200 years as well as the annualised potential loss from a credit default event. The impacts of financial risk sensitivities (interest rates +/– 50 bps, credit spreads +/– 50 bps, equity values +/– 25%, real estate values +/– 25%) are assessed in terms of impact on the SST ratio.

SRLC Re's largest potential annualised loss from an insurance peak scenario or a credit default event in SST 2019 derives from the lapse scenario.

Among the financial market sensitivities, SRLC Re's SST ratio is most sensitive to a 50-bps increase in credit spreads.

Risk mitigation

SRLC Re manages and controls its risks through a limit framework.

Valuation

SST balance sheet

The SST balance sheet is prepared based on the same market-consistent valuation principles as applied in Swiss Re's internal EVM framework. EVM is therefore used as a basis for preparing the SST balance sheet and valuation adjustments to EVM mainly affect capital costs and deferred taxes. The difference between assets and liabilities is defined as the SST net asset value, which is the basis for the calculation of the SST RBC.

The SST valuation methodology is further described in the > Appendix of this Report.

USD millions	Notes	SST 2018	SST 2019	Change since SST 2018
Real estate				
Investments in subsidiaries and affiliated companies			–35	–35
Fixed-income securities	1	229	461	232
Loans		7 243	7 105	–138
Mortgages				
Equity securities				
Other investments:				
Shares in investment funds				
Alternative investments				
Other investments		37	75	38
Investments for unit-linked and with-profit business				
Derivative financial instruments assets			1	1
Total market value of investments		**7 509**	**7 608**	**99**
Cash and cash equivalents		35	45	10
Funds held by ceding companies and other receivables from reinsurance	2	7 314	5 412	–1 902
Other receivables		230	213	–17
Other assets				
Total other assets		**7 579**	**5 670**	**–1 909**
Total assets		**15 088**	**13 278**	**–1 810**
Best estimate value of insurance liabilities before retrocessions:				
Direct insurance:				
Life insurance (excluding unit-linked business)				
Non-life insurance				
Health insurance				
Unit-linked life insurance				
Other business				
Active reinsurance:				
Life insurance (excluding unit-linked business)		8 279	8 606	327
Non-life insurance				
Health insurance				
Unit-linked life insurance				
Other business				
Total best estimate value of insurance liabilities before retrocessions		**8 279**	**8 606**	**327**
Retrocessions:				
Direct insurance:				
Life insurance (excluding unit-linked business)				

USD millions	Notes	SST 2018	SST 2019	Change since SST 2018
Non-life insurance				
Health insurance				
Unit-linked life insurance				
Other business				
Active reinsurance:				
Life insurance (excluding unit-linked business)	3	976	397	–579
Non-life insurance				
Health insurance				
Unit-linked life insurance				
Other business				
Total retrocessions		**976**	**397**	**–579**
Non-technical provisions		2	13	11
Debt				
Derivative financial instruments liabilities			1	1
Funds held under reinsurance treaties	4	3 294	1 683	–1 611
Reinsurance balances payable		1 383	1 375	–8
Other liabilities			1	1
Total other liabilities		**4 679**	**3 073**	**–1 606**
Total liabilities		**13 934**	**12 076**	**–1 858**
SST net asset value		**1 154**	**1 201**	**47**

Notes

1. The increase in fixed-income securities is largely due to purchase of corporate bonds in 2018.
2. The decrease in funds held by ceding companies and other receivables from reinsurance mainly relates to the restructure of the intra-group retrocession agreement with SRZ for the Canadian business, moving in 2018 from a full funds withheld structure to a partial funds withheld and new securities lending agreements structure and a change in the reserving basis in the Canadian business.
3. The decrease in active life reinsurance retrocessions mainly relates to the restructure of the intra-group retrocession agreement with SRZ for the Canadian business and a change in the reserving basis in the Canadian business.
4. The decrease in funds held under reinsurance treaties is mainly driven by restructure of the intra-group retrocession agreement with SRZ for the Canadian business and a change in the reserving basis in the Canadian business.

SST balance sheet comparison with Swiss statutory

The SST balance sheet comparison with the audited financial statements provides insights on the main valuation and scope differences.

An overview of the main valuation and scope differences and the definition of the aggregated line items is included in the > Appendix of this Report.

Assets

USD millions	Swiss Statutory	SST	Difference
Real estate			
Investments in subsidiaries and affiliated companies	7	–35	–42
Fixed-income securities	456	461	5
Loans		7 105	7 105
Mortgages			
Equity securities			
Other investments	117	75	–41
Investments for unit-linked and with-profit business			
Cash and cash equivalents	4	45	41
Funds held by ceding companies and other receivables from reinsurance	9 020	5 412	–3 608

USD millions	Swiss Statutory	SST	Difference
Other assets	1 613	215	–1 399
Total assets	**11 216**	**13 278**	**2 062**

Fixed-income securities

Differences in valuation: SST carries fixed-income securities at market value. In statutory reporting, fixed-income securities are valued at their amortised cost less necessary depreciation to address other-than-temporary market value decreases.

Loans

Differences in scope: In SST, reinsurance contracts on a funds withheld basis for corporate-owned life insurance are reported as policy loans (look-through approach). In statutory reporting, those assets are part of the funds held by ceding companies and other receivables from reinsurance.

Differences in valuation: In SST, policy loans and intra-group loans are valued by discounting future estimated cash flows at risk-free rates, while under statutory reporting those loans are carried at nominal value. Value adjustments are recorded where the expected recovery value is lower than the nominal value.

Other investments

Differences in scope: In SST, short-term investments are defined on the basis of the remaining duration at time of purchase. Statutory reporting classifies short-term investments between cash and cash equivalents and other investments on the basis of initial duration.

Cash and cash equivalents

Differences in scope: please see above difference in scope for other investments.

Funds held by ceding companies and other receivables from reinsurance

Differences in scope: In SST, reinsurance contracts on a funds withheld basis for corporate-owned life insurance are reported as policy loans (look-through approach). In statutory reporting, those assets are part of the funds held by ceding companies and other receivables from reinsurance.

Differences in valuation: In SST, funds held by ceding companies for which a fixed interest is credited are valued by discounting future estimated cash flows at risk-free rates. Under statutory reporting, funds held by ceding companies are generally measured at the consideration received or at market value of the underlying assets.

Other assets

Differences in scope: in SST, reinsurance recoverables are part of re/insurance liabilities, whereas they are disclosed in other assets in statutory reporting.

Differences in valuation: In SST, other assets are measured at fair value. In statutory reporting, other assets are generally carried at nominal value.

Liabilities

USD millions	Swiss Statutory	SST	Difference
Re/insurance liabilities	7 750	9 003	1 253
Unit-linked and with-profit liabilities			
Debt			
Funds held under reinsurance treaties	1 643	1 683	40
Other liabilities	1 533	1 391	–142
Total liabilities	**10 926**	**12 076**	**1 150**

Re/insurance liabilities

Differences in scope: In SST, reinsurance recoverables and deferred acquisition costs are shown in re/insurance liabilities. In statutory reporting, reinsurance recoverables and deferred acquisition costs are disclosed within other assets.

Differences in valuation: SST uses best estimates to value the reinsurance liabilities without specific margin for prudence. Statutory reporting values reinsurance liabilities at best estimates and requires provisions for adverse deviations. Other valuation differences arise from the discounting of the liability cash flows. In SST all liabilities are generally discounted using current risk-free rates. Under statutory reporting, technical provisions are generally discounted at the yields of the backing assets for life and health.

Funds held under reinsurance treaties

Differences in valuation: In SST, the valuation is based on best estimates of the underlying cash flows. Under statutory reporting, funds held under reinsurance treaties are carried at consideration received or market value of the underlying assets.

Other liabilities

Differences in valuation: In SST, no specific provision is made for currency fluctuations. In statutory reporting, a provision for currency fluctuation comprises the net effect of foreign exchange gains and losses arising from the revaluation of the opening balance sheet and the translation adjustment of the income statement from average to closing exchange rates at year-end.

Capital management

The participation of SRLC Re's Risk Management in the planning process is described in SRLC Re Risk Management Standards as well as in the Group Risk Management Standards. In particular, SRLC Re's Risk Management performs a risk review on any prospective intra-group transactions from both a quantitative and qualitative perspective. In addition, SRLC Re relies on support from other Group Risk Management functions for certain tasks in its risk oversight of planning.

Change in shareholder's equity

CHF millions	Share capital	Legal capital reserves	Legal profit reserves	Voluntary profit reserves	Retained earnings brought forward	Net income for the financial year	Total Shareholder's equity
Shareholder's equity 16.08.2016[1]							0
Dividend for the financial year 2016							
Share capital increase	10						10
Legal reserves from organisational funds		2					2
Allocation to legal capital reserves from capital contributions		164					164
Allocation to voluntary profit reserves							
Net income for the financial year						3	3
Shareholder's equity 31.12.2017	**10**	**166**				**3**	**179**
Shareholder's equity 1.1.2018	10	166			3		179
Dividend for the financial year 2017[2]							
Share capital increase							
Legal reserves from organisational funds							
Allocation to legal capital reserves from capital contributions		65					65
Allocation to voluntary profit reserves		–161		161			0
Net income for the financial year						42	42
Shareholder's equity 31.12.2018	**10**	**70**		**161**	**3**	**42**	**286**

[1] Incorporation date.
[2] Extended financial year as of incorporation date.

Shareholder's equity

Shareholder's equity increased from CHF 179 million as of 31 December 2017 to CHF 286 million as of 31 December 2018.

The increase reflected the capital injection in cash of CHF 65 million and the net income for the financial year 2018 of CHF 42 million.

Solvency

SRLC Re uses an internal risk model to determine the economic capital required to support the risks on SRLC Re's books, as well as to allocate risk-taking capacity to the different lines of business. The model also provides the basis for capital cost allocation in Swiss Re's EVM framework, which is used for pricing, profitability evaluation and compensation decisions. In addition to these internal purposes, the model is used to determine regulatory capital requirements under economic solvency frameworks such as the SST and Solvency II.

In 2017, FINMA approved Swiss Re's internal model and its components for use of SST reporting purposes under their revised model review process. In 2018, FINMA conducted a material review of Swiss Re's credit risk model, which was approved for use of SST 2019 though it will require minor adjustments for later reporting periods.

Since SST 2018, two major model changes have been implemented and were approved by FINMA in October 2018:

- Financial market risks – The change in calibration approach had no impact on required capital when it was introduced. The prospective impact is contingent on financial markets developments.
- Critical illness, income protection and hospital cash risk – The introduction of the new health model resulted in an increase in required capital.

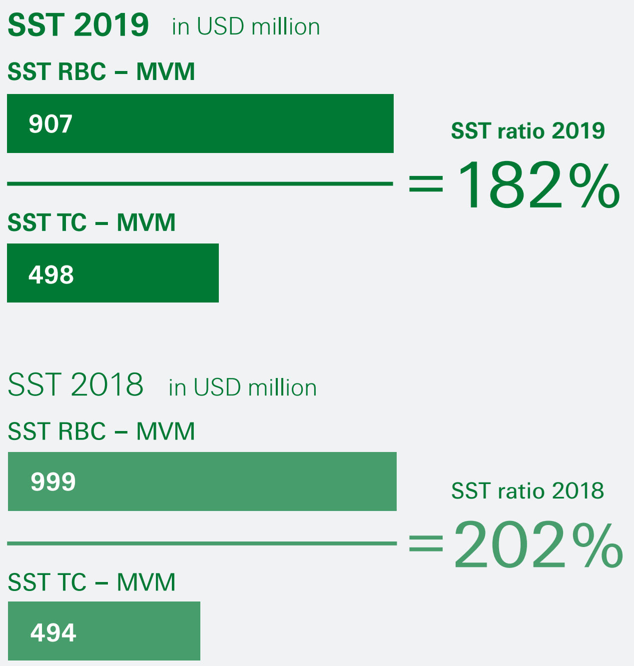
Solvency

In SST 2019, the SST ratio of SRLC Re decreases to 182%, 20 points lower than in SST 2018. The main driver for the lower ratio is a deduction for the projected dividend to be paid in 2019 to the Group.

SRLC Re provides Life Capital open-book businesses with capital support for their new business; a planned expansion of this role in 2019 will be reflected in the SST 2020 calculation.

Based on current SST rules introduced in 2017, the ratio is calculated as SST risk-bearing capital (SST RBC) minus the market value margin (MVM), divided by SST target capital (TC) minus the MVM.

Solvency overview
Figure 4



SST RBC: SST risk-bearing capital
SST TC: SST target capital
MVM: Market value margin

SST risk-bearing capital

The SST RBC is derived from the SST net asset value (NAV), which represents the difference between the market consistent value of assets and liabilities, according to the valuation methodology prescribed under SST. For this purpose, the SST NAV is adjusted for the items shown in the table below.

USD millions	SST 2018	**SST 2019**	Change since SST 2018
SST net asset value	**1 154**	**1 201**	**47**
Deductions		–120	–120
SST core capital	**1 154**	**1 081**	**–73**
Supplementary capital			0
SST risk-bearing capital (SST RBC)	**1 154**	**1 081**	**–73**
Market value margin (MVM)	155	174	19
SST RBC – MVM	**999**	**907**	**–92**

The increase in SST NAV is mostly explained by:

- Positive capital movements reflect capital contributions to SRLC Re mainly to fund the growth in the open-book businesses and the recapture of retrocessions previously in place with SRZ, partly offset by foreign exchange losses due to the weakening of the euro and the Canadian dollar against the US dollar.
- The underwriting contribution to the SST NAV is negative, mainly driven by the inclusion of expenses in new subsidiaries, partly offset by favourable assumption updates on the closed-book business.
- The investment contribution to the SST NAV is negative, mainly driven by spread widening on US dollar credit investments.

Deductions reflect projected internal dividends to be paid in 2019. No dividend projection was included in SST 2018.

SRLC Re has no supplementary capital.

A description of the change in MVM, which represents the capital costs for the run-off period, is provided together with the SST target capital (TC) comments below.

SST target capital

In order to derive SST TC, total risk is adjusted for the line item Other impacts as shown in the table below.

USD millions	SST 2018	SST 2019	Change since SST 2018
Total risk	**528**	**563**	**35**
Other impacts	121	109	–12
SST target capital (TC)	**649**	**672**	**23**
Market value margin (MVM)	155	174	19
SST target capital – MVM	**494**	**498**	**4**

SST TC increases by USD 23 million to USD 672 million over 2018, reflecting an increase in total risk (see > Risk profile for details).

Other impacts mainly reflect run-off capital costs (MVM), the impact from business development over the forecasting period as well as requirements from FINMA that are not included in total risk as they are not consistent with Swiss Re's own risk view.

MVM increases by USD 19 million compared to 2018. The increase is primarily driven by implementation of a new health model as well as growth in the open-book business.

Appendix

This appendix provides further information on the SST methodology and the valuation for solvency purposes. The scope, the legal basis and the components of the SST calculation are explained. The main valuation and scope differences between the SST balance sheet and the audited financial statements are summarised.

Methodology and valuation

Introduction

The SST is the solvency regime applicable to re/insurance entities and groups domiciled in Switzerland. The key principles of the SST are defined in the Insurance Supervision Ordinance (ISO) and in the FINMA circular 2017/03 on SST.

Swiss Re Group and its Swiss-regulated entities submit their SST report to FINMA. The published SST ratio is subject to FINMA's review and approval. Swiss Re applies an internal model to calculate the SST ratio, which is also subject to FINMA's approval.

The calculation of the SST ratio includes forward-looking elements. For factors that could affect the SST ratio, see > Note on risk factors and > Cautionary note on forward-looking statements.

Key principles

The SST is a market-consistent and risk-based approach to determine available and required capital. An entity is solvent under SST if the available capital (the SST risk-bearing capital) is higher than the required capital (the SST target capital).

The SST ratio determines the solvency position of an entity:

$$\frac{\text{SST risk-bearing capital} - \text{market value margin}}{\text{SST target capital} - \text{market value margin}}$$

The market value margin (ie the run-off capital costs) is a reserve for capital costs included in the SST target capital. FINMA circular 2017/03 on SST requires that the market value margin is subtracted from the SST risk-bearing capital and the SST target capital, aligning the definition of the SST ratio more closely with Solvency II.

SST risk-bearing capital

The SST risk-bearing capital is the amount of capital that is available to protect the policyholders of an entity in case of a large and unexpected adverse event.

The SST risk-bearing capital is derived as follows:

SST net asset value
– Deductions
+ Supplementary capital
= SST risk-bearing capital

The SST net asset value is the value of an entity's assets minus the value of its liabilities. All traded assets and liabilities are marked to market, based on quoted prices in active markets or observable inputs. Non-traded assets and liabilities are valued on a market-consistent basis. Insurance liabilities are valued on a market-consistent basis by replicating future best-estimate expected cash flows with liquid financial market instruments. As the majority of the insurance liabilities do not contain embedded financial market risks other than interest-rate risk, the market-consistent value of liabilities is determined by discounting estimated future cash flows using prevailing risk-free interest rates. If insurance liabilities include embedded options or guarantees (eg variable annuities or interest sensitive life business), they are valued on a market-consistent basis using stochastic models and other appropriate valuation techniques. Own debt not qualified as SST supplementary capital is valued using risk-free discounting, whereas debt qualified as supplementary capital is fair valued.

Other assets are valued based on market-consistent valuations or using US GAAP valuations where appropriate. Other liabilities mainly consists of securities sold under agreement to repurchase, securities sold short, payables for securities in transit and other creditors. Since other liabilities are not in the focus of re/insurance activities, as a simplification their valuation is aligned with US GAAP. Hence, securities sold short are valued based on market-consistent valuations, other creditors are valued based on the nominal, and lastly securities sold under agreement to repurchase and payables for securities in transit are valued based on amortised cost. Deferred tax assets and liabilities are not valued under SST. The value of a participation is based on its SST net asset value including the market value margin.

The deductions from SST net asset value consist of dividends for the upcoming one-year period and deferred tax on real estate. No deductions are made for own shares and intangible assets, as these items are not valued in Swiss Re's SST balance sheet.

The supplementary capital consists of additional risk-absorbing capital instruments, such as hybrid debt. The eligibility of debt instruments as supplementary capital is defined in the ISO and subject to FINMA's approval.

SST target capital

The SST target capital represents the capital required to cover the risks assumed by the company. It is based on the company's total risk. In order to derive SST target capital, the total risk is adjusted for various items summarised under other impacts.

- An entity's total risk is measured in terms of 99% shortfall, ie the average unexpected loss at entity level that occurs with a frequency of less than once in 100 years over a one-year time horizon. All losses are a combination of insurance, financial market and credit losses, and accumulation as well as diversification between individual risks is taken into account.
- Other impacts include the minimum cost of holding capital after the one-year SST period until the end of a potential run-off period (market value margin) as requested by the Swiss Solvency Test, the impact from business development over the forecasting period, as well as requirements from FINMA that are not included in total risk as they are not consistent with Swiss Re's own risk view.

Market value margin

The SST target capital includes the minimum cost of holding capital after the one-year SST period until the end of a potential run-off period. Known as the MVM at the end of the risk assessment period, this represents the amount required to compensate a third party for the capital costs associated with running-off the insurance and reinsurance portfolio following a shortfall event. For a solo legal entity, only business assumed on the own book (including intra-group transactions) is considered; however, the consolidated view of Swiss Re Group also takes into account the business assumed through all its subsidiaries.

The MVM is calculated using the 99% shortfall on projected insurance and reinsurance exposure from the end of the solvency assessment period onwards, discounted back to the beginning of the period with US dollar rates, as most of the long-tail business is written in that currency. The sum of the calculated present values is then multiplied by the 6% capital cost rate specified by FINMA.

SST balance sheet

This report includes a comparison of the SST balance sheet with audited financial statements. The consolidated financial statements of the Group are prepared in accordance with US GAAP. The statutory financial statements of Swiss Reinsurance Company Ltd, Swiss Re Corporate Solutions Ltd, Swiss Re Life Capital Reinsurance Ltd and Swiss Re International SE, Luxembourg, Zurich branch are based on Swiss law.

Valuation and scope differences with audited financial statements

	SST	US GAAP	Statutory
Actuarial assumptions	Best estimate	Non-life business: reinsurance contracts are accrued when insured events occur and are based on the estimated ultimate cost of settling the claims. Unearned premium reserves are calculated based on a "pro-rata" share of the estimated premium written, taking into account seasonality of risk when necessary Life and health business: assumptions are generally set when the contract is issued or purchased, making allowance for possible adverse deviation (PAD)	Non-life business: reinsurance contracts are accrued when insured events occur and are based on the estimated ultimate cost of settling the claims; Unearned premium reserves are calculated based on a "pro-rata" share of the estimated premium written, taking into account seasonality of risk when necessary; allowance for equalisation reserves Life and health business: best estimate with additional provisions for possible adverse deviations (PAD)
Liability cash-flows	Discounted using risk-free rates; market-consistent valuation of options and guarantees	Non-life business: generally no discounting Life and health business: generally discounted based on book yields, with a PAD applied; generally no market-consistent valuation of embedded options and guarantees; for some derivative instruments (eg, variable annuities) a full stochastic valuation is carried out	Non-life business: generally no discounting Life and health business: generally discounted at historical yields of assets backing liabilities, with a PAD applied; generally no market-consistent valuation of embedded options and guarantees; for some derivative instruments (eg, variable annuities) a full stochastic valuation is carried out
Capital generation from new business	Recognised upfront for all business	Deferred over time (unearned premium reserve)	Deferred over time for positive expectation (unearned premium reserve), immediately for negative expectation
Explicit margin for risk	MVM is part of SST target capital. Valuation of subsidiaries on the balance sheet include MVM	No	No
Investment assets	Market values	Mostly market values, with some exceptions such as real estate and real estate for own use which are held at depreciated cost	Fixed-income securities and short-term investment at amortised value, shares in investment funds at cost or lower market value, loans at nominal value
Goodwill and intangibles	Not recognised	Recognised, goodwill subject to impairment test, intangibles subject to amortisation	Normally no goodwill recognition; intangibles and potential goodwill amortised/depreciated on a straight line basis
Senior debt, subordinated debt and convertible instruments	Valuation at fair value excluding own credit risk, except for supplementary capital instruments which are valued at fair value with no adjustment[1]	Generally valued at amortised cost; for convertible instruments classification depends on the instrument's characteristics. It is either classified as debt at amortised cost or as equity	Generally valued at redemption value; all debt positions recognised as liabilities
Deferred taxes	No	Yes	No
Contract boundaries	Contracts incepted until 31 December 2018 as well as business shifts as of 1 January 2019	Contracts incepted until 31 December 2018	Contracts incepted until 31 December 2018
Minority interest	SST recognises minority interests in the proportional consolidation of assets and liabilities	Minority interest are recognised as part of the statement of shareholders' equity	No minority interests on standalone financial statement
Sub-consolidation principles for solo view	Some entities are sub-consolidated for SST reporting	Not applicable	No sub-consolidation applied for statutory reporting

[1] For the purpose of the balance sheet comparison, SST may recognise subordinated debt and convertibles as supplementary capital for solvency assessment upon FINMA approval.

Comparison with audited financial statements

The balance sheet comparison included in this Report is provided on an aggregated basis, which is explained in the following table (empty cells denote items that are not reflected in the respective view):

Account for comparison	SST accounts (as published)	US GAAP accounts (as published)	Statutory accounts (as published)
Assets:			
Real estate	▪ Real estate	▪ Investment real estate	
Investments in subsidiaries and affiliated companies	▪ Investments in subsidiaries and affiliated companies		▪ Investments in subsidiaries and affiliated companies
Fixed-income securities	▪ Fixed-income securities	▪ Available-for-sale, at fair value ▪ Trading	▪ Fixed-income securities
Loans	▪ Loans	▪ Policy loans, mortgages and other loans[2]	▪ Loans
Mortgages	▪ Mortgages		▪ Mortgages
Equity securities	▪ Equity securities	▪ At fair value through earnings	▪ Equity securities
Other investments	▪ Shares in investment funds ▪ Alternative investments ▪ Other investments	▪ Short-term investments, at fair value ▪ Other invested assets	▪ Shares in investment funds ▪ Short-term investments ▪ Alternative investments
Investments for unit-linked and with-profit business	▪ Investments for unit-linked and with-profit business	▪ Investments for unit-linked and with-profit business	
Cash and cash equivalents	▪ Cash and cash equivalents	▪ Cash and cash equivalents	▪ Cash and cash equivalents
Funds held by ceding companies and other receivables from reinsurance	▪ Funds held by ceding companies and other receivables from reinsurance	▪ Premiums and other receivables ▪ Funds held by ceding companies	▪ Funds held by ceding companies ▪ Premiums and other receivables from reinsurance
Other assets	▪ Derivative financial instruments assets ▪ Other receivables ▪ Other assets	▪ Accrued investment income ▪ Reinsurance recoverable on unpaid claims and policy benefits ▪ Deferred acquisition costs ▪ Acquired present value of future profits ▪ Goodwill ▪ Income taxes recoverable ▪ Deferred tax assets ▪ Other assets	▪ Assets in derivative financial instruments ▪ Reinsurance recoverable from unpaid claims ▪ Reinsurance recoverable from liabilities life and health ▪ Reinsurance recoverable from unearned premiums ▪ Reinsurance recoverable from provision for profit commissions ▪ Tangible assets ▪ Deferred acquisition costs

			▪ Intangible assets ▪ Other receivables ▪ Other assets ▪ Accrued income
Liabilities:			
Reinsurance liabilities	▪ Total best estimate value of insurance liabilities before retrocessions[3] ▪ Total retrocessions[4]	▪ Unpaid claims and claim adjustment expenses ▪ Liabilities for life and health policy benefits ▪ Unearned premiums	▪ Unpaid claims ▪ Liabilities for life and health policy benefits ▪ Unearned premiums ▪ Provisions for profit commissions ▪ Equalisation provision
Unit-linked and with profit liabilities	▪ Unit-linked life insurance[5]	▪ Policyholder account balances[6]	
Debt	▪ Debt	▪ Short-term debt ▪ Long-term debt	▪ Debt ▪ Subordinated liabilities
Funds held under reinsurance treaties	▪ Funds held under reinsurance treaties	▪ Funds held under reinsurance treaties	▪ Funds held under reinsurance treaties
Other liabilities	▪ Non-technical provisions ▪ Derivative financial instruments liabilities ▪ Reinsurance balances payable ▪ Other liabilities	▪ Reinsurance balances payable ▪ Income taxes payable ▪ Deferred and other non-current tax liabilities ▪ Accrued expenses and other liabilities	▪ Tax provisions ▪ Provision for currency fluctuation ▪ Other provisions ▪ Liabilities from derivative financial instruments ▪ Reinsurance balances payable ▪ Other liabilities ▪ Accrued expenses

[2] This information is not disclosed separately under US GAAP. However, for the comparison, loan and mortgage figures are separated in order to align with the granularity of the SST accounts.
[3] Excluding unit-linked life insurance.
[4] Excluding unit-linked life insurance.
[5] Before and after retrocession for direct insurance and active reinsurance.
[6] Policyholder account balances also includes some non-linked, non-participating universal life type contracts.

Drivers of change in SST net asset value

The change in SST net asset value presented in this report is attributed to the following drivers:

- Underwriting contribution: consists of new business impacts based on best estimate cash flow projections and risk-free discounting, and impacts on in-force business from experience variances, assumption changes and reserve releases.
- Investment contribution: is derived from mark-to-market return on investments less the minimum risk benchmark return. The latter is the return on the theoretical investment portfolio that would minimise the financial market risk exposure of the entity.
- Market value margin of subsidiaries.
- Other contributions: consists particularly of other assets and liabilities and current taxes.
- Capital movements: consists of dividends paid and capital repatriation.
- Other, such as impact of foreign exchange movements.

The drivers of change in SST net asset value are prepared on a best-effort basis to support the analysis of the SST net asset value. The calculation of the SST net asset value is based on the EVM balance sheet and not the drivers identified above.

Cautionary note

Certain statements and illustrations contained herein are forward-looking. These statements (including as to plans, objectives, targets and trends) and illustrations provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to a historical fact or current fact.

Forward-looking statements typically are identified by words or phrases such as "anticipate", "assume", "believe", "continue", "estimate", "expect", "foresee", "intend", "may increase", "may fluctuate" and similar expressions, or by future or conditional verbs such as "will", "should", "would" and "could". These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group's actual results of operations, financial condition, solvency ratios, capital or liquidity positions or prospects to be materially different from any future results of operations, financial condition, solvency ratios, capital or liquidity positions or prospects expressed or implied by such statements or cause Swiss Re to not achieve its published targets. Such factors include, among others:

- the frequency, severity and development of insured claim events, particularly natural catastrophes, man-made disasters, pandemics, acts of terrorism and acts of war;
- mortality, morbidity and longevity experience;
- the cyclicality of the insurance and reinsurance sectors;
- instability affecting the global financial system;
- deterioration in global economic conditions;
- the effect of market conditions, including the global equity and credit markets, and the level and volatility of equity prices, interest rates, credit spreads, currency values and other market indices, on the Group's investment assets;
- changes in the Group's investment result as a result of changes in the Group's investment policy or the changed composition of the Group's investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
- the Group's 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 the Group's financial strength or otherwise;
- any inability to realise amounts on sales of securities on the Group's balance sheet equivalent to their values recorded for accounting purposes;
- changes in legislation and regulation, and the interpretations thereof by regulators and courts, affecting us or the Group's ceding companies, including as a result of shifts away from multilateral approaches to regulation of global operations;
- the outcome of tax audits, the ability to realise tax loss carryforwards, the ability to realise deferred tax assets (including by reason of the mix of earnings in a jurisdiction or deemed change of control), which could negatively impact future earnings, and the overall impact of changes in tax regimes on business models;
- failure of the Group's hedging arrangements to be effective;
- the lowering or loss of one of the financial strength or other ratings of one or more Swiss Re Group companies, and developments adversely affecting the Group's ability to achieve improved ratings;
- uncertainties in estimating reserves;
- policy renewal and lapse rates;
- 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;
- extraordinary events affecting the Group's clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- legal actions or regulatory investigations or actions, including those in respect of industry requirements or business conduct rules of general applicability;
- changes in accounting standards;

- significant investments, acquisitions or dispositions, and any delays, unexpected costs, lower-than-expected benefits, or other issues experienced in connection with any such transactions;
- changing levels of competition, including from new entrants into the market; and
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks and the ability to manage cyber security risks.

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

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

Note on risk factors

General impact of adverse market conditions

The operations of Swiss Re Ltd ("Swiss Re") and its subsidiaries (collectively, the "Group") as well as its investment returns are subject to market volatility and macro-economic factors, which are outside of the Group's control and are often inter-related. Financial, credit and foreign exchange markets are experiencing continued periods of volatility reflecting a range of political, economic and other uncertainties, some of the more significant of which are inter-related.

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

Further adverse developments or the continuation of adverse trends that, in turn, have a negative impact on financial markets and economic conditions could limit the Group's ability to access the capital markets and bank funding markets, could adversely affect the ability of counterparties to meet their obligations to the Group and could adversely affect the confidence of the ultimate buyers of insurance and reinsurance.

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

Regulatory changes

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

While some regulation is national in scope, the global nature of the Group's business means that its operations are subject in effect to a patchwork of global, national and regional standards. Swiss Re and its subsidiaries are subject to group supervision and Swiss Re's subsidiaries are also subject to applicable regulation in each of the jurisdictions in which they conduct business, particularly Switzerland, the United States, the United Kingdom, Luxembourg and Germany. The Group is subject to the Swiss Solvency Test and, through its legal entities organised in the EEA, Solvency II.

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.

While in recent years there has been an evolving focus on classifying certain insurance companies as systemically important, it is unclear whether and, if so, in what form reforms will be enacted. The Group could be designated as a global systemically important financial institution ("SIFI") under the framework for SIFIs developed by the Financial Stability Board, or as a systemically important insurer by the Financial Stability Oversight Council ("FSOC") in the United States. The International Association of Insurance Supervisors, an international body that represents insurance regulators and supervisors, has published and since refined its methodology for identifying global systemically important insurers ("G-SIIs"). Were the Group to be designated as a G-SII, it could be subject to one or both of the resulting regimes, including capital standards (the basic capital requirement for G-SIIs), which would have various implications for the Group, including additional compliance costs, reporting obligations and capital costs (in the form of capital charges or high loss absorption capacity), as well as heightened regulatory scrutiny in various jurisdictions. In addition, the Group ultimately will be subject to oversight of its Swiss regulator in respect of recovery and resolution planning.

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 UK and the EU could also impact the legislative and/or regulatory regimes to which the Group is subject, both in the United Kingdom and in the European Union.

In addition, regulatory changes could occur in areas of broader application, such as competition policy and tax laws. Changes in tax laws, for example, could increase the taxes the Group pays, the attractiveness of products offered by the Group, the Group's investment activities and the value of deferred tax assets. Any number of these changes could apply to the Group and its operations. Changes to the US tax regime enacted in early 2018 prompted us to modify our operating model for our US business. These changes, or inconsistencies between the various regimes that apply to the Group, could increase the costs of doing business (including due to increased capital requirements), reduce access to liquidity, limit the scope of current or future business or affect the competitive balance, or could make reinsurance less attractive to primary insurers.

Market risk

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

The Group is exposed to changes in the level and volatility of equity prices, as they affect the value of equity securities themselves as well as the value of securities or instruments that derive their value from a particular equity security, a basket of equity securities or a stock index. The Group is also subject to equity price risk to the extent that the values of life-related benefits under certain products and life contracts, most notably variable annuity business, are tied to financial market values; to the extent market values fall, the financial exposure on guarantees related to these contracts would increase to the extent this exposure is not hedged. While the Group has an extensive hedging programme covering its existing variable annuity business that it believes is sufficient, certain risks cannot be hedged, including actuarial, basis and correlation risks. Exposure to foreign exchange risk arises from exposures to changes in spot prices and forward prices as well as to volatile movements in exchange rates.

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

Credit risk

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

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

Liquidity risks

The Group's business requires, and its clients expect, that it has sufficient capital and sufficient liquidity to meet its re/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 or reinsurance coverage obligations. The Group's uses of funds include obligations arising in its insurance and reinsurance businesses (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 also has unfunded capital commitments in its private equity and hedge fund investments, which could result in funding obligations at a time when it is subject to liquidity constraints. In addition, the Group has potential collateral requirements in connection with a number of reinsurance arrangements, the amounts of which may be material and the meeting of which could require the Group to liquidate cash equivalents or other securities.

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

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

Counterparty risks

The Group is exposed to the risk of defaults, or concerns about defaults, by its counterparties. Securities trading counterparties, counterparties under swaps and other derivative contracts, and financial intermediaries may default on their obligations due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons, which could have a material adverse effect on the Group.

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

Risks relating to credit rating downgrades

Ratings are an important factor in establishing the competitive position of reinsurance companies. Third-party rating agencies assess and rate the financial strength of reinsurers and insurers. These ratings are intended to measure a company's ability to repay its obligations and are based upon criteria established by the rating agencies. Ratings may be revised downward or revoked at the sole discretion of the rating agencies.

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

As claims paying and financial strength ratings are key factors in establishing the competitive position of reinsurers, a decline in ratings alone could make reinsurance provided by the Group less attractive to clients relative to reinsurance 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 reinsurance only from reinsurers with certain ratings. Certain larger reinsurance contracts contain terms that would allow the ceding companies to cancel the contract if the Group's ratings or those of its subsidiaries are downgraded beyond a certain threshold. Moreover, a decline in ratings could impact the availability and terms of unsecured financing and 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. These same factors could also impact the Group's insurance business.

Legal and regulatory risks

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

The Group is also involved, from time to time, in investigations and regulatory proceedings, which could result in adverse judgments, settlements, fines and other outcomes. The number of these investigations and proceedings involving the financial services industry has increased in recent years, and the potential scope of these investigations and proceedings has also increased, not only in respect of matters covered by the Group's direct regulators, but also in respect of compliance with broader business conduct rules, including those in respect of market abuse, bribery, money laundering, trade sanctions and data protection and privacy. The Group also is subject to audits and challenges from time to time by tax authorities, which could result in increases in tax costs, changes to internal structures and interest and penalties. Tax authorities may also actively pursue additional taxes based on retroactive changes to tax laws. The Group could be subject to risks arising from alleged, or actual, violations of any of the foregoing, and could also be subject to risks arising from potential employee misconduct, including non-compliance with internal policies and procedures and malfeasance, such as undertaking or facilitating cyber attacks on internal systems. Substantial legal liability could materially adversely affect the Group's business, financial condition or results of operations or could cause significant reputational harm, which could seriously affect its business.

Insurance, operational and other risks

As part of the Group's ordinary course operations, the Group is subject to a variety of risks, including risks that reserves may not adequately cover future claims and benefits; risks that catastrophic events (including hurricanes, windstorms, floods, earthquakes, acts of terrorism, man-made disasters such as industrial accidents, explosions, and fires, and pandemics) may expose the Group to unexpected large losses (and related uncertainties in estimating future claims in respect of such events); changes in the insurance industry that affect ceding companies, particularly those that further increase their 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; macro developments giving rise to emerging risks, such as climate change and technological developments (including greater exposure to cyber risks, which could have a range of consequences from operational disruption, to loss of proprietary or customer data, to greater regulatory burdens and potential liability); risks arising from the Group's dependence on policies, procedures and expertise of ceding companies; risks related to investments in emerging markets; and risks related to the failure of, or attacks directed at, the Group's operational systems and infrastructure, including its information technology networks and systems. Any of the foregoing, as well as the occurrence of future risks that the Group's risk management procedures fail to identify or anticipate, could have a material adverse effect on the Group, and could also give rise to reputational risk.

Use of models; accounting matters

The Group is subject to risks relating to the preparation of estimates and assumptions that management uses, including as part of its risk models as well as those that affect the reported amounts of assets, liabilities, revenues and expenses in the Group's financial statements, including assumed and ceded business. For example, the Group estimates premiums pending receipt of actual data from ceding companies, which actual data could deviate from the estimates. In addition, particularly with respect to large natural catastrophes, it may be difficult to estimate losses, and preliminary estimates may be subject to a high degree of uncertainty and change as new information becomes available. Deterioration in market conditions could have an adverse impact on assumptions used for financial reporting purposes, which could affect possible impairment of present value of future profits, fair value of assets and liabilities, deferred acquisition costs or goodwill. Moreover, regulators could require the use of standard models instead of permitting the use of internal models. To the extent that management's estimates or assumptions prove to be incorrect, it could have a material impact on underwriting results (in the case of risk models) or on reported financial condition or results of operations, and such impact could be material.

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

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

The Group includes in its annual report a section in respect of its results, including financial statements, prepared in accordance with the Group's proprietary economic value management ("EVM") principles ("EVM report"). Financial information included in the EVM report contains non-GAAP financial measures. The EVM principles differ significantly from US GAAP and, accordingly, the Group's results prepared in accordance with US GAAP will differ from its EVM results, and those differences could be material. The Group's annual EVM results can be more volatile than the US GAAP results because, among other things, assets and liabilities are measured on a market-consistent basis, profit recognition on new contracts is recognised at inception rather than over the life time of the contract, and life and health actuarial assumptions are on a best estimate basis as opposed to generally being locked-in. The Group's EVM financial statements should not be viewed as a substitute for the Group's US GAAP financial statements.

Risks related to the Swiss Re corporate structure

Swiss Re is a holding company, a legal entity separate and distinct from its subsidiaries, including Swiss Reinsurance Company Ltd. As a holding company with no operations of its own, Swiss Re is dependent upon dividends and other payments from Swiss Reinsurance Company Ltd and its other principal operating subsidiaries. The Group expects that, over time, its structure will continue to evolve. In the future it may, for example, elect again (having accepted an equity investment within its Life Capital Business Unit from a third party) to partner with minority investors in or within one or more of the Group's Business Units or sub-groups within its Business Units, which could alter historical approaches taken in respect of capital, liquidity, funding and/or dividends, as well as other governance matters, including strategy for such Business Unit or sub-group, or may elect otherwise to dispose of interests in Group businesses or portions thereof, or to grow through acquisitions. To the extent it undertakes acquisitions, it is subject to the risks inherent in acquiring and integrating new operations.

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