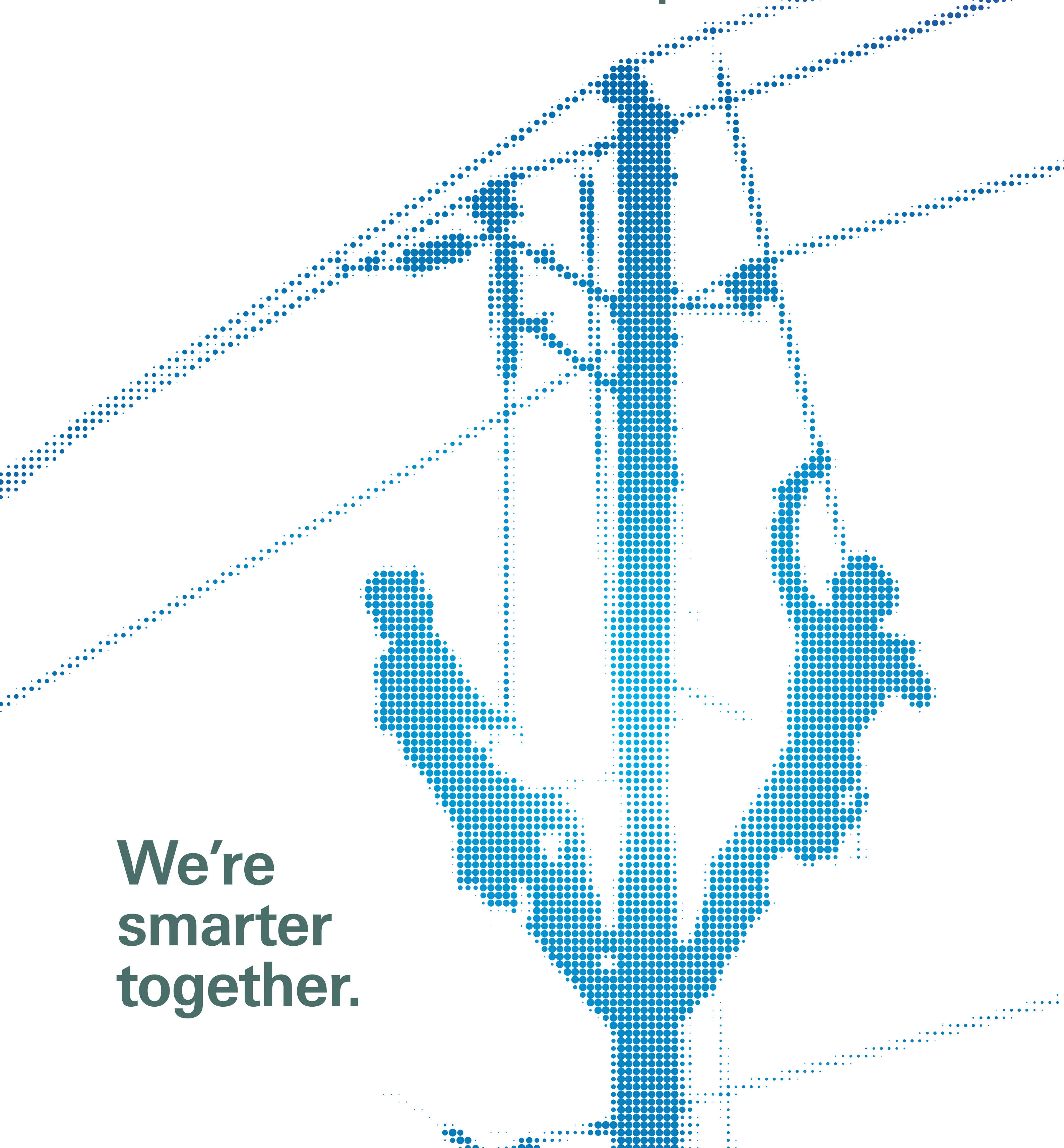
Swiss Re

Swiss Re Group

Second Quarter 2015 Report



We're smarter together.

Key Information

Financial highlights

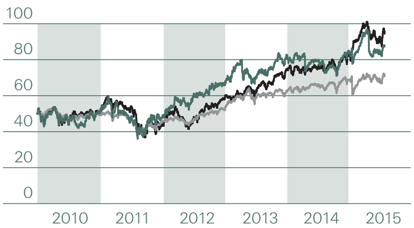
For the six months ended 30 June

USD millions, unless otherwise stated	2014	2015	Change in %
Group			
Net income attributable to common shareholders	2 028	**2 260**	11
Premiums earned and fee income	15 111	**14 706**	–3
Earnings per share in CHF	5.27	**6.27**	19
Common shareholders' equity (31.12.2014/30.06.2015)	34 828	**32 201**	–8
Return on equity[1] in %	12.6	**13.5**	
Return on investments in %	3.9	**4.0**	
Number of employees[2] (31.12.2014/30.06.2015)	12 224	**12 466**	2
Property & Casualty Reinsurance[3]			
Net income attributable to common shareholders	1 543	**1 261**	–18
Premiums earned	7 373	**7 270**	–1
Combined ratio in %	86.1	**88.7**	
Return on equity[1] in %	25.3	**20.0**	
Life & Health Reinsurance[3]			
Net income attributable to common shareholders	112	**495**	342
Premiums earned and fee income	5 567	**5 320**	–4
Operating margin in %	8.6	**10.3**	
Return on equity[1] in %	3.7	**16.6**	
Corporate Solutions			
Net income attributable to common shareholders	146	**239**	64
Premiums earned	1 671	**1 725**	3
Combined ratio in %	94.2	**92.4**	
Return on equity[1] in %	10.7	**20.8**	
Admin Re®			
Net income attributable to common shareholders	165	**249**	51
Premiums earned and fee income	500	**391**	–22
Return on equity[1] in %	5.5	**8.3**	

[1] Return on equity is calculated by dividing annualised net income attributable to common shareholders by average common shareholders' equity.
[2] Regular staff.
[3] In the second quarter of 2014, the Reinsurance Business Unit revised the allocation of certain intra-group cost recharges between Property & Casualty and Life & Health. For more information please refer to Note 2 in the accompanying notes of the Group financial statements.

Share information

Share price (CHF)



Financial strength ratings

As of 24 July 2015	Standard & Poor's	Moody's	A.M. Best
Rating	AA-	Aa3	A+
Outlook	Stable	Stable	Stable
Last update	28 November 2014	10 December 2013	6 November 2014

Share information

As of 24 July 2015	
Share price in CHF	87.90
Market capitalisation in CHF millions	30 183

Share performance

in %	1 January 2010 – 24 July 2015 (p.a.)	Year to 24 July 2015
Swiss Re	10.7	5.1
Swiss Market Index	6.6	3.8
STOXX Europe 600 Insurance Index	12.1	14.9

Content

Swiss Re Ltd
Swiss Re Ltd is the holding company of the Swiss Re Group. Its shares are listed in accordance with the Main Standard on the SIX Swiss Exchange and trade under the symbol SREN.

Letter to shareholders

Adding to a long track record of good underwriting and investment results

2.3
Group net income (USD billions)
For the first six months of 2015

Dear shareholders,

Two quarters remain until we reach the end of our 2011–2015 financial target period. Over that time we have focused on delivering shareholder value in terms of our return on equity, earnings per share and economic net worth per share. Vast changes have taken place in our industry, the global economy and the world since announcing our Group targets for that period in 2011. For that reason we are especially pleased to report that we remain on track to meet all three targets, with a Group net income of USD 2.3 billion for the first half of 2015.

Property & Casualty Reinsurance accounted for USD 1.3 billion of that amount. Solid underwriting, supported by benign natural catastrophe experience, led to a combined ratio for the segment of 88.7%.

Our Life & Health Reinsurance segment made a contribution to net income of USD 495 million. The annualised return on equity for Life & Health was 16.6%, keeping above its 2015 target of 10%–12%.

Corporate Solutions delivered a net income of USD 239 million. The Business Unit continues to generate profitable growth despite increasingly challenging market conditions. Its combined ratio was 92.4%.

Admin Re® reported net income of USD 249 million. The Business Unit generated gross cash of USD 139 million and paid a dividend to the Group of USD 401 million in the second quarter of 2015.

All three Business Units are supported by our asset management team, who performed well yet again despite extremely challenging conditions. That success continued with another strong Group return on investments (annualised) for the year to date of 4.0%.

Beginning in 2016 we will start working toward the new targets we shared with you this past February. In summary, we will continue to focus on profitability and economic growth using return on equity and economic net worth per share as our key measures. We will go into further detail on those targets, and the strategy to meet them, at our Investors' Day taking place on 8 December 2015 in Rüschlikon.

We remain optimistic about the long term because we believe we are well-positioned. Indeed, the recent consolidation in our industry suggests that the market is broadly convinced of the benefits of size, reach and diversification. As a global player with deep client relationships and a diversified offering, Swiss Re is in fact in a very solid position.

That is not to say we are content with the status quo, or complacent about the changes in our industry. We will continue to pursue opportunities to shift

Walter B. Kielholz
Chairman of the Board of Directors

Michel M. Liès
Group CEO

capital and talent to high growth markets. We will seek to enlarge our client base to increase our access to risk pools and take full advantage of our differentiated position to generate value for both clients and you, our shareholders. The July renewals give evidence that our clients appreciate that approach. They recognise our unique strengths, allowing us to help them meet their strategic objectives on terms that make sense for them as well as for Swiss Re.

Even more fundamentally, we take confidence from the fact that demand for reinsurance services is vast and growing. Ever greater shares of the world's population and wealth are at risk from disasters and catastrophes. The inexorable trend of longer lives occurs in the context of a growing risk of pandemic illness. Recent transactions such as the risk transfer programme supporting the Florida Hurricane Disaster Fund show that one way to expand the reach of re/insurance is to think broadly about who our potential clients are.

Our employees are making the difference in this effort. We aim to lead in under-served markets like China and Brazil, and our employees are the true ambassadors of that vision. Swiss Re employees are instrumental in raising awareness of challenges as well as opportunities in our industry such as financial repression, cyber-risk management and closing the protection gap.

We thank them for this work. We also thank you, our shareholders, for your continued trust and support.

Zurich, 30 July 2015

Walter B. Kielholz
Chairman of the Board of Directors

Michel M. Liès
Group CEO

Key events

26 March 2015

Current high levels of financial repression create significant costs and lower long-term investors' ability to channel funds into the real economy

Seven years after the financial crisis, central banks are still keeping interest rates at historically low levels. Low interest rates help finance governments' debt and lower funding costs, as well as support growth. But such policy actions cause financial repression. This comes at a substantial cost for both households and long-term investors such as insurance companies and pension funds, according to a Swiss Re report called "Financial repression: The unintended consequences."

21 April 2015

Shareholders approved all proposals put forward by the Board of Directors at Swiss Re's Annual General Meeting

Swiss Re's shareholders approved all proposals put forward by the Board of Directors at the Annual General Meeting. This included the increase in regular dividend from CHF 3.85 to CHF 4.25 per share and an additional special dividend of CHF 3.00 per share, as well as a proposal for a share buy-back of up to CHF 1 billion before the AGM. Shareholders also for the first time approved in a binding vote the compensation of the members of the Board of Directors and the Group Executive Committee.

30 April 2015

Swiss Re delivered 17% rise in first-quarter 2015 net income to USD 1.4 billion; strong underwriting and investment results

Swiss Re reported a strong Group net income of USD 1.4 billion for the first quarter of 2015. Property & Casualty Reinsurance led the positive contributions from all Business Units. Life & Health Reinsurance net income increased to USD 277 million and the segment is on track to meet its return on equity target for the year. Corporate Solutions continued to generate profitable growth with a net income of USD 167 million. Admin Re® delivered excellent net income growth and gross cash generation in line with expectations. Despite the ongoing challenges from further declining interest rates and market uncertainty, Swiss Re delivered a strong return on investments of 3.9%.

20 May 2015

Swiss Re SONAR update report highlights new and emerging risks the re/insurance industry expects to face over the next few years

De-globalisation and political conflict, large natural catastrophes, financial repression and the challenge posed by the "Internet of Things" are some of the risks identified in Swiss Re's "New emerging risk insights" report. Emerging risks are newly developing or changing risks which are difficult to quantify and whose potential business impact is not yet sufficiently taken into account.

22 June 2015

Swiss Re granted RQFII licence in China

Swiss Re was the first Swiss company to be granted a Renminbi Qualified Foreign Institutional Investor (RQFII) licence. With this licence in place Swiss Reinsurance Company Ltd can proceed and apply for a quota to invest in the Chinese domestic securities markets, predominately into the fixed income market. China's bond market is one of the world's largest, accessible only to foreign investors through specifically defined programmes. The grant of the licence follows an agreement reached in January between Switzerland and China to establish a quota of RMB 50 billion that Swiss-based financial institutions can use to invest in China's domestic capital markets.

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Business Units at a glance

Swiss Re is a leader in wholesale reinsurance, insurance and risk transfer solutions. Our clients include insurance companies, corporations, the public sector and policyholders.

THE SWISS RE GROUP

Reinsurance

Reinsurance is Swiss Re's largest business in terms of income and the foundation of our strength, providing about 85% of gross premiums and fee income through two segments — Property & Casualty and Life & Health. Reinsurance aims to extend Swiss Re's industry-leading position with disciplined underwriting, prudent portfolio management and diligent client service.

Read more: page 10

Corporate Solutions

Corporate Solutions serves mid-sized and large corporations, with product offerings ranging from traditional property and casualty insurance to highly customised solutions. Corporate Solutions serves customers from 50 offices worldwide and is a growth engine of the Swiss Re Group.

Read more: page 13

Admin Re®

Admin Re® provides risk and capital management solutions by which Swiss Re acquires closed books of in-force life and health insurance business, entire lines of business, or the entire capital stock of life insurance companies. Admin Re® solutions help clients free up capital to redeploy to new business opportunities while reducing administrative burdens.

Read more: page 15

Total

(after consolidation)

Business Unit		Year	Net premiums earned and fee income (USD millions) H1	Net premiums earned and fee income (USD millions) Q2	Net income (USD millions) H1	Net income (USD millions) Q2
Reinsurance	Property & Casualty	2015	7 270	3 503	1 261	453
		2014	7 373	3 560	1 543	553
	Life & Health	2015	5 320	2 628	495	218
		2014	5 567	2 895	112	48
Corporate Solutions		2015	1 725	843	239	72
		2014	1 671	841	146	66
Admin Re®		2015	391	170	249	43
		2014	500	264	165	117
Total (after consolidation)		2015	14 706	7 144	2 260	820
		2014	15 111	7 560	2 028	802

Return on equity YTD (1 Jan–30 June)	Return on equity Q2 (1 April–30 June)	Operating performance YTD (1 Jan–30 June)	Operating performance Q2 (1 April–30 June)
20.0% (2014: 25.3%)	13.9% (2014: 17.3%)	88.7% (2014: 86.1%) **Combined ratio**	93.3% (2014: 93.5%) **Combined ratio**
16.6% (2014: 3.7%)	14.0% (2014: 3.0%)	10.3% (2014: 8.6%) **Operating margin**	11.0% (2014: 7.1%) **Operating margin**
20.8% (2014: 10.7%)	12.7% (2014: 10.1%)	92.4% (2014: 94.2%) **Combined ratio**	97.3% (2014: 93.2%) **Combined ratio**
8.3% (2014: 5.5%)	2.8% (2014: 7.6%)	139m (2014: USD 473m) **Gross cash generation**	87m (2014: USD 271m) **Gross cash generation**
13.5% (2014: 12.6%)	9.5% (2014: 9.7%)	2.3bn (2014: USD 2.0bn) **Group net income**	0.8bn (2014: USD 0.8bn) **Group net income**

Group results

Swiss Re reported net income of USD 2.3 billion for the first six months of 2015, up from USD 2.0 billion for the same period in 2014, adding to a long track record of good underwriting and investment results. Earnings per share for the 2015 period were CHF 6.27 or USD 6.60, compared to CHF 5.27 (USD 5.92) for the first six months of 2014.

Net income for Reinsurance was USD 1.8 billion, in line with the prior-year period. Property & Casualty accounted for USD 1.3 billion, compared to USD 1.5 billion for the six months ended 30 June 2014. The current year net income includes a higher tax impact and lower net realised gains compared to the prior year, only partially offset by lower expenses. Life & Health accounted for USD 495 million compared to USD 112 million for the same period in 2014 reflecting a good operating result and net realised gains, including a positive impact from foreign exchange re-measurement. Net income in 2014 included net realised losses primarily driven by an interest rate hedge.

Corporate Solutions reported net income of USD 239 million, compared to USD 146 million for the prior-year period. The result reflects continued profitable business performance across most lines of business, as well as realised gains from insurance in derivative form.

Admin Re® delivered net income of USD 249 million, compared to USD 165 million for the prior-year period. The increase was driven by higher realised gains from sales of government bonds as part of the preparation for Solvency II and tax credits following the finalisation of the UK year-end statutory results. The sale of Aurora National Life Assurance Company (Aurora) closed in April.

Common shareholders' equity, excluding non-controlling interests and the impact of contingent capital instruments, decreased to USD 32.2 billion as of 30 June 2015 from USD 34.8 billion at the end of December 2014. The decrease was due to a payment to shareholders of USD 2.6 billion for the 2014 regular and special dividends, lower unrealised gains on fixed income securities and unfavourable foreign currency translation impacts, partially offset by net income. Annualised return on equity was 13.5% for the six months, compared to 12.6% for the same period last year.

Book value per common share decreased to USD 94.10 or CHF 87.89 at the end of June 2015, compared to USD 101.78 or CHF 101.12 at the end of December 2014. Book value per common share is based on common shareholders' equity and excludes non-controlling interests and the impact of contingent capital instruments.

Business performance

Premiums earned and fee income for the Group amounted to USD 14.7 billion for the first six months of 2015, a decrease of 3% compared to the prior-year period, reflecting unfavourable foreign exchange developments. At constant exchange rates premiums and fees increased by 5%, driven by growth in selected markets and lines of business across the Group.

Premiums earned for the first six months by Property & Casualty Reinsurance were USD 7.3 billion, a slight decrease compared to the prior-year period. At constant exchange rates premiums earned increased by 6%, driven by growth in the US casualty business and lower external retrocession. The Property & Casualty Reinsurance combined ratio was 88.7%, compared to 86.1% for the first half of 2014. The current period benefited from a benign natural catastrophe experience and positive prior-year development, only partially offset by the effect of an overall shift towards more proportional business, where acquisition costs are typically higher.

Life & Health Reinsurance premiums earned and fee income were USD 5.3 billion. The operating margin improved to 10.3% for the first half of 2015 compared to 8.6% in the prior-year period. At constant exchange rates premiums earned and fees increased by 4%, with premiums from new business higher in all markets compared to the same period in 2014.

Corporate Solutions premiums earned were USD 1.7 billion, reflecting continued successful organic growth across most lines of business, especially credit and casualty lines. However the pace of growth has slowed due to the challenging market environment. At constant exchange rates premiums earned increased by 7%. The Corporate Solutions combined ratio for the first six months of 2015 was 92.4%, compared to 94.2% for the same period in 2014, reflecting favourable prior-year development, mainly in other specialty lines, partially offset by higher man-made losses. Both periods benefited from the absence of major natural catastrophe losses.

Admin Re® generated gross cash of USD 139 million for the period, down from USD 473 million for the prior-year period. The 2014 amount included a release of USD 225 million in surplus reserves held against the risk of credit default and a one-time benefit of USD 142 million following the finalisation of the 2013 year-end UK statutory valuation.

Investment result and expenses

The return on investments was 4.0% in the first six months of 2015 compared to 3.9% for the same period of 2014.

The Group's non-participating net investment income was USD 1.8 billion compared to USD 2.1 billion in the first six months of 2014. The decrease was primarily related to net asset outflows and lower market value gains on equity accounted investments. The Group's fixed income running yield for the six months period was 3.0% in 2015 compared to 3.4% in 2014.

Income statement

USD millions, for the six months ended 30 June	2014	2015	Change in %
Revenues			
Premiums earned	14 860	14 466	–3
Fee income from policyholders	251	240	–4
Net investment income – non-participating	2 119	1 788	–16
Net realised investment gains/losses – non-participating	444	887	100
Net investment result – unit-linked and with-profit	647	673	4
Other revenues	6	34	467
Total revenues	18 327	**18 088**	–1
Expenses			
Claims and claim adjustment expenses	–5 118	–4 895	–4
Life and health benefits	–5 161	–4 383	–15
Return credited to policyholders	–763	–869	14
Acquisition costs	–2 814	–3 191	13
Administrative expenses	–1 450	–1 470	1
Other expenses	–156	–133	–15
Interest expenses	–379	–297	–22
Total expenses	–15 841	**–15 238**	–4
Income before income tax expense	2 486	2 850	15
Income tax expense	–422	–550	30
Net income before attribution of non-controlling interests	2 064	**2 300**	11
Income attributable to non-controlling interests	–1	–6	–
Net income after attribution of non-controlling interests	2 063	**2 294**	11
Interest on contingent capital instruments	–35	–34	–3
Net income attributable to common shareholders	2 028	**2 260**	11

The Group reported non-participating net realised gains of USD 887 million for the first six months of 2015 compared to USD 444 million for the same period in 2014. The increase was primarily driven by gains on interest rate derivatives in the current period as compared to losses in the prior period.

Acquisition costs for the Group increased to USD 3.2 billion for the first half year of 2015, up from USD 2.8 billion for the prior-year period, reflecting the impact of the recapture of retrocessions and a higher share in proportional business.

Other expenses amounted to USD 1.6 billion for the first six months of 2015, in line with the same period in 2014.

Interest expenses were USD 297 million, down from USD 379 million for the prior-year period, mainly due to the unwinding of an asset funding structure supporting a longevity transaction in Life & Health Reinsurance in the fourth quarter of 2014.

The Group reported a tax expense of USD 550 million on a pre-tax income of USD 2.9 billion for the period ended 30 June 2015, compared to a tax expense of USD 422 million on a pre-tax income of USD 2.5 billion for the same period in 2014. The effective tax rates in the current and prior-year periods were 19.3% and 17.0%, respectively. The current period tax rate includes tax charges on profits earned in higher tax jurisdictions, offset by benefits from valuation allowance releases, tax-exempt income, and prior-year provision adjustments.

Reinsurance

The Reinsurance Business Unit, which comprises the segments Property & Casualty Reinsurance and Life & Health Reinsurance, reported a net income of USD 1.8 billion for the first six months of 2015. Summaries of each segment's performance are below.

Property & Casualty Reinsurance

Net income for the first six months of 2015 was USD 1.3 billion compared with USD 1.5 billion in the same period of 2014. The current year net income includes a higher tax impact and lower net realised gains compared to the prior year, partially offset by lower expenses.

The underwriting result was solid with a resilient combined ratio of 88.7% for the first six months of 2015 or a result of USD 823 million compared to USD 1.0 billion. The current period benefited from a benign natural catastrophe experience and positive prior-year development, only partially offset by the effect of an overall shift towards more proportional business, where acquisition costs are typically higher.

The overall investment income was USD 881 million compared to USD 932 million in the prior-year period, primarily due to an adverse impact of foreign exchange in the current period.

Net premiums earned

Net premiums earned decreased 1.4% to USD 7.3 billion for the first six months of 2015, compared to USD 7.4 billion in the same period of 2014. The decrease was mainly driven by foreign exchange rate changes. At constant exchange rates, premiums earned increased by USD 394 million, driven by higher earnings from contracts written in prior years in EMEA, increased premiums in Americas' liability books and reduced external retrocessions, partly offset by the expiration of large quota shares in China.

Combined ratio

Property & Casualty Reinsurance reported a combined ratio of 88.7% for the first six months of 2015, compared to 86.1% in the prior-year period.

The impact from natural catastrophes for the first six months of 2015 was 7.1 percentage points below the expected level of 8.5 points. The favourable development of prior accident years improved the combined ratio by 3.6 percentage points compared to 4.1 percentage points for the first six months of 2014.

Administrative expense ratio

The administrative expense ratio decreased to 8.3% for the first six months of 2015 compared to 9.1% in the prior-year period, mainly driven by foreign currency movements.

Lines of business

The property combined ratio was 78.9% for the first six months of 2015 and 71.8% for the first six months of 2014. The increase was mainly attributable to higher acquisition costs in the reporting period. The 2015 period benefited from lower than expected natural catastrophe experience and positive prior-year experience.

The casualty combined ratio was 100.5% for the first six months of 2015, compared to 108.5% for the same period last year. The improvement was mainly due to higher net reserve releases as well as decreased expenses.

The specialty combined ratio increased to 79.3% for the first six months of 2015 compared to 65.3% in the prior-year period. The increase was mainly due to less positive claims experience across all lines.

Investment result

The return on investments was 4.2% for the first six months of 2015 compared to 4.0% in the same period of 2014, reflecting the impact of a lower invested asset base in the current period. Net investment income increased by USD 33 million to USD 531 million for the first six months of 2015, mainly from duration lengthening within the fixed income portfolio in 2014. Net realised gains were USD 389 million for the first six months of 2015 compared to USD 423 million for the prior period, with the decrease stemming from lower realised gains from sales of equities, partially offset by gains on interest rate derivatives.

Insurance-related investment results are not included in the figures above.

Shareholders' equity

Common shareholders' equity decreased to USD 11.4 billion as of 30 June 2015 from USD 13.9 billion as of 31 December 2014, primarily driven by a dividend payment of USD 2.7 billion in the second quarter, a reduction in unrealised gains and the impact of foreign exchange movements, partly offset by the net income for the period. The annualised return on equity for the first two quarters of 2015 was 20.0% compared to 25.3% in the same period of 2014. The decrease was mainly due to the lower net income in the period, partly offset by the reduced equity base in 2015.

Outlook

Excess capital and low loss occurrence led to continuing pressure on property catastrophe rates as expected. However, rate decreases in the US catastrophe market were slower than in 2014. Casualty rates are softer overall, with increases in specific areas. Terms and conditions are under pressure in property and mostly stable in casualty. Specialty lines experienced stable to moderately lower rates.

Our clients recognise Swiss Re's strengths, allowing us to access business at sustainable rates. This differentiation, in addition to portfolio steering, remain key in this softening rate environment. We believe we are well positioned to support clients in both developed and high growth markets with our expertise, knowledge and services.

Life & Health Reinsurance

Net income for the six months ended 30 June 2015 was USD 495 million compared to USD 112 million for the same period in 2014, reflecting a good operating result and net realised gains, including a positive impact of foreign exchange re-measurement. Net income in 2014 included net realised losses primarily driven by an interest rate hedge. The annualised return on equity for the six months was 16.6%. After adjusting for realised gains and one-off model adjustments and using the equity capital of USD 5.5 billion announced as the basis for our 2015 target at the June 2013 Investors' Day, return on equity was 11.4%.

Net premiums earned and fee income

Premiums earned and fee income for the six months ended 30 June 2015 decreased to USD 5.3 billion, compared to USD 5.6 billion for the same period in 2014. At constant foreign exchange rates, premiums earned and fee income were 4% higher in the first half of 2015. Premiums from new business were higher in all markets compared to the same period in 2014. The 2015 result also benefited from a change of accounting treatment for certain contracts in EMEA.

Operating margin

The operating margin for the first six months of 2015 was 10.3% compared to 8.6% in the same period of 2014. The improvement stems from less unfavourable US post-level term results and model adjustments in the current period.

Administrative expense ratio

The administrative expense ratio was 7.1% for the first six months compared to 7.0% in the same period of 2014.

Lines of business

Operating income for the life business increased to USD 316 million for the first six months of 2015, compared to USD 267 million in the same period of 2014. These results benefited from 2014 management actions in relation to the US pre-2004 yearly renewable term business, while investment income was lower following the unwinding of an asset funding structure supporting a longevity transaction. In addition, the pre-2004 US post-level term business was less unfavourable in the current period and increases in rates lowered the valuation liabilities for Variable Annuities, partly offset by unfavourable mortality experience in the US.

Operating income for the health business increased to USD 306 million for the first six months of 2015 compared to USD 283 million for the same period last year. The positive result was helped by an update to interest rates applied to the valuation of disabled life reserves in the Americas.

Investment result

The return on investments was 3.6% in the first six months of 2015 compared to 3.2% in the same period of 2014, reflecting an increase in the investment result of USD 52 million. Net investment income decreased by USD 110 million to USD 552 million for the first six months of 2015, mainly due to the impact of net asset outflows and the absence of extraordinary paydowns on securitised products, as well as lower market value gains on private equity in the current period. Net realised gains were USD 88 million for the first six months of 2015 compared to losses of USD 74 million for the prior period, as the prior period included losses from an interest rate hedge.

The fixed-income running yield was 3.5% in the reporting period.

Insurance-related investment results are not included in the figures above.

Shareholders' equity

Common shareholders' equity stands at USD 5.8 billion at the end of the first half of 2015, compared to USD 6.7 billion as of 30 June 2014, and USD 6.2 billion as of 31 December 2014. Annualised return on equity for 2015 of 16.6% was supported by a lower equity base due to unrealised losses and a dividend payment of USD 250 million.

Outlook

The Life & Health Reinsurance business is expected to grow modestly in the medium term. The reinsurance market is expected to grow more slowly than the direct insurance market due to decreasing cession rates in mature markets as primary insurers retain more risk. In addition, the low interest rate environment will continue to have an unfavourable impact on the long-term life business growth for our cedents. As a result, we expect reinsurance volumes from these markets to be flat.

To manage these challenges, we are pursuing opportunities presented by major demographic and socioeconomic trends, such as the rise of high growth markets where growth remains dynamic, and in health lines of business. We will continue to pursue large transaction opportunities, including longevity deals, which we believe will allow us to write new business at attractive returns. We are also improving our capabilities to help close the protection gap. We will continue to ensure that our future new business meets the Group's return on equity hurdle rates.

Corporate Solutions

Corporate Solutions continued to execute its growth plan with several initiatives.

In April, Corporate Solutions joined forces with IBM Security to provide advanced cyber risk protection products and services to companies worldwide. The agreement combines IBM's outstanding knowledge of information technology security with Corporate Solutions' leading-edge underwriting to help businesses protect themselves against increasingly sophisticated cyber-attacks.

In May, Corporate Solutions opened an office in Melbourne, its eighth in the Asia-Pacific region. Melbourne is Australia's second largest underwriting centre and the broking hub for the country's southern region. The Melbourne office complements the existing office in Sydney.

Corporate Solutions completed the acquisition of Sun Alliance Insurance China Limited in May and is now licensed and operating in mainland China as Swiss Re Corporate Solutions Insurance China Ltd. In this market Corporate Solutions is focused on property, casualty, marine, engineering and construction risks, as well as providing customised solutions for the agriculture and energy sectors.

Performance

Net income was USD 239 million in the first six months of 2015, an increase of 63.7% compared to USD 146 million in the same period of 2014. The 2015 result was driven by continued profitable business performance across most lines of business and net realised gains from insurance in derivative form.

Net premiums earned

Net premiums were USD 1.7 billion for the first six months of 2015, an increase of 3%, or 7% at constant exchange rates, compared to the same period of 2014. The increase was driven by continued organic growth across most lines of business, especially credit and casualty. However, the pace of growth has slowed due to the challenging market environment, most notably in North America property. Gross premiums written and premiums for insurance in derivative form, net of internal fronting for the Reinsurance Business Unit, decreased 7%, or 3% at constant exchange rates, to USD 1.7 billion in the first six months of 2015 compared to USD 1.8 billion in the same period of 2014, which included a large multi-year transaction.

Combined ratio

The combined ratio improved by 1.8 percentage points to 92.4% in the first six months of 2015 compared to 94.2% in the same period of 2014. The improvement was driven by favourable prior-year development, mainly in other specialty lines, partially offset by higher man-made losses. Both periods benefited from the absence of major natural catastrophe losses.

Lines of business

The property combined ratio for the first six months of 2015 improved by 12.5 percentage points to 80.3%, reflecting continued profitable business performance in most regions.

The casualty combined ratio improved by 5.6 percentage points to 102.5% in the first six months of 2015, mainly due to successful business growth and favourable prior-year development on liability business in North America.

The credit combined ratio increased to 101.9% in the first six months of 2015 compared to 76.6% in the same period of 2014, driven by two large surety losses in Latin America in the first and second quarter, partially offset by continued organic growth, especially in Europe.

In other specialty lines, the combined ratio deteriorated by 9.0 percentage points to 94.3% in the first six months of 2015, mainly due to large aviation and satellite losses in the second quarter of 2015, partially offset by favourable prior-year development and continued organic growth mainly in Europe.

Investment result

The return on investments was 3.5% for the first six months of 2015, compared to 3.1% in the same period of 2014.

Net investment income increased by USD 16 million to USD 70 million in the first six months of 2015, due to business growth and ensuing increase in the investment portfolio. Net realised gains were USD 82 million compared to USD 61 million in the first six months of 2014. The net realised gains in the current period were driven by gains from the sale of listed equities.

Insurance-related derivative results are not included in the investment figures above.

Corporate Solutions offers insurance protection against weather perils and other risks. Insurance in derivative form reported net realised gains of USD 58 million in the first six months of 2015 compared to USD 6 million in the same period of 2014, reflecting a strong business performance, mainly in Europe. The 2014 period was impacted by the unusually cold winter in the US and the warm winter in Europe.

Shareholders' equity

Common shareholders' equity remained stable at USD 2.3 billion since the end of 2014, with a USD 200 million dividend paid to Swiss Re Ltd, offset by net income in the first six months. The annualised return on equity was 20.8% in the first six months of 2015, compared to 10.7% in the same period of 2014.

Outlook

Prices for commercial insurance are under significant pressure, with some segments operating at unsustainable rate levels. Corporate Solutions has maintained its commitment to underwriting discipline while still on track to meet its premium and return on equity ambitions for 2015. Corporate Solutions believes that it is well positioned to successfully navigate an increasingly challenging market thanks to its value proposition, strong balance sheet and selective underwriting approach.

Admin Re®

Admin Re® reported net income of USD 249 million in the first six months of 2015 compared to USD 165 million in the same period of 2014. The increase was driven by higher realised gains from sales of government bonds as part of the preparation for Solvency II and tax credits following the finalisation of the UK year-end statutory results. Net income was impacted by an unfavourable adjustment largely due to the recording of income on funds withheld assets within the US business. The sale of Aurora National Life Assurance Company (Aurora) closed during April, continuing Admin Re®'s exit from the US market.

Gross cash generation

Admin Re® generated gross cash of USD 139 million in the first six months of 2015, compared with USD 473 million in the same period of 2014. The 2014 amount included the impact of USD 142 million following the finalisation of the 2013 year-end UK statutory valuation and a release of USD 225 million in surplus reserves held against the risk of credit default. A dividend of USD 401 million was paid to the Group at the end of June 2015.

Investment result

The return on investments was 5.0% in the first six months of 2015 compared to 4.8% in the same period of 2014, reflecting a lower invested asset base in the current period.

Net investment income decreased by USD 118 million to USD 348 million in the first six months of 2015, mainly from net asset outflows related to the sale of Aurora and the impact of foreign exchange movements.

Net realised gains increased by USD 89 million to USD 180 million in the first six months of 2015 primarily driven by additional realised gains from sales related to the preparation for Solvency II.

Insurance-related investment results are not included in the figures above.

Expenses

Expenses were USD 178 million in the first six months of 2015 compared to USD 174 million in the corresponding period of 2014.

Shareholders' equity

Common shareholders' equity decreased by USD 830 million to USD 5.6 billion since 31 December 2014. The decrease was mainly attributable to a decrease in unrealised gains driven by increasing interest rates in the UK and the US as well as the payment of the dividend. These were partially offset by net income earned in 2015.

The annualised return on equity was 8.3% for the six month period, compared to 5.5% for the corresponding period in 2014, with the increase due to higher net income in 2015.

Outlook

Admin Re® aims to pursue selective growth opportunities in the UK. All transactions must meet Group investment criteria and hurdle rates. Overall Admin Re® aims to improve efficiency, to achieve capital and tax synergies and to actively manage its asset portfolios and blocks of business. Through these actions Admin Re® aims to generate approximately USD 500 million in cash from 2015 through 2016, and to pay approximately USD 600 million in dividends to the Group over the same period.

Income statement

USD millions	Note	Three months ended 30 June 2014	Three months ended 30 June 2015	Six months ended 30 June 2014	Six months ended 30 June 2015
Revenues					
Premiums earned	3	7 432	**7 053**	14 860	**14 466**
Fee income from policyholders	3	128	**91**	251	**240**
Net investment income – non-participating business	6	1 112	**898**	2 119	**1 788**
Net realised investment gains – non-participating business (total impairments for the three months ended 30 June were 8 in 2014 and 6 in 2015, of which 8 and 6, respectively, were recognised in earnings)[1]	6	159	**328**	444	**887**
Net investment result – unit-linked and with-profit business	6	548	**–768**	647	**673**
Other revenues		4	**22**	6	**34**
Total revenues		9 383	**7 624**	18 327	**18 088**
Expenses					
Claims and claim adjustment expenses	3	–2 662	**–2 460**	–5 118	**–4 895**
Life and health benefits	3	–2 693	**–2 026**	–5 161	**–4 383**
Return credited to policyholders		–611	**583**	–763	**–869**
Acquisition costs	3	–1 455	**–1 653**	–2 814	**–3 191**
Other expenses		–820	**–819**	–1 606	**–1 603**
Interest expenses		–191	**–150**	–379	**–297**
Total expenses		–8 432	**–6 525**	–15 841	**–15 238**
Income before income tax expense		951	**1 099**	2 486	**2 850**
Income tax expense		–131	**–256**	–422	**–550**
Net income before attribution of non-controlling interests		820	**843**	2 064	**2 300**
Income/loss attributable to non-controlling interests		0	**–6**	–1	**–6**
Net income after attribution of non-controlling interests		820	**837**	2 063	**2 294**
Interest on contingent capital instruments		–18	**–17**	–35	**–34**
Net income attributable to common shareholders		802	**820**	2 028	**2 260**
Earnings per share in USD					
Basic	11	2.34	**2.39**	5.92	**6.60**
Diluted	11	2.16	**2.20**	5.44	**6.03**
Earnings per share in CHF[2]					
Basic	11	2.08	**2.27**	5.27	**6.27**
Diluted	11	1.92	**2.09**	4.84	**5.73**

[1] Total impairments for the six months ended 30 June were USD 13 million in 2014 and USD 11 million in 2015, of which USD 13 million and USD 11 million, respectively, were recognised in earnings.
[2] The translation from USD to CHF is shown for informational purposes only and has been calculated using the Group's average exchange rates.

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

Statement of comprehensive income

USD millions	Three months ended 30 June 2014	2015	Six months ended 30 June 2014	2015
Net income before attribution of non-controlling interests	820	**843**	2 064	**2 300**
Other comprehensive income, net of tax:				
Change in unrealised investment gains/losses	898	**–2 779**	1 727	**–1 584**
Change in other-than-temporary impairment	2		4	**1**
Change in foreign currency translation	183	**294**	180	**–635**
Change in adjustment for pension benefits	4	**8**	4	**37**
Total comprehensive income before attribution of non-controlling interests	1 907	**–1 634**	3 979	**119**
Interest on contingent capital instruments	–18	**–17**	–35	**–34**
Comprehensive income attributable to non-controlling interests		**–6**	–1	**–6**
Total comprehensive income attributable to common shareholders	1 889	**–1 657**	3 943	**79**

Reclassification out of accumulated other comprehensive income

For the three months ended 30 June

2014 USD millions	Unrealised investment gains/losses[1]	Other-than-temporary impairment[1]	Foreign currency translation[1,2]	Adjustment from pension benefits[3]	Accumulated other comprehensive income
Balance as of 1 April	2 451	–4	–3 900	–534	–1 987
Change during the period	1 530	3	223	–5	1 751
Amounts reclassified out of accumulated other comprehensive income	–326			11	–315
Tax	–306	–1	–40	–2	–349
Balance as of period end	3 349	–2	–3 717	–530	–900

2015 USD millions	Unrealised investment gains/losses[1]	Other-than-temporary impairment[1]	Foreign currency translation[1,2]	Adjustment from pension benefits[3]	**Accumulated other comprehensive income**
Balance as of 1 April	6 613	–2	–5 604	–796	**211**
Change during the period	–3 011		245	–12	**–2 778**
Amounts reclassified out of accumulated other comprehensive income	–893			21	**–872**
Tax	1 125		49	–1	**1 173**
Balance as of period end	**3 834**	**–2**	**–5 310**	**–788**	**–2 266**

[1] Reclassification adjustment included in net income is presented in the "Net realised investment gains – non-participating business" line.
[2] Reclassification adjustment is limited to translation gains and losses realised upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity.
[3] Reclassification adjustment included in net income is presented in the "Other expenses" line.

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

For the six months ended 30 June

2014 USD millions	Unrealised investment gains/losses[1]	Other-than-temporary impairment[1]	Foreign currency translation[1,2]	Adjustment from pension benefits[3]	Accumulated other comprehensive income
Balance as of 1 January	1 622	–6	–3 897	–534	–2 815
Change during the period	3 089	6	196	–9	3 282
Amounts reclassified out of accumulated other comprehensive income	–709			21	–688
Tax	–653	–2	–16	–8	–679
Balance as of period end	3 349	–2	–3 717	–530	–900

2015 USD millions	Unrealised investment gains/losses[1]	Other-than-temporary impairment[1]	Foreign currency translation[1,2]	Adjustment from pension benefits[3]	**Accumulated other comprehensive income**
Balance as of 1 January	5 418	–3	–4 675	–825	**–85**
Change during the period	–1 084	2	–564	11	**–1 635**
Amounts reclassified out of accumulated other comprehensive income	–1 240			37	**–1 203**
Tax	740	–1	–71	–11	**657**
Balance as of period end	**3 834**	**–2**	**–5 310**	**–788**	**–2 266**

[1] Reclassification adjustment included in net income is presented in the "Net realised investment gains – non-participating business" line.
[2] Reclassification adjustment is limited to translation gains and losses realised upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity.
[3] Reclassification adjustment included in net income is presented in the "Other expenses" line.

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

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Balance sheet

Assets

USD millions	Note	31.12.2014	30.06.2015
Investments	6, 7, 8		
Fixed income securities:			
Available-for-sale, at fair value (including 12 677 in 2014 and 15 357 in 2015 subject to securities lending and repurchase agreements) (amortised cost: 2014: 77 867; 2015: 78 780)		84 450	**82 879**
Trading (including 645 in 2014 and 849 in 2015 subject to securities lending and repurchase agreements)		2 219	**1 992**
Equity securities:			
Available-for-sale, at fair value (including 311 in 2014 and 796 in 2015 subject to securities lending and repurchase agreements) (cost: 2014: 3 133; 2015: 4 131)		4 024	**5 031**
Trading		65	**70**
Policy loans, mortgages and other loans		3 205	**3 242**
Investment real estate		888	**1 146**
Short-term investments, at fair value (including 3 217 in 2014 and 2 739 in 2015 subject to securities lending and repurchase agreements)		14 127	**9 225**
Other invested assets		9 684	**9 547**
Investments for unit-linked and with-profit business (including fixed income securities trading: 3 680 in 2014 and 3 609 in 2015, equity securities trading: 20 045 in 2014 and 19 716 in 2015)		25 325	**24 860**
Total investments		143 987	**137 992**
Cash and cash equivalents (including 65 in 2014 and 45 in 2015 subject to securities lending)		7 471	**7 125**
Accrued investment income		1 049	**986**
Premiums and other receivables		12 265	**13 208**
Reinsurance recoverable on unpaid claims and policy benefits		6 950	**6 476**
Funds held by ceding companies		11 222	**10 188**
Deferred acquisition costs	5	4 840	**5 120**
Acquired present value of future profits	5	3 297	**3 239**
Goodwill		4 025	**3 979**
Income taxes recoverable		212	**226**
Deferred tax assets		6 118	**6 100**
Other assets		3 025	**3 170**
Total assets		204 461	**197 809**

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

Liabilities and equity

USD millions	Note	31.12.2014	30.06.2015
Liabilities			
Unpaid claims and claim adjustment expenses		57 954	**55 801**
Liabilities for life and health policy benefits	7	33 605	**31 272**
Policyholder account balances		29 242	**27 958**
Unearned premiums		10 576	**12 544**
Funds held under reinsurance treaties		3 385	**2 814**
Reinsurance balances payable		2 115	**2 071**
Income taxes payable		909	**558**
Deferred and other non-current tax liabilities		9 445	**8 766**
Short-term debt	10	1 701	**1 898**
Accrued expenses and other liabilities		6 873	**9 192**
Long-term debt	10	12 615	**11 525**
Total liabilities		168 420	**164 399**
Equity			
Contingent capital instruments		1 102	**1 102**
Common shares, CHF 0.10 par value			
2014: 370 706 931; 2015: 370 706 931 shares authorised and issued[1]		35	**35**
Additional paid-in capital		1 806	**455**
Treasury shares, net of tax		–1 185	**–1 212**
Accumulated other comprehensive income:			
Net unrealised investment gains, net of tax		5 418	**3 834**
Other-than-temporary impairment, net of tax		–3	**–2**
Foreign currency translation, net of tax		–4 675	**–5 310**
Adjustment for pension and other post-retirement benefits, net of tax		–825	**–788**
Total accumulated other comprehensive income		–85	**–2 266**
Retained earnings		34 257	**35 189**
Shareholders' equity		35 930	**33 303**
Non-controlling interests		111	**107**
Total equity		36 041	**33 410**
Total liabilities and equity		204 461	**197 809**

[1] Please refer to Note 11 "Earnings per share" for details on the number of shares authorised and issued.

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

Statement of shareholders' equity

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

USD millions	2014	2015
Contingent capital instruments		
Balance as of 1 January	1 102	**1 102**
Issued		
Balance as of period end	1 102	**1 102**
Common shares		
Balance as of 1 January	35	**35**
Issue of common shares		
Balance as of period end	35	**35**
Additional paid-in capital		
Balance as of 1 January	4 963	**1 806**
Share-based compensation	–34	**–11**
Realised gains/losses on treasury shares	6	**–60**
Dividends on common shares[1]	–3 129	**–1 280**
Balance as of period end	1 806	**455**
Treasury shares, net of tax		
Balance as of 1 January	–1 099	**–1 185**
Purchase of treasury shares	–223	**–134**
Issuance of treasury shares, including share-based compensation to employees	137	**107**
Balance as of period end	–1 185	**–1 212**
Net unrealised investment gains/losses, net of tax		
Balance as of 1 January	1 622	**5 418**
Changes during the period	3 796	**–1 584**
Balance as of period end	5 418	**3 834**
Other-than-temporary impairment, net of tax		
Balance as of 1 January	–6	**–3**
Changes during the period	3	**1**
Balance as of period end	–3	**–2**
Foreign currency translation, net of tax		
Balance as of 1 January	–3 897	**–4 675**
Changes during the period	–778	**–635**
Balance as of period end	–4 675	**–5 310**
Adjustment for pension and other post-retirement benefits, net of tax		
Balance as of 1 January	–534	**–825**
Changes during the period	–291	**37**
Balance as of period end	–825	**–788**
Retained earnings		
Balance as of 1 January	30 766	**34 257**
Net income after attribution of non-controlling interests	3 569	**2 294**
Interest on contingent capital instruments, net of tax	–69	**–34**
Purchase of non-controlling interests	–9	
Dividends on common shares[1]		**–1 328**
Balance as of period end	34 257	**35 189**
Shareholders' equity	35 930	**33 303**
Non-controlling interests		
Balance as of 1 January	25	**111**
Changes during the period	86	**–10**
Income attributable to non-controlling interests		**6**
Balance as of period end	111	**107**
Total equity	36 041	**33 410**

[1] Dividends to shareholders were paid in the form of a withholding tax-exempt repayment of legal reserves from capital contributions.

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

Statement of cash flow

For the six months ended 30 June

USD millions	2014	2015
Cash flows from operating activities		
Net income attributable to common shareholders	2 028	**2 260**
Add net income attributable to non-controlling interests	1	**6**
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items	185	**271**
Net realised investment gains/losses	–592	**–1 155**
Income from equity-accounted investees, net of dividends received	–19	**27**
Change in:		
Technical provisions and other reinsurance assets and liabilities, net	–949	**–1 021**
Funds held by ceding companies and under reinsurance treaties	319	**200**
Reinsurance recoverable on unpaid claims and policy benefits	646	**400**
Other assets and liabilities, net	–267	**–227**
Income taxes payable/recoverable	118	**–206**
Trading positions, net[1]	329	**822**
Net cash provided/used by operating activities	1 799	**1 377**
Cash flows from investing activities		
Fixed income securities:		
Sales	31 457	**23 037**
Maturities	2 116	**2 430**
Purchases	–33 350	**–29 892**
Net purchases/sales/maturities of short-term investments	1 095	**4 402**
Equity securities:		
Sales	4 896	**1 010**
Purchases	–1 893	**–1 783**
Securities purchased/sold under agreement to resell/repurchase, net[1]	–188	**666**
Cash paid/received for acquisitions/disposal and reinsurance transactions, net		**44**
Net purchases/sales/maturities of other investments[1]	–127	**2 081**
Net cash provided/used by investing activities	4 006	**1 995**
Cash flows from financing activities		
Issuance/repayment of long-term debt	503	**234**
Issuance/repayment of short-term debt	–1 542	**–1 109**
Purchase/sale of treasury shares	–203	**–129**
Dividends paid to shareholders	–3 129	**–2 608**
Net cash provided/used by financing activities	–4 371	**–3 612**
Total net cash provided/used	1 434	**–240**
Effect of foreign currency translation	184	**–106**
Change in cash and cash equivalents	1 618	**–346**
Cash and cash equivalents as of 1 January	8 072	**7 471**
Cash and cash equivalents as of 30 June	9 690	**7 125**

[1] The Group reviewed the nature of certain items within the statement of cash flow. "Securities purchased/sold under agreement to resell/purchase, net" are reclassified from the operating cash flow to the investing cash flow, and certain investment related cash flows are reclassified from "Trading positions, net" in the operating cash flow to "Net purchases/sales/maturities of other investments" in the investing cash flow. Comparatives have been adjusted accordingly.

Interest paid was USD 360 million and USD 238 million for the six months ended 30 June 2014 and 2015 respectively.

Tax paid was USD 289 million and USD 747 million for the six months ended 30 June 2014 and 2015, respectively.

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

Notes to the Group financial statements

1 Organisation and summary of significant accounting policies

Nature of operations
The Swiss Re Group, which is headquartered in Zurich, Switzerland, comprises Swiss Re Ltd (the parent company) and its subsidiaries (collectively, the "Swiss Re Group" or the "Group"). The Swiss Re Group is a wholesale provider of reinsurance, insurance and other insurance-based forms of risk transfer. Working through brokers and a network of offices around the globe, the Group serves a client base made up of insurance companies, mid- to large-sized corporations and public sector clients.

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

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

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

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

For assets or derivative structures at fair value, the Group uses market prices or inputs derived from market prices. A separate internal price verification process, independent of the trading function, provides an additional control over the market prices or market input used to determine the fair values of such assets. Although management considers that appropriate values have been ascribed to such assets, there is always a level of uncertainty and judgment over these valuations. Subsequent valuations could differ significantly from the results of the process described above. The Group may become aware of counterparty valuations, either directly through the exchange of information or indirectly, for example, through collateral demands. Any implied differences are considered in the independent price verification process and may result in adjustments to initially indicated valuations. As of 30 June 2015, the Group 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 29 July 2015. This is the date on which the financial statements are available to be issued.

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

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

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

In June 2014, the FASB issued ASU 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures", an update to topic 860, "Transfers and Servicing". ASU 2014-11 requires entities to account for repurchase-to-maturity transactions as secured borrowings rather than as sales with forward repurchase agreements and eliminates previously issued accounting guidance on linked repurchase financing transactions. The ASU includes new disclosure requirements for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. These requirements of ASU 2014-11 were adopted on 1 January 2015 and the adoption did not have an effect on the Group's financial statements. In addition, for transactions accounted for as secured borrowings, including repurchase agreements and securities lending transactions, the ASU requires entities to provide disclosures that disaggregate the related gross obligation by class of collateral pledged, disclose the remaining contractual maturity of the agreements and to provide information on the potential risks of these arrangements and related collateral pledged. In line with the specific effective date provided in the ASU, the Group adopted the new disclosure requirements for the interim period ending 30 June 2015 and applicable portions of the new disclosure requirements are provided in note 6.

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

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

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

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2 Information on business segments

The Group provides reinsurance and insurance throughout the world through its business segments. The business segments are determined by the organisational structure and by the way in which management reviews the operating performance of the Group.

The Group presents four core operating business segments: Property & Casualty Reinsurance, Life & Health Reinsurance, Corporate Solutions and Admin Re®. The presentation of each segment's balance sheet is closely aligned to the segment legal entity structure. The assignment of assets and liabilities for entities that span more than one segment is determined by considering local statutory requirements, legal and other constraints, the economic view of duration and currency requirements of the reinsurance business written, and the capacity of the segments to absorb risks. Interest expense is based on the segment's capital funding position. The tax impact of a segment is derived from the legal entity tax obligations and the segmentation of the pre-tax result. While most of the tax items can be directly attributed to individual segments, the tax which impacts two or more segments is allocated to the segments on a reasonable basis. Property & Casualty Reinsurance and Life & Health Reinsurance share the same year-to-date effective tax rate as both business segments belong to the Reinsurance Business Unit.

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 & Casualty Reinsurance and Life & Health Reinsurance

Reinsurance consists of two segments, Property & Casualty and Life & Health. The Reinsurance Business Unit operates globally, both through brokers and directly with clients, and provides a large range of solutions for risk and capital management. Clients include insurance companies and mutual as well as public sector and governmental entities. In addition to traditional reinsurance solutions, Reinsurance offers insurance-linked securities and other insurance-related capital market products in both Property & Casualty and Life & Health.

Property & Casualty includes the business lines property, casualty (including motor), and specialty. Life & Health includes the life and health lines of business.

In the second quarter of 2014, the Reinsurance Business Unit revised the allocation of certain intra-group cost recharges between Property & Casualty and Life & Health. The revision had no impact on net income and shareholders' equity of the Group.

Corporate Solutions

Corporate Solutions offers 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. Corporate Solutions serves customers from 50 offices worldwide.

Admin Re®

Through Admin Re®, Swiss Re acquires closed blocks of in-force life and health insurance business, either through reinsurance or corporate acquisition, and typically assumes responsibility for administering the underlying policies. The administration of the business may be managed directly or, where appropriate, in partnership with a third party. Since 1998, Swiss Re has acquired more than 50 blocks of business spanning a range of product types. It currently operates in the UK, US and the Netherlands.

In the second quarter of 2015, the Group completed the sale of Aurora National Life Assurance Company (Aurora), a US subsidiary, to Reinsurance Group of America, Incorporated (RGA). For more details on the transaction and its impact on the Swiss Re Group financial statements, please refer to Note 9.

Group items

Items not allocated to the business segments are included in the "Group items" column, which encompasses Swiss Re Ltd, the Groups' ultimate parent company, the former Legacy business in run-off, Principal Investments and certain Treasury units. Swiss Re Ltd charges trademark licence fees to the business segments which are reported as other revenues. Certain administrative expenses of the corporate centre functions that are not recharged to the operating segments are reported as Group items.

Consolidation

Segment information is presented net of external and internal retrocession and other intra-group arrangements. The Group total is obtained after elimination of intra-group transactions in the "Consolidation" column. This includes significant intra-group reinsurance arrangements, recharge of trademark licence fees, and intersegmental funding.

a) Business segments – income statement
For the three months ended 30 June

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Revenues							
Premiums earned	3 560	2 882	841	149			7 432
Fee income from policyholders		13		115			128
Net investment income – non-participating	313	415	23	337	19	5	1 112
Net realised investment gains/losses – non-participating	161	–41	12	30	–3		159
Net investment result – unit-linked and with-profit		58		490			548
Other revenues	11	1	1		91	–100	4
Total revenues	4 045	3 328	877	1 121	107	–95	9 383
Expenses							
Claims and claim adjustment expenses	–2 148		–498		–16		–2 662
Life and health benefits		–2 371		–322			–2 693
Return credited to policyholders		–64		–547			–611
Acquisition costs	–841	–470	–112	–32			–1 455
Other expenses	–340	–231	–174	–87	–78	90	–820
Interest expenses	–64	–120		–4	–8	5	–191
Total expenses	–3 393	–3 256	–784	–992	–102	95	–8 432
Income before income tax expense	652	72	93	129	5	0	951
Income tax expense/benefit	–94	–11	–27	–12	13		–131
Net income before attribution of non-controlling interests	558	61	66	117	18	0	820
Income attributable to non-controlling interests							0
Net income after attribution of non-controlling interests	558	61	66	117	18	0	820
Interest on contingent capital instruments	–5	–13					–18
Net income attributable to common shareholders	553	48	66	117	18	0	802
Claims ratio in %	60.3		59.2				60.2
Expense ratio in %	33.2		34.0				33.3
Combined ratio in %	93.5		93.2				93.5
Management expense ratio in %		7.0					
Operating margin in %		7.1					

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

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Revenues							
Premiums earned	3 503	2 616	843	91			7 053
Fee income from policyholders		12		79			91
Net investment income – non-participating	272	351	32	193	49	1	898
Net realised investment gains – non-participating	133	59	59	68	9		328
Net investment result – unit-linked and with-profit		–34		–734			–768
Other revenues	27	–2	3		86	–92	22
Total revenues	**3 935**	**3 002**	**937**	**–303**	**144**	**–91**	**7 624**
Expenses							
Claims and claim adjustment expenses	–1 934		–524		–2		–2 460
Life and health benefits		–1 955		–71			–2 026
Return credited to policyholders		30		553			583
Acquisition costs	–1 030	–496	–110	–17			–1 653
Other expenses	–304	–217	–186	–97	–101	86	–819
Interest expenses	–73	–67	–6	–3	–6	5	–150
Total expenses	**–3 341**	**–2 705**	**–826**	**365**	**–109**	**91**	**–6 525**
Income before income tax expense	**594**	**297**	**111**	**62**	**35**	**0**	**1 099**
Income tax expense	–136	–67	–33	–19	–1		–256
Net income before attribution of non-controlling interests	**458**	**230**	**78**	**43**	**34**	**0**	**843**
Income/loss attributable to non-controlling interests			–6				–6
Net income after attribution of non-controlling interests	**458**	**230**	**72**	**43**	**34**	**0**	**837**
Interest on contingent capital instruments	–5	–12					–17
Net income attributable to common shareholders	**453**	**218**	**72**	**43**	**34**	**0**	**820**
Claims ratio in %	55.2		62.2				56.6
Expense ratio in %	38.1		35.1				37.5
Combined ratio in %	93.3		97.3				94.1
Management expense ratio in %		7.3					
Operating margin in %		11.0					

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

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Revenues							
Premiums earned	7 373	5 541	1 671	275			14 860
Fee income from policyholders		26		225			251
Net investment income – non-participating	538	829	44	649	58	1	2 119
Net realised investment gains/losses – non-participating	394	–111	75	81	5		444
Net investment result – unit-linked and with-profit		4		643			647
Other revenues	23	1	1		169	–188	6
Total revenues	8 328	6 290	1 791	1 873	232	–187	18 327
Expenses							
Claims and claim adjustment expenses	–4 071		–1 029		–18		–5 118
Life and health benefits		–4 501		–660			–5 161
Return credited to policyholders		–18		–745			–763
Acquisition costs	–1 605	–919	–213	–77			–2 814
Other expenses	–673	–445	–332	–174	–150	168	–1 606
Interest expenses	–126	–243		–16	–13	19	–379
Total expenses	–6 475	–6 126	–1 574	–1 672	–181	187	–15 841
Income before income tax expense	1 853	164	217	201	51	0	2 486
Income tax expense/benefit	–299	–27	–71	–36	11		–422
Net income before attribution of non-controlling interests	1 554	137	146	165	62	0	2 064
Income/loss attributable to non-controlling interests	–1						–1
Net income after attribution of non-controlling interests	1 553	137	146	165	62	0	2 063
Interest on contingent capital instruments	–10	–25					–35
Net income attributable to common shareholders	1 543	112	146	165	62	0	2 028
Claims ratio in %	55.2		61.6				56.4
Expense ratio in %	30.9		32.6				31.2
Combined ratio in %	86.1		94.2				87.6
Management expense ratio in %		7.0					
Operating margin in %		8.6					

Business segments – income statement

For the six months ended 30 June

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Revenues							
Premiums earned	7 270	5 293	1 725	178			14 466
Fee income from policyholders		27		213			240
Net investment income – non-participating	551	685	62	473	13	4	1 788
Net realised investment gains – non-participating	330	214	147	184	12		887
Net investment result – unit-linked and with-profit		41		632			673
Other revenues	40		7		161	–174	34
Total revenues	**8 191**	**6 260**	**1 941**	**1 680**	**186**	**–170**	**18 088**
Expenses							
Claims and claim adjustment expenses	–3 896		–997		–2		–4 895
Life and health benefits		–3 992		–391			–4 383
Return credited to policyholders		–53		–816			–869
Acquisition costs	–1 947	–985	–228	–31			–3 191
Other expenses	–604	–428	–369	–178	–185	161	–1 603
Interest expenses	–133	–144	–12	–7	–10	9	–297
Total expenses	**–6 580**	**–5 602**	**–1 606**	**–1 423**	**–197**	**170**	**–15 238**
Income/loss before income tax expense	**1 611**	**658**	**335**	**257**	**–11**	**0**	**2 850**
Income tax expense/benefit	–340	–139	–90	–8	27		–550
Net income before attribution of non-controlling interests	**1 271**	**519**	**245**	**249**	**16**	**0**	**2 300**
Income/loss attributable to non-controlling interests			–6				–6
Net income after attribution of non-controlling interests	**1 271**	**519**	**239**	**249**	**16**	**0**	**2 294**
Interest on contingent capital instruments	–10	–24					–34
Net income attributable to common shareholders	**1 261**	**495**	**239**	**249**	**16**	**0**	**2 260**
Claims ratio in %	53.6		57.8				54.4
Expense ratio in %	35.1		34.6				35.0
Combined ratio in %	88.7		92.4				89.4
Management expense ratio in %		7.1					
Operating margin in %		10.3					

Business segments – balance sheet
As of 31 December

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Assets							
Fixed income securities	31 853	29 073	5 148	20 566	29		86 669
Equity securities	1 497	965	732		895		4 089
Other investments	9 185	1 814	47	1 769	7 037	–6 075	13 777
Short-term investments	6 397	3 725	2 348	1 400	257		14 127
Investments for unit-linked and with-profit business		894		24 431			25 325
Cash and cash equivalents	5 069	574	737	1 029	62		7 471
Deferred acquisition costs	1 756	2 723	360	1			4 840
Acquired present value of future profits		1 294		2 003			3 297
Reinsurance recoverable	3 648	1 689	7 674	281		–6 342	6 950
Other reinsurance assets	10 500	8 424	2 662	3 595	1	–1 695	23 487
Goodwill	1 950	1 966	109				4 025
Other	8 890	3 980	958	1 065	516	–5 005	10 404
Total assets	80 745	57 121	20 775	56 140	8 797	–19 117	204 461
Liabilities							
Unpaid claims and claim adjustment expenses	41 233	10 177	11 720	1 132	38	–6 346	57 954
Liabilities for life and health policy benefits		16 442	241	16 922			33 605
Policyholder account balances		1 473		27 769			29 242
Other reinsurance liabilities	10 893	1 968	4 733	526	9	–2 053	16 076
Short-term debt	503	4 530			544	–3 876	1 701
Long-term debt	4 494	6 779	496	855		–9	12 615
Other	9 389	8 836	1 162	2 548	2 121	–6 829	17 227
Total liabilities	66 512	50 205	18 352	49 752	2 712	–19 113	168 420
Shareholders' equity	14 211	6 916	2 334	6 388	6 085	–4	35 930
Non-controlling interests	22		89				111
Total equity	14 233	6 916	2 423	6 388	6 085	–4	36 041
Total liabilities and equity	80 745	57 121	20 775	56 140	8 797	–19 117	204 461

Business segments – balance sheet
As of 30 June

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Assets							
Fixed income securities	32 708	29 773	5 737	16 629	24		84 871
Equity securities	2 197	978	955		971		5 101
Other investments	9 741	2 314	190	1 578	7 561	–7 449	13 935
Short-term investments	4 143	1 937	1 444	753	948		9 225
Investments for unit-linked and with-profit business		920		23 940			24 860
Cash and cash equivalents	4 709	294	576	1 528	18		7 125
Deferred acquisition costs	2 038	2 747	334	1			5 120
Acquired present value of future profits		1 244		1 995			3 239
Reinsurance recoverable	3 189	1 704	7 351	297		–6 065	6 476
Other reinsurance assets	10 991	8 039	2 424	3 503	2	–1 563	23 396
Goodwill	1 889	1 946	144				3 979
Other	9 753	5 127	1 055	1 018	533	–7 004	10 482
Total assets	**81 358**	**57 023**	**20 210**	**51 242**	**10 057**	**–22 081**	**197 809**
Liabilities							
Unpaid claims and claim adjustment expenses	39 507	9 730	11 472	1 100		–6 008	55 801
Liabilities for life and health policy benefits		15 986	253	15 090		–57	31 272
Policyholder account balances		1 487		26 471			27 958
Other reinsurance liabilities	12 062	2 347	4 456	495	3	–1 934	17 429
Short-term debt	1 019	4 611			581	–4 313	1 898
Long-term debt	4 279	7 475	496	862		–1 587	11 525
Other	12 737	8 887	1 192	1 666	2 213	–8 179	18 516
Total liabilities	**69 604**	**50 523**	**17 869**	**45 684**	**2 797**	**–22 078**	**164 399**
Shareholders' equity	**11 731**	**6 500**	**2 257**	**5 558**	**7 260**	**–3**	**33 303**
Non-controlling interests	23		84				107
Total equity	**11 754**	**6 500**	**2 341**	**5 558**	**7 260**	**–3**	**33 410**
Total liabilities and equity	**81 358**	**57 023**	**20 210**	**51 242**	**10 057**	**–22 081**	**197 809**

b) Property & Casualty Reinsurance business segment – by line of business
For the three months ended 30 June

2014 USD millions	Property	Casualty	Specialty	Total
Premiums earned	1 393	1 572	595	3 560
Expenses				
Claims and claim adjustment expenses	–824	–1 083	–241	–2 148
Acquisition costs	–249	–445	–147	–841
Other expenses	–193	–118	–29	–340
Total expenses before interest expenses	–1 266	–1 646	–417	–3 329
Underwriting result	127	–74	178	231
Net investment income				313
Net realised investment gains				161
Other revenues				11
Interest expenses				–64
Income before income tax expenses				652
Claims ratio in %	59.2	68.9	40.5	60.3
Expense ratio in %	31.7	35.8	29.6	33.2
Combined ratio in %	90.9	104.7	70.1	93.5

2015 USD millions	Property	Casualty	Specialty	Total
Premiums earned	**1 299**	**1 626**	**578**	**3 503**
Expenses				
Claims and claim adjustment expenses	–632	–1 009	–293	–1 934
Acquisition costs	–312	–535	–183	–1 030
Other expenses	–167	–91	–46	–304
Total expenses before interest expenses	**–1 111**	**–1 635**	**–522**	**–3 268**
Underwriting result	**188**	**–9**	**56**	**235**
Net investment income				272
Net realised investment gains				133
Other revenues				27
Interest expenses				–73
Income before income tax expenses				**594**
Claims ratio in %	48.6	62.1	50.7	55.2
Expense ratio in %	36.9	38.5	39.6	38.1
Combined ratio in %	85.5	100.6	90.3	93.3

Property & Casualty Reinsurance business segment – by line of business

For the six months ended 30 June

2014 USD millions	Property	Casualty	Specialty	Total
Premiums earned	3 131	3 083	1 159	7 373
Expenses				
Claims and claim adjustment expenses	–1 399	–2 261	–411	–4 071
Acquisition costs	–497	–851	–257	–1 605
Other expenses	–352	–232	–89	–673
Total expenses before interest expenses	–2 248	–3 344	–757	–6 349
Underwriting result	883	–261	402	1 024
Net investment income				538
Net realised investment gains				394
Other revenues				23
Interest expenses				–126
Income before income tax expenses				1 853
Claims ratio in %	44.7	73.4	35.4	55.2
Expense ratio in %	27.1	35.1	29.9	30.9
Combined ratio in %	71.8	108.5	65.3	86.1

2015 USD millions	Property	Casualty	Specialty	Total
Premiums earned	**2 818**	**3 279**	**1 173**	**7 270**
Expenses				
Claims and claim adjustment expenses	–1 286	–2 081	–529	–3 896
Acquisition costs	–602	–1 028	–317	–1 947
Other expenses	–334	–186	–84	–604
Total expenses before interest expenses	**–2 222**	**–3 295**	**–930**	**–6 447**
Underwriting result	**596**	**–16**	**243**	**823**
Net investment income				551
Net realised investment gains				330
Other revenues				40
Interest expenses				–133
Income before income tax expenses				**1 611**
Claims ratio in %	45.7	63.5	45.1	53.6
Expense ratio in %	33.2	37.0	34.2	35.1
Combined ratio in %	78.9	100.5	79.3	88.7

c) Life & Health Reinsurance business segment – by line of business

For the three months ended 30 June

2014 USD millions	Life	Health	Total
Revenues			
Premiums earned	1 804	1 078	2 882
Fee income from policyholders	13		13
Net investment income – non-participating	256	159	415
Net investment income – unit-linked and with-profit	5		5
Net realised investment gains – unit-linked and with-profit	53		53
Net realised investment gains/losses – insurance-related derivatives	5	–3	2
Other revenues	1		1
Total revenues before non-participating realised gains/losses	2 137	1 234	3 371
Expenses			
Life and health benefits	–1 489	–882	–2 371
Return credited to policyholders	–64		–64
Acquisition costs	–297	–173	–470
Other expenses	–158	–73	–231
Total expenses before interest expenses	–2 008	–1 128	–3 136
Operating income	129	106	235
Net realised investment losses – non-participating and excluding insurance-related derivatives			–43
Interest expenses			–120
Income before income tax expenses			72
Management expense ratio in %	7.6	5.9	7.0
Operating margin[1] in %	6.2	8.6	7.1

[1] Operating margin is calculated as operating result divided by total operating revenues. Total operating revenues are total revenues excluding unit-linked and with-profit revenues.

Life & Health Reinsurance business segment – by line of business
For the three months ended 30 June

2015 USD millions	Life	Health	Total
Revenues			
Premiums earned	1 752	864	2 616
Fee income from policyholders	12		12
Net investment income – non-participating	230	121	351
Net investment income – unit-linked and with-profit	5		5
Net realised investment losses – unit-linked and with-profit	–39		–39
Net realised investment gains – insurance-related derivatives	23	2	25
Other revenues	–2		–2
Total revenues before non-participating realised gains/losses	**1 981**	**987**	**2 968**
Expenses			
Life and health benefits	–1 391	–564	–1 955
Return credited to policyholders	30		30
Acquisition costs	–302	–194	–496
Other expenses	–150	–67	–217
Total expenses before interest expenses	**–1 813**	**–825**	**–2 638**
Operating income	**168**	**162**	**330**
Net realised investment gains – non-participating and excluding insurance-related derivatives			34
Interest expenses			–67
Income before income tax expenses			**297**
Management expense ratio in %	7.5	6.8	7.3
Operating margin[1] in %	8.3	16.4	11.0

[1] Operating margin is calculated as operating result divided by total operating revenues. Total operating revenues are total revenues excluding unit-linked and with-profit revenues.

Life & Health Reinsurance business segment – by line of business

For the six months ended 30 June

2014 USD millions	Life	Health	Total
Revenues			
Premiums earned	3 537	2 004	5 541
Fee income from policyholders	26		26
Net investment income – non-participating	504	325	829
Net investment income – unit-linked and with-profit	7		7
Net realised investment losses – unit-linked and with-profit	–3		–3
Net realised investment gains/losses – insurance-related derivatives	35	–3	32
Other revenues	1		1
Total revenues before non-participating realised gains/losses	4 107	2 326	6 433
Expenses			
Life and health benefits	–2 910	–1 591	–4 501
Return credited to policyholders	–18		–18
Acquisition costs	–597	–322	–919
Other expenses	–315	–130	–445
Total expenses before interest expenses	–3 840	–2 043	–5 883
Operating income	267	283	550
Net realised investment losses – non-participating and excluding insurance-related derivatives			–143
Interest expenses			–243
Income before income tax expenses			164
Management expense ratio in %	7.7	5.6	7.0
Operating margin[1] in %	6.5	12.2	8.6

[1] Operating margin is calculated as operating result divided by total operating revenues. Total operating revenues are total revenues excluding unit-linked and with-profit revenues.

Life & Health Reinsurance business segment – by line of business
For the six months ended 30 June

2015 USD millions	Life	Health	Total
Revenues			
Premiums earned	3452	1841	5293
Fee income from policyholders	27		27
Net investment income – non-participating	446	239	685
Net investment income – unit-linked and with-profit	8		8
Net realised investment gains – unit-linked and with-profit	33		33
Net realised investment gains – insurance-related derivatives	33	1	34
Other revenues			0
Total revenues before non-participating realised gains/losses	**3999**	**2081**	**6080**
Expenses			
Life and health benefits	–2716	–1276	–3992
Return credited to policyholders	–53		–53
Acquisition costs	–608	–377	–985
Other expenses	–306	–122	–428
Total expenses before interest expenses	**–3683**	**–1775**	**–5458**
Operating income	**316**	**306**	**622**
Net realised investment gains – non-participating and excluding insurance-related derivatives			180
Interest expenses			–144
Income before income tax expenses			**658**
Management expense ratio in %	7.8	5.9	7.1
Operating margin[1] in %	8.0	14.7	10.3

[1] Operating margin is calculated as operating result divided by total operating revenues. Total operating revenues are total revenues excluding unit-linked and with-profit revenues.

3 Insurance information

Premiums earned and fees assessed against policyholders

For the three months ended 30 June

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Total
Premiums earned, thereof:						
Direct		190	664	193		1 047
Reinsurance	3 682	2 935	146	42		6 805
Intra-group transactions (assumed and ceded)	–64	74	64	–74		0
Premiums earned before retrocession to external parties	3 618	3 199	874	161		7 852
Retrocession to external parties	–58	–317	–33	–12		–420
Net premiums earned	3 560	2 882	841	149	0	7 432
Fee income from policyholders, thereof:						
Direct				93		93
Reinsurance		13		22		35
Intra-group transactions (assumed and ceded)						0
Gross fee income before retrocession to external parties		13		115		128
Retrocession to external parties						0
Net fee income	0	13	0	115	0	128

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Total
Premiums earned, thereof:						
Direct		184	677	124		985
Reinsurance	3 527	2 744	237	35		6 543
Intra-group transactions (assumed and ceded)	11	62	–11	–62		0
Premiums earned before retrocession to external parties	3 538	2 990	903	97		7 528
Retrocession to external parties	–35	–374	–60	–6		–475
Net premiums earned	**3 503**	**2 616**	**843**	**91**	**0**	**7 053**
Fee income from policyholders, thereof:						
Direct				57		57
Reinsurance		12		22		34
Intra-group transactions (assumed and ceded)						0
Gross fee income before retrocession to external parties		12		79		91
Retrocession to external parties						0
Net fee income	**0**	**12**	**0**	**79**	**0**	**91**

Premiums earned and fees assessed against policyholders
For the six months ended 30 June

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Total
Premiums earned, thereof:						
Direct		385	1 341	353		2 079
Reinsurance	7 699	5 638	274	84		13 695
Intra-group transactions (assumed and ceded)	–133	139	133	–139		0
Premiums earned before retrocession to external parties	7 566	6 162	1 748	298		15 774
Retrocession to external parties	–193	–621	–77	–23		–914
Net premiums earned	7 373	5 541	1 671	275	0	14 860
Fee income from policyholders, thereof:						
Direct				180		180
Reinsurance		26		45		71
Intra-group transactions (assumed and ceded)						0
Gross fee income before retrocession to external parties		26		225		251
Retrocession to external parties						0
Net fee income	0	26	0	225	0	251

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Total
Premiums earned, thereof:						
Direct		365	1 381	251		1 997
Reinsurance	7 350	5 501	438	69		13 358
Intra-group transactions (assumed and ceded)	9	124	–9	–124		0
Premiums earned before retrocession to external parties	7 359	5 990	1 810	196		15 355
Retrocession to external parties	–89	–697	–85	–18		–889
Net premiums earned	**7 270**	**5 293**	**1 725**	**178**	**0**	**14 466**
Fee income from policyholders, thereof:						
Direct				167		167
Reinsurance		27		46		73
Intra-group transactions (assumed and ceded)						0
Gross fee income before retrocession to external parties		27		213		240
Retrocession to external parties						
Net fee income	**0**	**27**	**0**	**213**	**0**	**240**

Claims and claim adjustment expenses

For the three months ended 30 June

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Total
Claims paid, thereof:						
Gross claims paid to external parties	−3 068	−2 377	−388	−547		−6 380
Intra-group transactions (assumed and ceded)	38	−62	−38	62		0
Claims before retrocession to external parties	−3 030	−2 439	−426	−485		−6 380
Retrocession to external parties	331	281	94	16		722
Net claims paid	−2 699	−2 158	−332	−469	0	−5 658
Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:						
Gross – with external parties	885	−241	−197	154	−16	585
Intra-group transactions (assumed and ceded)	−74	2	74	−2		0
Unpaid claims and claim adjustment expenses; life and health benefits before retrocession to external parties	811	−239	−123	152	−16	585
Retrocession to external parties	−260	26	−43	−5		−282
Net unpaid claims and claim adjustment expenses; life and health benefits	551	−213	−166	147	−16	303
Claims and claim adjustment expenses; life and health benefits	−2 148	−2 371	−498	−322	−16	−5 355

Acquisition costs

For the three months ended 30 June

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Total
Acquisition costs, thereof:						
Gross acquisition costs with external parties	−865	−521	−112	−34		−1 532
Intra-group transactions (assumed and ceded)	6	−1	−6	1		0
Acquisition costs before retrocession to external parties	−859	−522	−118	−33		−1 532
Retrocession to external parties	18	52	6	1		77
Net acquisition costs	−841	−470	−112	−32	0	−1 455

Claims and claim adjustment expenses

For the three months ended 30 June

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Total
Claims paid, thereof:						
Gross claims paid to external parties	–2 542	–2 431	–512	–562	–39	–6 086
Intra-group transactions (assumed and ceded)	22	–52	–22	52		0
Claims before retrocession to external parties	–2 520	–2 483	–534	–510	–39	–6 086
Retrocession to external parties	156	262	74	13		505
Net claims paid	**–2 364**	**–2 221**	**–460**	**–497**	**–39**	**–5 581**
Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:						
Gross – with external parties	563	231	–18	451	37	1 264
Intra-group transactions (assumed and ceded)	25	21	–25	–21		0
Unpaid claims and claim adjustment expenses; life and health benefits before retrocession to external parties	588	252	–43	430	37	1 264
Retrocession to external parties	–158	14	–21	–4		–169
Net unpaid claims and claim adjustment expenses; life and health benefits	**430**	**266**	**–64**	**426**	**37**	**1 095**
Claims and claim adjustment expenses; life and health benefits	**–1 934**	**–1 955**	**–524**	**–71**	**–2**	**–4 486**

Acquisition costs

For the three months ended 30 June

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Total
Acquisition costs, thereof:						
Gross acquisition costs with external parties	–1 034	–561	–124	–18		–1 737
Intra-group transactions (assumed and ceded)	–5	–1	5	1		0
Acquisition costs before retrocession to external parties	–1 039	–562	–119	–17		–1 737
Retrocession to external parties	9	66	9			84
Net acquisition costs	**–1 030**	**–496**	**–110**	**–17**	**0**	**–1 653**

Claims and claim adjustment expenses
For the six months ended 30 June

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Total
Claims paid, thereof:						
Gross claims paid to external parties	–5 431	–4 593	–937	–1 070	–6	–12 037
Intra-group transactions (assumed and ceded)	–163	–123	163	123		0
Claims before retrocession to external parties	–5 594	–4 716	–774	–947	–6	–12 037
Retrocession to external parties	604	583	180	37		1 404
Net claims paid	–4 990	–4 133	–594	–910	–6	–10 633
Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:						
Gross – with external parties	1 377	–398	–258	273	–12	982
Intra-group transactions (assumed and ceded)	82	14	–82	–14		0
Unpaid claims and claim adjustment expenses; life and health benefits before retrocession to external parties	1 459	–384	–340	259	–12	982
Retrocession to external parties	–540	16	–95	–9		–628
Net unpaid claims and claim adjustment expenses; life and health benefits	919	–368	–435	250	–12	354
Claims and claim adjustment expenses; life and health benefits	–4 071	–4 501	–1 029	–660	–18	–10 279

Acquisition costs
For the six months ended 30 June

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Total
Acquisition costs, thereof:						
Gross acquisition costs with external parties	–1 672	–1 014	–211	–79		–2 976
Intra-group transactions (assumed and ceded)	16	–1	–16	1		0
Acquisition costs before retrocession to external parties	–1 656	–1 015	–227	–78		–2 976
Retrocession to external parties	51	96	14	1		162
Net acquisition costs	–1 605	–919	–213	–77	0	–2 814

Claims and claim adjustment expenses
For the six months ended 30 June

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Total
Claims paid, thereof:						
Gross claims paid to external parties	–4 475	–4 786	–1 045	–904	–39	–11 249
Intra-group transactions (assumed and ceded)	–65	–107	65	107		0
Claims before retrocession to external parties	–4 540	–4 893	–980	–797	–39	–11 249
Retrocession to external parties	309	585	113	23		1 030
Net claims paid	**–4 231**	**–4 308**	**–867**	**–774**	**–39**	**–10 219**
Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:						
Gross – with external parties	505	291	76	412	37	1 321
Intra-group transactions (assumed and ceded)	163	22	–163	–22		0
Unpaid claims and claim adjustment expenses; life and health benefits before retrocession to external parties	668	313	–87	390	37	1 321
Retrocession to external parties	–333	3	–43	–7		–380
Net unpaid claims and claim adjustment expenses; life and health benefits	**335**	**316**	**–130**	**383**	**37**	**941**
Claims and claim adjustment expenses; life and health benefits	**–3 896**	**–3 992**	**–997**	**–391**	**–2**	**–9 278**

Acquisition costs
For the six months ended 30 June

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Total
Acquisition costs, thereof:						
Gross acquisition costs with external parties	–1 966	–1 108	–245	–33		–3 352
Intra-group transactions (assumed and ceded)	–5	–1	5	1		0
Acquisition costs before retrocession to external parties	–1 971	–1 109	–240	–32		–3 352
Retrocession to external parties	24	124	12	1		161
Net acquisition costs	**–1 947**	**–985**	**–228**	**–31**	**0**	**–3 191**

Reinsurance receivables

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

USD millions	2014	2015
Premium receivables invoiced	1 355	1 488
Receivables invoiced from ceded re/insurance business	341	421
Assets arising from the application of the deposit method of accounting and meeting the definition of financing receivables	779	141
Recognised allowance	–86	–110

Policyholder dividends

Policyholder dividends are recognised as an element of policyholder benefits. In the six months ended 30 June 2014 and 2015, the relative percentage of participating insurance of the life and health policy benefits was 8%. The amount of policyholder dividend expense for the three months ended 30 June 2014 and 2015 was USD 28 million and USD 34 million, respectively. For the six months ended 30 June 2014 and 2015, the policyholder dividend expense amounted to USD 54 million and USD 58 million, respectively.

4 Premiums written

For the three months ended 30 June

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Gross premiums written, thereof:							
Direct		80	740	186			1 006
Reinsurance	3 569	2 961	149	42			6 721
Intra-group transactions (assumed)	41	73	92			–206	0
Gross premiums written	3 610	3 114	981	228		–206	7 727
Intra-group transactions (ceded)	–92		–41	–73		206	0
Gross premiums written before retrocession to external parties	3 518	3 114	940	155			7 727
Retrocession to external parties	–138	–316	–15	–12			–481
Net premiums written	3 380	2 798	925	143	0	0	7 246

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Gross premiums written, thereof:							
Direct		95	727	122			944
Reinsurance	3 392	2 719	280	35			6 426
Intra-group transactions (assumed)	58	61	37			–156	0
Gross premiums written	3 450	2 875	1 044	157		–156	7 370
Intra-group transactions (ceded)	–37		–58	–61		156	0
Gross premiums written before retrocession to external parties	3 413	2 875	986	96			7 370
Retrocession to external parties	–124	–373	–50	–6			–553
Net premiums written	**3 289**	**2 502**	**936**	**90**	**0**	**0**	**6 817**

For the six months ended 30 June

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Gross premiums written, thereof:							
Direct		465	1 325	363			2 153
Reinsurance	10 140	5 740	344	84			16 308
Intra-group transactions (assumed)	188	139	135			–462	0
Gross premiums written	10 328	6 344	1 804	447		–462	18 461
Intra-group transactions (ceded)	–135		–188	–139		462	0
Gross premiums written before retrocession to external parties	10 193	6 344	1 616	308			18 461
Retrocession to external parties	–155	–619	–62	–23			–859
Net premiums written	10 038	5 725	1 554	285	0	0	17 602

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Gross premiums written, thereof:							
Direct		471	1 258	249			1 978
Reinsurance	9 458	5 564	377	69			15 468
Intra-group transactions (assumed)	192	123	83			–398	0
Gross premiums written	9 650	6 158	1 718	318		–398	17 446
Intra-group transactions (ceded)	–83		–192	–123		398	0
Gross premiums written before retrocession to external parties	9 567	6 158	1 526	195			17 446
Retrocession to external parties	–150	–695	–84	–18			–947
Net premiums written	**9 417**	**5 463**	**1 442**	**177**	**0**	**0**	**16 499**

5 Deferred acquisition costs (DAC) and acquired present value of future profits (PVFP)

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

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Total
Opening balance as of 1 January 2014	1 591	2 845	319	1		4 756
Deferred	3 563	490	507			4 560
Effect of acquisitions/disposals and retrocessions		–28				–28
Amortisation	–3 332	–448	–463			–4 243
Effect of foreign currency translation	–66	–136	–3			–205
Closing balance as of 31 December 2014	1 756	2 723	360	1	0	4 840

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Total
Opening balance as of 1 January 2015	1 756	2 723	360	1		4 840
Deferred	2 218	245	201			2 664
Effect of acquisitions/disposals and retrocessions	7	3	1			11
Amortisation	–1 924	–188	–228			–2 340
Effect of foreign currency translation	–19	–36				–55
Closing balance as of 30 June 2015	**2 038**	**2 747**	**334**	**1**	**0**	**5 120**

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.

As of 31 December 2014 and 30 June 2015, the PVFP was as follows:

			2014			**2015**
USD millions	Life & Health Reinsurance	Admin Re®	Total	Life & Health Reinsurance	Admin Re®	Total
Opening balance	1 451	2 086	3 537	1 294	2 003	3 297
Effect of acquisitions/disposals and retrocessions		165	165			0
Amortisation	–156	–261	–417	–67	–63	–130
Interest accrued on unamortised PVFP	44	103	147	19	41	60
Effect of foreign currency translation	–45	–90	–135	–2	12	10
Effect of change in unrealised gains/losses			0		2	2
Closing balance	1 294	2 003	3 297	**1 244**	**1 995**	**3 239**

Retroceded PVFP 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 (excluding unit-linked and with-profit business) for the periods ended 30 June was as follows:

USD millions	Three months ended 30 June 2014	2015	Six months ended 30 June 2014	2015
Fixed income securities	717	626	1 406	1 276
Equity securities	44	36	64	50
Policy loans, mortgages and other loans	33	31	66	63
Investment real estate	36	37	72	73
Short-term investments	29	22	56	45
Other current investments	37	27	64	63
Share in earnings of equity-accounted investees	94	86	192	106
Cash and cash equivalents	12	8	21	19
Net result from deposit-accounted contracts	49	28	73	49
Deposits with ceding companies	154	78	302	214
Gross investment income	1 205	**979**	2 316	**1 958**
Investment expenses	–88	–76	–178	–162
Interest charged for funds held	–5	–5	–19	–8
Net investment income – non-participating	1 112	**898**	2 119	**1 788**

Dividends received from investments accounted for using the equity method were USD 43 million and USD 53 million for the three months ended 30 June 2014 and 2015, respectively, as well as USD 173 million and USD 133 million for the six months ended 30 June 2014 and 2015, respectively.

Realised gains and losses

Realised gains and losses for fixed income, equity securities and other investments (excluding unit-linked and with-profit business) for the periods ended 30 June were as follows:

USD millions	Three months ended 30 June 2014	2015	Six months ended 30 June 2014	2015
Fixed income securities available-for-sale:				
Gross realised gains	225	145	428	526
Gross realised losses	–71	–119	–177	–159
Equity securities available-for-sale:				
Gross realised gains	145	164	449	241
Gross realised losses	–10	–8	–37	–24
Other-than-temporary impairments	–8	–6	–13	–11
Net realised investment gains/losses on trading securities	9	2	13	41
Change in net unrealised investment gains/losses on trading securities	24	–17	41	10
Net realised/unrealised gains/losses on other investments	–43	197	–199	114
Net realised/unrealised gains/losses on insurance-related activities	–26	50	4	85
Foreign exchange gains/losses	–86	–80	–65	64
Net realised investment gains/losses – non-participating	159	**328**	444	**887**

Investment result – unit-linked and with-profit business

For unit-linked contracts, the investment risk is borne by the policyholder. For with-profit contracts, the majority of the investment risk is also borne by the policyholder, although there are certain guarantees that limit the down-side risk for the policyholder, and a certain proportion of the returns may be retained by the Group (typically 10%).

Net investment result on unit-linked and with-profit business credited to policyholders for the periods ended 30 June was as follows:

	Three months ended 30 June				Six months ended 30 June			
	2014		2015		2014		2015	
USD millions	Unit-linked	With-profit	Unit-linked	With-profit	Unit-linked	With-profit	Unit-linked	With-profit
Investment income – fixed income securities	30	24	21	19	59	46	42	41
Investment income – equity securities	172	8	143	7	360	19	282	15
Investment income – other	5	6	7	4	8	7	16	9
Total investment income – unit-linked and with-profit business	207	38	**171**	**30**	427	72	**340**	**65**
Realised gains/losses – fixed income securities	5	12	–74	–84	36	46	–47	–52
Realised gains/losses – equity securities	278	14	–786	–39	69	2	341	12
Realised gains/losses – other	7	–13	9	5	9	–14	9	5
Total realised gains/losses – unit-linked and with-profit business	290	13	**–851**	**–118**	114	34	**303**	**–35**
Total net investment result – unit-linked and with-profit business	497	51	**–680**	**–88**	541	106	**643**	**30**

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, 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.

A reconciliation of other-than-temporary impairments related to credit losses recognised in earnings for the six months ended 30 June was as follows:

USD millions	2014	2015
Balance as of 1 January	228	137
Reductions for securities sold during the period	–58	–16
Increase of credit losses for which an other-than-temporary impairment has been recognised previously, when the Group does not intend to sell, or more likely than not will not be required to sell before recovery		4
Impact of increase in cash flows expected to be collected	–14	–5
Impact of foreign exchange movements		–1
Balance as of 30 June	156	**119**

Investments available-for-sale

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

2014 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Other-than-temporary impairments recognised in other comprehensive income	Estimated fair value
Debt securities issued by governments and government agencies:					
US Treasury and other US government corporations and agencies	11 639	960	–9		12 590
US Agency securitised products	3 212	47	–23		3 236
States of the United States and political subdivisions of the states	1 047	80	–2		1 125
United Kingdom	8 224	1 259	–2		9 481
Canada	2 944	626	–17		3 553
Germany	4 521	369	–30		4 860
France	2 889	355	–19		3 225
Other	7 902	405	–103		8 204
Total	42 378	4 101	–205		46 274
Corporate debt securities	29 750	2 622	–139	–2	32 231
Mortgage- and asset-backed securities	5 739	231	–23	–2	5 945
Fixed income securities available-for-sale	77 867	6 954	–367	–4	84 450
Equity securities available-for-sale	3 133	959	–68		4 024

2015 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Other-than-temporary impairments recognised in other comprehensive income	Estimated fair value
Debt securities issued by governments and government agencies:					
US Treasury and other US government corporations and agencies	14 739	582	–164		15 157
US Agency securitised products	2 977	34	–31		2 980
States of the United States and political subdivisions of the states	1 147	44	–16		1 175
United Kingdom	8 350	952	–18		9 284
Canada	3 606	594	–46		4 154
Germany	3 629	269	–60		3 838
France	2 454	256	–35		2 675
Other	7 730	283	–108		7 905
Total	44 632	3 014	–478		47 168
Corporate debt securities	28 780	1 683	–280		30 183
Mortgage- and asset-backed securities	5 368	185	–24	–1	5 528
Fixed income securities available-for-sale	**78 780**	**4 882**	**–782**	**–1**	**82 879**
Equity securities available-for-sale	**4 131**	**1 015**	**–115**		**5 031**

The "Other-than-temporary impairments recognised in other comprehensive income" column includes only securities with a credit-related loss recognised in earnings. Subsequent recovery in fair value of securities previously impaired in other comprehensive income is also presented in the "Other-than-temporary impairments recognised in other comprehensive income" column.

Investments trading

The carrying amounts of fixed income securities and equity securities classified as trading (excluding unit-linked and with-profit business) as of 31 December 2014 and 30 June 2015 were as follows:

USD millions	2014	2015
Debt securities issued by governments and government agencies	1 997	1 788
Corporate debt securities	60	47
Mortgage- and asset-backed securities	162	157
Fixed income securities trading – non-participating	2 219	**1 992**
Equity securities trading – non-participating	65	**70**

Investments held for unit-linked and with-profit business

The carrying amounts of investments held for unit-linked and with-profit business as of 31 December 2014 and 30 June 2015 were as follows:

		2014		2015
USD millions	Unit-linked	With-profit	Unit-linked	With-profit
Fixed income securities trading	1 870	1 810	1 834	1 775
Equity securities trading	19 054	991	18 708	1 008
Investment real estate	736	429	720	420
Other invested assets	435		395	
Total investments for unit-linked and with-profit business	22 095	3 230	**21 657**	**3 203**

Maturity of fixed income securities available-for-sale

The amortised cost or cost and estimated fair values of investments in fixed income securities available-for-sale by remaining maturity are shown below. Fixed maturity investments are assumed not to be called for redemption prior to the stated maturity date. As of 31 December 2014 and 30 June 2015, USD 11 579 million and USD 11 670 million, respectively, of fixed income securities available-for-sale were callable.

		2014		2015
USD millions	Amortised cost or cost	Estimated fair value	Amortised cost or cost	Estimated fair value
Due in one year or less	4 749	4 757	3 594	3 611
Due after one year through five years	17 920	18 459	21 108	21 571
Due after five years through ten years	17 300	18 329	17 169	17 912
Due after ten years	32 334	37 137	31 773	34 486
Mortgage- and asset-backed securities with no fixed maturity	5 564	5 768	5 136	5 299
Total fixed income securities available-for-sale	77 867	84 450	**78 780**	**82 879**

Assets pledged

As of 30 June 2015, investments with a carrying value of USD 7 616 million were on deposit with regulatory agencies in accordance with local requirements, and investments with a carrying value of USD 9 366 million were placed on deposit or pledged to secure certain reinsurance liabilities, including pledged investments in subsidiaries.

As of 31 December 2014 and 30 June 2015, securities of USD 16 915 million and USD 19 786 million, respectively, were transferred to third parties under securities lending transactions and repurchase agreements on a fully collateralised basis. Corresponding liabilities of USD 1 951 million and USD 2 468 million, respectively, were recognised in accrued expenses and other liabilities for the obligation to return collateral that the Group has the right to sell or repledge.

As of 30 June 2015, a real estate portfolio with a carrying value of USD 242 million serves as collateral for short-term senior operational debt of USD 268 million.

Collateral accepted which the Group has the right to sell or repledge

As of 31 December 2014 and 30 June 2015, the fair value of the equity securities, the government and corporate debt securities received as collateral was USD 3 907 million and USD 5 209 million, respectively. Of this, the amount that was sold or repledged as of 31 December 2014 and 30 June 2015 was USD 494 million and USD 1 995 million, respectively. The sources of the collateral are securities borrowing, reverse repurchase agreements and derivative transactions.

Offsetting of derivatives, financial assets and financial liabilities

Offsetting of derivatives, financial assets and financial liabilities as of 31 December 2014 and 30 June 2015 was as follows:

2014 USD millions	Gross amounts of recognised financial assets	Collateral set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related financial instruments not set off in the balance sheet	Net amount
Derivative financial instruments – assets	4 371	–3 530	841	–188	653
Reverse repurchase agreements	3 254	–1 303	1 951	–1 951	0
Securities borrowing	87		87	–87	0
Total	7 712	–4 833	2 879	–2 226	653

2014 USD millions	Gross amounts of recognised financial liabilities	Collateral set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related financial instruments not set off in the balance sheet	Net amount
Derivative financial instruments – liabilities	–3 877	2 969	–908	149	–759
Repurchase agreements	–1 353	1 003	–350	350	0
Securities lending	–1 901	300	–1 601	1 475	–126
Total	–7 131	4 272	–2 859	1 974	–885

2015 USD millions	Gross amounts of recognised financial assets	Collateral set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related financial instruments not set off in the balance sheet	Net amount
Derivative financial instruments – assets	3 568	–2 829	739	–80	**659**
Reverse repurchase agreements	4 980	–2 949	2 031	–2 025	**6**
Securities borrowing	48		48	–48	**0**
Total	**8 596**	**–5 778**	**2 818**	**–2 153**	**665**

2015 USD millions	Gross amounts of recognised financial liabilities	Collateral set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related financial instruments not set off in the balance sheet	Net amount
Derivative financial instruments – liabilities	–2 895	2 278	–617	157	**–460**
Repurchase agreements	–3 443	2 453	–990	977	**–13**
Securities lending	–1 974	496	–1 478	1 354	**–124**
Total	**–8 312**	**5 227**	**–3 085**	**2 488**	**–597**

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 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.

Recognised gross liability for the obligation to return collateral that the Group has the right to sell or repledge

As of 30 June 2015, the gross amounts of liabilities related to repurchase agreements and securities lending by the class of securities transferred to third parties and by the remaining maturity are shown below. The liabilities are recognised for the obligation to return collateral that the Group has the right to sell or repledge.

2015 USD millions	Remaining contractual maturity of the agreements Overnight and continuous	Up to 30 days	30–90 days	Greater than 90 days	Total
Repurchase agreements					
Debt securities issued by governments and government agencies	893	2 217	152	135	3 397
Corporate debt securities	40	6			46
Total repurchase agreements	**933**	**2 223**	**152**	**135**	**3 443**
Securities lending					
Debt securities issued by governments and government agencies	390	508	701	278	1 877
Corporate debt securities	97				97
Total securities lending	**487**	**508**	**701**	**278**	**1 974**
Gross amount of recognised liabilities for repurchase agreements and securities lending in Note 6					5 417

The programme is structured in a conservative manner within a clearly defined risk framework. Yield enhancement is conducted on a non-cash basis, thereby taking no re-investment risk.

Unrealised losses on securities available-for-sale

The following table shows the fair value and unrealised losses of the Group's fixed income securities, aggregated by investment category and length of time that individual securities were in a continuous unrealised loss position as of 31 December 2014 and 30 June 2015. As of 31 December 2014 and 30 June 2015, USD 52 million and USD 105 million, respectively, of the gross unrealised loss on equity securities available-for-sale relates to declines in value for less than 12 months and USD 16 million and USD 10 million, respectively, to declines in value for more than 12 months.

2014 USD millions	Less than 12 months Fair value	 Unrealised losses	12 months or more Fair value	 Unrealised losses	Total Fair value	 Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	1 637	5	265	4	1 902	9
US Agency securitised products	1 069	12	483	11	1 552	23
States of the United States and political subdivisions of the states	117	1	32	1	149	2
United Kingdom	129	2	33		162	2
Canada	358	6	88	11	446	17
Germany	836	27	67	3	903	30
France	317	18	15	1	332	19
Other	1 360	75	802	28	2 162	103
Total	5 823	146	1 785	59	7 608	205
Corporate debt securities	3 884	95	917	46	4 801	141
Mortgage- and asset-backed securities	1 506	12	329	13	1 835	25
Total	11 213	253	3 031	118	14 244	371

2015 USD millions	Less than 12 months Fair value	 Unrealised losses	12 months or more Fair value	 Unrealised losses	Total Fair value	 Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	4 003	164	6		4 009	164
US Agency securitised products	1 487	26	366	5	1 853	31
States of the United States and political subdivisions of the states	529	15	5	1	534	16
United Kingdom	868	18	48		916	18
Canada	512	29	80	17	592	46
Germany	1 164	60			1 164	60
France	418	34	8	1	426	35
Other	2 213	90	135	18	2 348	108
Total	11 194	436	648	42	11 842	478
Corporate debt securities	8 481	256	280	24	8 761	280
Mortgage- and asset-backed securities	1 363	17	240	8	1 603	25
Total	**21 038**	**709**	**1 168**	**74**	**22 206**	**783**

Mortgages, loans and real estate

As of 31 December 2014 and 30 June 2015, the carrying values of investments in mortgages, policy and other loans, and real estate (excluding unit-linked and with-profit business) were as follows:

USD millions	2014	**2015**
Policy loans	252	93
Mortgage loans	1 888	2 023
Other loans	1 065	1 126
Investment real estate	888	1 146

The fair value of the real estate as of 31 December 2014 and 30 June 2015 was USD 2 482 million and USD 2 827 million, respectively. The carrying value of policy loans, mortgages and other loans approximates fair value.

Depreciation expense related to income-producing properties was USD 14 million and USD 15 million for the six months ended 30 June 2014 and 2015, respectively. Accumulated depreciation on investment real estate totalled USD 539 million and USD 571 million as of 31 December 2014 and 30 June 2015, respectively.

Substantially all mortgages, policy loans and other loan receivables are secured by buildings, land or the underlying policies.

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7 Fair value disclosures

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

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

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

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

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

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

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

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

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

The fair values of assets are adjusted to incorporate the counterparty risk of non-performance. Similarly, the fair values of liabilities reflect the risk of non-performance of the Group, captured by the Group's credit spread. These valuation adjustments from assets and liabilities measured at fair value using significant unobservable inputs are recognised in net realised gains and losses. For the six months ended 30 June 2015, these adjustments were not material. Whenever the underlying assets or liabilities are reported in a specific business segment, the valuation adjustment is allocated accordingly. Valuation adjustments not attributable to any business segment are reported in Group items.

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 on the lowest level input that is significant to the determination of the fair value.

Valuation techniques

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

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

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

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

Equity securities held by the Group for proprietary investment purposes are mainly classified in 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 and hedge fund investments which are made directly or via ownership of funds. Substantially all these investments are classified as level 3 due to the lack of observable prices and significant judgment required in valuation. Valuation of direct private equity investments requires significant management judgment due to the absence of quoted market prices and the lack of liquidity. Initial valuation is based on the acquisition cost, and is further refined based on the available market information for the public companies that are considered comparable to the Group's holdings in the private companies being valued, and the private company-specific performance indicators; both historic and projected. Subsequent valuations also reflect business or asset appraisals, as well as market transaction data for private and public benchmark companies and the actual companies being valued, such as financing rounds and mergers and acquisitions activity. The Group's holdings in the private equity and hedge 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).

The Group holds both exchange-traded and (OTC) interest rate, foreign exchange, credit and equity derivative contracts for hedging and trading purposes. The fair values of exchange-traded derivatives measured using observable exchange prices are classified in level 1. Long-dated contracts may require adjustments to the exchange-traded prices which would trigger reclassification to level 2 in the fair value hierarchy. OTC derivatives are generally valued by the Group based on the internal models, which are consistent with industry standards and practices, and use both observable (dealer, broker or market consensus prices, spot and forward rates, interest rate and credit curves and volatility indices) and unobservable inputs (adjustments for liquidity, inputs derived from the observable data based on the Group's judgments and assumptions).

The Group's OTC interest rate derivatives primarily include interest rate swaps, futures, options, caps and floors, and are valued based on the cash flow discounting models which generally utilise as inputs observable market yield curves and volatility assumptions.

The Group's OTC foreign exchange derivatives primarily include forward, spot and option contracts and are generally valued based on the cash flow discounting models, utilising as main inputs observable foreign exchange forward curves.

The Group's investments in equity derivatives primarily include OTC equity option contracts on single or baskets of market indices and equity options on individual or baskets of equity securities, which are valued using internally developed models (such as the Black-Scholes type option pricing model and various simulation models) calibrated with the inputs, which include underlying spot prices, dividend curves, volatility surfaces, yield curves, and correlations between underlying assets.

The Group's OTC credit derivatives can include index and single-name credit default swaps, as well as more complex structured credit derivatives. Plain vanilla credit derivatives, such as index and single-name credit default swaps, are valued by the Group based on the models consistent with the industry valuation standards for these credit contracts, and primarily utilising observable inputs published by market data sources, such as credit spreads and recovery rates. These valuation techniques warrant classification of plain vanilla OTC derivatives as level 2 financial instruments in the fair value hierarchy.

Governance around level 3 fair valuation

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

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

A formal IPV process is undertaken monthly by members of the Valuation Risk Management team within a Financial Risk Management function. The process includes monitoring and in-depth analyses of approved pricing methodologies and valuations of the Group's financial instruments aimed at identifying and resolving pricing discrepancies.

The Risk Management function is responsible for independent validation and ongoing review of the Group's valuation models. The Product Control group within Finance is tasked with reporting of fair values through the vendor- and model-based valuations, the results of which are also subject to the IPV process.

Assets and liabilities measured at fair value on a recurring basis

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

2014 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impact of netting[1]	Total
Assets					
Fixed income securities held for proprietary investment purposes	12 530	73 738	401		86 669
Debt securities issued by US government and government agencies	12 530	1 797			14 327
US Agency securitised products		3 252			3 252
Debt securities issued by non-US governments and government agencies		30 692			30 692
Corporate debt securities		31 903	388		32 291
Mortgage- and asset-backed securities		6 094	13		6 107
Fixed income securities backing unit-linked and with-profit business		3 680			3 680
Equity securities held for proprietary investment purposes	4 050		39		4 089
Equity securities backing unit-linked and with-profit business	20 034	11			20 045
Short-term investments held for proprietary investment purposes	6 407	7 720			14 127
Short-term investments backing unit-linked and with-profit business		20			20
Derivative financial instruments	40	3 810	521	–3 530	841
Interest rate contracts		2 621			2 621
Foreign exchange contracts		272			272
Equity contracts	40	892	396		1 328
Credit contracts		1			1
Other contracts		24	125		149
Other invested assets	907	562	1 812		3 281
Total assets at fair value	43 968	89 541	2 773	–3 530	132 752
Liabilities					
Derivative financial instruments	–13	–3 107	–757	2 969	–908
Interest rate contracts	–5	–2 113			–2 118
Foreign exchange contracts		–407			–407
Equity contracts	–8	–564	–130		–702
Credit contracts		–1	–11		–12
Other contracts		–22	–616		–638
Liabilities for life and health policy benefits			–187		–187
Accrued expenses and other liabilities	–1 035	–864			–1 899
Total liabilities at fair value	–1 048	–3 971	–944	2 969	–2 994

[1] The netting of derivative receivables and derivative payables is permitted when a legally enforceable master netting agreement exists between two counterparties. A master netting agreement provides for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default or on the termination of any one contract.

2015 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impact of netting[1]	Total
Assets					
Fixed income securities held for proprietary investment purposes	14 609	69 910	352		84 871
Debt securities issued by US government and government agencies	14 609	1 752			16 361
US Agency securitised products		2 994			2 994
Debt securities issued by non-US governments and government agencies		29 601			29 601
Corporate debt securities		29 890	340		30 230
Mortgage- and asset-backed securities		5 673	12		5 685
Fixed income securities backing unit-linked and with-profit business		3 609			3 609
Equity securities held for proprietary investment purposes	5 065		36		5 101
Equity securities backing unit-linked and with-profit business	19 705	11			19 716
Short-term investments held for proprietary investment purposes	4 250	4 975			9 225
Short-term investments backing unit-linked and with-profit business		17			17
Derivative financial instruments	22	3 109	437	–2 829	739
Interest rate contracts	5	1 926			1 931
Foreign exchange contracts		337			337
Equity contracts	3	839	322		1 164
Credit contracts		1	2		3
Other contracts	14	6	113		133
Other invested assets	1 034	228	1 833		3 095
Total assets at fair value	**44 685**	**81 859**	**2 658**	**–2 829**	**126 373**
Liabilities					
Derivative financial instruments	–14	–2 381	–500	2 278	–617
Interest rate contracts	–3	–1 509			–1 512
Foreign exchange contracts		–220			–220
Equity contracts	–6	–648	–37		–691
Credit contracts			–18		–18
Other contracts	–5	–4	–445		–454
Liabilities for life and health policy benefits			–158		–158
Accrued expenses and other liabilities	–1 426	–1 846			–3 272
Total liabilities at fair value	**–1 440**	**–4 227**	**–658**	**2 278**	**–4 047**

[1] The netting of derivative receivables and derivative payables is permitted when a legally enforceable master netting agreement exists between two counterparties. A master netting agreement provides for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default or on the termination of any one contract.

Assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (level 3)
As of 31 December 2014 and 30 June 2015, the reconciliation of the fair values of assets and liabilities measured on a recurring basis using significant unobservable inputs was as follows:

2014 USD millions	Fixed income securities	Equity securities	Derivative assets	Other invested assets	Total assets	Derivative liabilities	Liabilities for life and health policy benefits	Total liabilities
Assets and liabilities								
Balance as of 1 January	662	49	505	2 256	3 472	–993	–145	–1 138
Realised/unrealised gains/losses:								
Included in net income	2	2	15	175	194	328	–39	289
Included in other comprehensive income	5	–5		–18	–18			0
Purchases	10		14	81	105			0
Issuances			28		28	–126		–126
Sales	–31	–4	–59	–524	–618	73		73
Settlements	–246		–25	–2	–273	–39		–39
Transfers into level 3[1]		2	43	33	78			0
Transfers out of level 3[1]		–4		–131	–135			0
Impact of foreign exchange movements	–1	–1		–58	–60		–3	–3
Closing balance as of 31 December	401	39	521	1 812	2 773	–757	–187	–944

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

2015 USD millions	Fixed income securities	Equity securities	Derivative assets	Other invested assets	**Total assets**	Derivative liabilities	Liabilities for life and health policy benefits	**Total liabilities**
Assets and liabilities								
Balance as of 1 January	401	39	521	1 812	**2 773**	–757	–187	**–944**
Realised/unrealised gains/losses:								
Included in net income	4		–77	24	**–49**	214	29	**243**
Included in other comprehensive income	–8	–3		28	**17**			**0**
Purchases			21	121	**142**			**0**
Issuances					**0**	–36		**–36**
Sales	–29		–11	–212	**–252**	8		**8**
Settlements	–16		–25		**–41**	72		**72**
Transfers into level 3[1]			8	70	**78**	–1		**–1**
Transfers out of level 3[1]					**0**			**0**
Impact of foreign exchange movements				–10	**–10**			**0**
Closing balance as of 30 June	**352**	**36**	**437**	**1 833**	**2 658**	**–500**	**–158**	**–658**

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

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

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

USD millions	2014	**2015**
Gains/losses included in net income for the period	288	194
Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date	162	69

Quantitative information about level 3 fair value measurements

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

USD millions	2014 Fair value	**2015 Fair value**	Valuation technique	Unobservable input	Range (weighted average)
Assets					
Corporate debt securities	388	**340**			
Private placement corporate debt	317	287	Corporate Spread Matrix	Illiquidity premium	15 bps–186 bps (50 bps)
Private placement credit tenant leases	71	51	Discounted Cash Flow Model	Illiquidity premium	75 bps–175 bps (131 bps)
Derivative equity contracts	396	**322**			
OTC equity option referencing correlated equity indices	396	322	Proprietary Option Model	Correlation	–30%–100% (35%)[1]
Liabilities					
Derivative equity contracts	–130	**–37**			
OTC equity option referencing correlated equity indices	–46	–37	Proprietary Option Model	Correlation	–30%–100% (35%)[1]
Other derivative contracts and liabilities for life and health policy benefits	–803	**–603**			
Variable annuity and fair valued GMDB contracts	–639	–496	Discounted Cash Flow Model	Risk margin	4% (n.a.)
				Volatility	4%–42%
				Lapse	0.5%–33%
				Mortality adjustment	–10%–0%
				Withdrawal rate	0%–90%

[1] Represents average input value for the reporting period.

Sensitivity of recurring level 3 measurements to changes in unobservable inputs

The significant unobservable input used in the fair value measurement of the Group's private placement corporate debt securities and private placement credit tenant leases is illiquidity premium. A significant increase (decrease) in this input in isolation would result in a significantly lower (higher) fair value measurement.

The significant unobservable input used in the fair value measurement of the Group's OTC equity option referencing correlated equity indices is correlation. Where the Group is long correlation risk, a significant increase (decrease) in this input in isolation would result in a significantly higher (lower) fair value measurement. Where the Group is short correlation risk, a significant increase (decrease) in this input in isolation would result in a significantly lower (higher) fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Group's variable annuity and fair valued guaranteed minimum death benefit (GMDB) contracts are: risk margin, volatility, lapse, mortality adjustment rate and withdrawal rate. A significant increase (decrease) in isolation in each of the following inputs: risk margin, volatility and withdrawal rate would result in a significantly higher (lower) fair value of the Group's obligation. A significant increase (decrease) in isolation in a lapse rate for in-the-money contracts would result in a significantly lower (higher) fair value of the Group's obligation, whereas for out-of-the-money contracts, an isolated increase (decrease) in a lapse assumption would increase (decrease) fair value of the Group's obligation. Changes in the mortality adjustment rate impact fair value of the Group's obligation differently for living-benefit products, compared to death-benefit products. For the former, a significant increase (decrease) in the mortality adjustment rate (ie increase (decrease) in mortality, respectively) in isolation would result in a decrease (increase) in fair value of the Group's liability. For the latter, a significant increase (decrease) in the mortality adjustment rate in isolation would result in an increase (decrease) in fair value of the Group's liability.

Other invested assets measured at net asset value

Other invested assets measured at net asset value as of 31 December 2014 and 30 June 2015, respectively, were as follows:

USD millions	2014 Fair value	2015 Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Private equity funds	710	768	179	non-redeemable	n.a.
Hedge funds	344	205		redeemable[1]	45–95 days[2]
Private equity direct	109	125		non-redeemable	n.a.
Real estate funds	203	208	63	non-redeemable	n.a.
Total	1 366	**1 306**	**242**		

[1] The redemption frequency varies by position.
[2] Cash distribution can be delayed for an extended period depending on the sale of the underlyings.

The hedge fund investments employ a variety of strategies, including global macro, relative value, event-driven and long/short equity across various asset classes.

The private equity direct portfolio consists of equity and equity-like investments directly in other companies. These investments have no contractual term and are generally held based on financial or strategic intent.

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

The redemption frequency of hedge funds varies depending on the manager as well as the nature of the underlying product. Additionally, certain funds may impose lock-up periods and redemption gates as defined in the terms of the individual investment agreement.

Fair value option

The fair value option under the Financial Instruments Topic permits the choice to measure specified financial assets and liabilities at fair value on an instrument-by-instrument basis.

The Group elected the fair value option for positions in the following line items in the balance sheet:

Other invested assets

The Group elected the fair value option for certain investments classified as equity method investees within other invested assets in the balance sheet. The Group applied the fair value option, as the investments are managed on a fair value basis. The changes in fair value of these elected investments are recorded in earnings.

Liabilities for life and health policy benefits

The Group elected the fair value option for existing GMDB reserves related to certain variable annuity contracts which are classified as universal life-type contracts. The Group has applied the fair value option, as the equity risk associated with those contracts is managed on a fair value basis and it is economically hedged with derivative options in the market.

Assets and liabilities measured at fair value pursuant to election of the fair value option

Pursuant to the election of the fair value option for the items described, the balances as of 31 December 2014 and 30 June 2015 were as follows:

USD millions	2014	2015
Assets		
Other invested assets	9 684	9 547
of which at fair value pursuant to the fair value option	444	525
Liabilities		
Liabilities for life and health policy benefits	–33 605	–31 272
of which at fair value pursuant to the fair value option	–187	–158

Changes in fair values for items measured at fair value pursuant to election of the fair value option

Gains/losses included in earnings for items measured at fair value pursuant to election of the fair value option including foreign exchange impact for the six months ended 30 June were as follows:

USD millions	2014	2015
Other invested assets	18	0
Liabilities for life and health policy benefits	2	28
Total	20	**28**

Fair value changes from other invested assets are reported in “Net investment income – non-participating business”. Fair value changes from the GMDB reserves are shown in “Life and health benefits”.

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

Assets and liabilities not measured at fair value but for which the fair value is disclosed as of 31 December 2014 and 30 June 2015 were as follows:

2014 USD millions	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets			
Policy loans		252	252
Mortgage loans		1 888	1 888
Other loans		1 065	1 065
Investment real estate		2 482	2 482
Total assets	0	5 687	5 687
Liabilities			
Debt	–9 934	–6 291	–16 225
Total liabilities	–9 934	–6 291	–16 225

2015 USD millions	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets			
Policy loans		93	93
Mortgage loans		2 023	2 023
Other loans		1 126	1 126
Investment real estate		2 827	2 827
Total assets	**0**	**6 069**	**6 069**
Liabilities			
Debt	–9 015	–5 963	–14 978
Total liabilities	**–9 015**	**–5 963**	**–14 978**

Policy loans, other loans and certain mortgage loans are classified as level 3 measurements, as they do not have an active exit market. The majority of these positions need to be assessed in conjunction with the corresponding insurance business. Considering these circumstances, the Group presents the carrying amount as an approximation for the fair value.

Investments in real estate are fair valued primarily by external appraisers based on proprietary discounted cash flow models that incorporate applicable risk premium adjustments to discount yields and projected market rental income streams based on market-specific data. These fair value measurements are classified in level 3 in the fair value hierarchy.

Debt positions, which are fair valued based on executable broker quotes or based on the discounted cash flow method using observable inputs, are classified as level 2 measurements. Fair value of the majority of the Group's level 3 debt positions is judged to approximate carrying value due to the highly tailored nature of the obligation and short-notice termination provisions.

8 Derivative financial instruments

The Group uses a variety of derivative financial instruments including swaps, options, forwards, credit derivatives and exchange-traded financial futures in its trading and hedging strategies, in line with the Group's overall risk management strategy. The objectives include managing exposure to price, foreign currency and/or interest rate risk on planned or anticipated investment purchases, existing assets or liabilities, as well as locking in attractive investment conditions for future available funds.

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

Fair values and notional amounts of derivative financial instruments

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

2014 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivatives not designated as hedging instruments				
Interest rate contracts	80 449	2 621	–2 118	503
Foreign exchange contracts	12 924	223	–400	–177
Equity contracts	20 462	1 328	–702	626
Credit contracts	450	1	–12	–11
Other contracts	21 247	149	–638	–489
Total	135 532	4 322	–3 870	452
Derivatives designated as hedging instruments				
Foreign exchange contracts	2 770	49	–7	42
Total	2 770	49	–7	42
Total derivative financial instruments	138 302	4 371	–3 877	494
Amount offset				
Where a right of set-off exists		–2 554	2 554	
Due to cash collateral		–976	415	
Total net amount of derivative financial instruments		841	–908	–67

2015 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivatives not designated as hedging instruments				
Interest rate contracts	100 350	1 931	–1 512	419
Foreign exchange contracts	13 870	337	–181	156
Equity contracts	18 642	1 164	–691	473
Credit contracts	252	3	–18	–15
Other contracts	18 671	133	–454	–321
Total	**151 785**	**3 568**	**–2 856**	**712**
Derivatives designated as hedging instruments				
Foreign exchange contracts	2 843		–39	–39
Total	**2 843**	**0**	**–39**	**–39**
Total derivative financial instruments	**154 628**	**3 568**	**–2 895**	**673**
Amount offset				
Where a right of set-off exists		–1 920	1 920	
Due to cash collateral		–909	358	
Total net amount of derivative financial instruments		**739**	**–617**	**122**

The notional amounts of derivative financial instruments give an indication of the Group's volume of derivative activity. The fair value assets are included in "Other invested assets" and the fair value liabilities are included in "Accrued expenses and other liabilities". The fair value amounts that were not offset were nil as of 31 December 2014 and 30 June 2015.

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 — non-participating business" in the income statement. Gains and losses of derivative financial instruments not designated as hedging instruments were as follows:

USD millions	For the three months ended 30 June 2014	2015	For the six months ended 30 June 2014	2015
Derivatives not designated as hedging instruments				
Interest rate contracts	–41	33	–92	3
Foreign exchange contracts	–130	23	–115	242
Equity contracts	–115	–51	–112	–153
Credit contracts	1	–2	–2	–3
Other contracts	108	170	102	223
Total gain/loss recognised in income	–177	**173**	–219	**312**

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, 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 of its issued debt positions and fixed income securities. These derivative instruments are designated as hedging instruments in qualifying fair value hedges. Gains and losses on derivative financial instruments designated as fair value hedging instruments are recorded in "Net realised investment gains/losses — non-participating business" in the income statement. Gains and losses attributable to the hedged risks were as follows:

2014 USD millions	For the three months ended 30 June Gains/losses on derivatives	Gains/losses on hedged items	For the six months ended 30 June Gains/losses on derivatives	Gains/losses on hedged items
Fair value hedging relationships				
Foreign exchange contracts	–6	8	–10	12
Total gain/loss recognised in income	–6	8	–10	12

2015 USD millions	For the three months ended 30 June Gains/losses on derivatives	Gains/losses on hedged items	For the six months ended 30 June Gains/losses on derivatives	Gains/losses on hedged items
Fair value hedging relationships				
Foreign exchange contracts	–36	36	83	–83
Total gain/loss recognised in income	**–36**	**36**	**83**	**–83**

Hedges of the net investment in foreign operations

The Group designates derivative and non-derivative monetary financial instruments as hedging the foreign currency exposure of its net investment in certain foreign operations.

For the year ended 31 December 2014 and the six months ended 30 June 2015, the Group recorded an accumulated net unrealised foreign currency remeasurement gain of USD 894 million and a gain of USD 1 100 million, respectively, in shareholders' equity. These offset translation gains and losses on the hedged net investment.

Maximum potential loss

In consideration of the rights of set-off and the qualifying master netting arrangements with various counterparties, the maximum potential loss as of 31 December 2014 and 30 June 2015 was approximately USD 1 817 million and USD 1 648 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 112 million and USD 43 million as of 31 December 2014 and 30 June 2015, respectively. For derivative financial instruments containing credit risk-related contingent features, the Group posted collateral of USD 6 million and USD 3 million as of 31 December 2014 and 30 June 2015, respectively. In the event of a reduction of the Group's credit rating to below investment grade, a fair value of USD 40 million additional collateral would have had to be posted as of 30 June 2015. The total equals the amount needed to settle the instruments immediately as of 30 June 2015.

9 Disposals

In the fourth quarter of 2014, the Group entered into an agreement to sell Aurora National Life Assurance Company (Aurora), a US subsidiary, to Reinsurance Group of America, Incorporated (RGA). Aurora primarily consists of bonds and policyholder liabilities. An expected pre-tax loss of USD 247 million (including the impact of net unrealised gains and shadow loss reserve that will be reclassified from equity into the income statement) on the disposition of the net assets was recognised in the fourth quarter of 2014.

In the second quarter of 2015, the Group completed the sale following the receipt of all necessary regulatory approvals. The purchase price includes a cash payment of USD 184 million.

In 2015, the Group adjusted the initial loss on the transaction by a pre-tax gain of USD 9 million on a year to date basis. The gain has been reflected in "Net realised investment gains/losses – non-participating" in the income statement of the Admin Re® segment.

10 Debt and contingent capital instruments

The Group enters into long- and short-term debt arrangements to obtain funds for general corporate use and specific transaction financing. The Group defines short-term debt as debt having a maturity at the balance sheet date of not greater than one year and long-term debt as having a maturity of greater than one year. Interest expense is classified accordingly.

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

USD millions	2014	**2015**
Senior financial debt	654	
Senior operational debt	1 047	821
Subordinated financial debt		1 077
Short-term debt – financial and operational debt	1 701	**1 898**
Senior financial debt	3 513	3 831
Senior operational debt	713	534
Subordinated financial debt	5 486	4 241
Subordinated operational debt	2 903	2 919
Long-term debt – financial and operational debt	12 615	**11 525**
Total carrying value	14 316	**13 423**
Total fair value	16 225	**14 978**

The Group uses debt for general corporate purposes and to fund discrete pools of operational leverage and financial intermediation assets. Operational leverage and financial intermediation are subject to asset and liability matching, resulting in little to no risk that the assets will be insufficient to service and settle the liabilities. Debt used for operational leverage and financial intermediation is treated as operational debt and excluded by the rating agencies from financial leverage calculations. Certain debt positions are limited- or non-recourse, meaning the debtors' claims are limited to assets underlying the financing. As of 31 December 2014 and 30 June 2015, debt related to operational leverage and financial intermediation amounted to USD 4.7 billion (thereof USD 3.4 billion limited- or non-recourse) and USD 4.3 billion (thereof USD 3.2 billion limited- or non-recourse), respectively.

Interest expense on long-term debt and contingent capital instruments

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

	Three months ended 30 June		Six months ended 30 June	
USD millions	2014	**2015**	2014	**2015**
Senior financial debt	22	29	52	59
Senior operational debt	4	3	8	6
Subordinated financial debt	75	66	147	139
Subordinated operational debt	64	34	128	68
Total	165	**132**	335	**272**

In addition to the above, interest expense on contingent capital instruments classified as equity was USD 18 million and USD 17 million for the three months ended 30 June 2014 and 2015, respectively, and USD 35 million and USD 34 million for the six months ended 30 June 2014 and 2015, respectively.

Long-term debt issued in 2015

In January 2015, Swiss Reinsurance Company Ltd issued senior notes due 2027. The notes have a face value of CHF 250 million, with a fixed coupon of 0.75% per annum.

In April 2015, Swiss Reinsurance Company Ltd issued EUR 750 million face amount of perpetual subordinated fixed-to-floating rate callable loan notes with a first optional redemption date on 1 September 2025. The notes bear interest through the first optional redemption date at 2.60% per annum. The notes were issued in connection with a concurrent exchange of part of the EUR 1 billion 5.252% Perpetual Subordinated Step-Up Loan Notes issued by Swiss Reinsurance Company Ltd.

11 Earnings per share

Earnings per share for the periods ended 30 June were as follows:

USD millions (except share data)	Three months ended 30 June 2014	2015	Six months ended 30 June 2014	2015
Basic earnings per share				
Net income	820	**843**	2 064	**2 300**
Non-controlling interests		**–6**	–1	**–6**
Interest on contingent capital instruments[1]	–18	**–17**	–35	**–34**
Net income attributable to common shareholders	802	**820**	2 028	**2 260**
Weighted average common shares outstanding	342 940 050	**342 491 202**	342 837 356	**342 301 045**
Net income per share in USD	2.34	**2.39**	5.92	**6.60**
Net income per share in CHF[2]	2.08	**2.27**	5.27	**6.27**
Effect of dilutive securities				
Change in income available to common shares due to contingent capital instruments[1]	17	**17**	35	**34**
Change in average number of shares due to contingent capital instruments	35 745 192	**35 745 192**	35 745 192	**35 745 192**
Change in average number of shares due to employee options	676 550	**2 050 614**	798 713	**2 494 442**
Diluted earnings per share				
Net income assuming debt conversion and exercise of options	819	**837**	2 063	**2 294**
Weighted average common shares outstanding	379 361 792	**380 287 008**	379 381 261	**380 540 678**
Net income per share in USD	2.16	**2.20**	5.44	**6.03**
Net income per share in CHF[2]	1.92	**2.09**	4.84	**5.73**

[1] Please refer to Note 10 "Debt and contingent capital instruments".
[2] The translation from USD to CHF is shown for informational purposes only and has been calculated using the Group's average exchange rates.

Dividends are declared in Swiss francs. During the year ended 31 December 2014 and the period ended 30 June 2015, the Group paid a dividend per share of CHF 3.85 and CHF 4.25, respectively, as well as an additional special dividend of CHF 4.15 and CHF 3.00, respectively. All dividends were paid in the form of withholding tax exempt repayment of legal reserves from capital contributions.

12 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 as a result of the Group's involvement in certain insurance-linked and credit-linked securitisations, swaps in trusts, debt financing and other entities which meet the definition of a VIE.

When analysing the status of an entity, 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 needs to be assessed for consolidation under the VIE section of the Consolidation Topic.

The party that has a controlling financial interest is called the primary beneficiary and consolidates the VIE. An enterprise is deemed to have a controlling financial interest if it has both of the following:
- the power to direct the activities of the VIE that most significantly impact the entity's economic performance; and
- the obligation to absorb losses of the entity 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.

The Group assesses for all its variable interests in VIEs whether it has a controlling financial interest in these entities and, thus, is the primary beneficiary. For this, 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. In a second step, 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.

Whenever facts and circumstances change, a review is undertaken of the impact these changes could have on the consolidation assessment previously performed. When the assessment might be impacted, a reassessment to determine the primary beneficiary is performed.

Insurance-linked and credit-linked securitisations

The insurance-linked and credit-linked securitisations transfer pre-existing insurance or credit risk to the capital markets through the issuance of insurance-linked or credit-linked securities. In insurance-linked securitisations, the securitisation vehicle assumes the insurance risk from a sponsor through insurance or derivative contracts. In credit-linked securitisations, the securitisation vehicle assumes the credit risk from a sponsor through credit default swaps. The securitisation vehicle generally retains the issuance proceeds as collateral. The collateral held predominantly consists of investment-grade securities.

Typically, the variable interests held by the Group arise through ownership of insurance-linked and credit-linked securities, in which case maximum loss equals to the Group's investment balance.

Generally, the activities of a securitisation vehicle are pre-determined at formation. There are substantially no ongoing activities during the life of the VIE that could significantly impact the economic performance of the vehicle. Consequently, the main focus to identify the primary beneficiary is on the activities performed and decisions made when the VIE was designed.

Life and health funding vehicles

The Group participates in certain structured transactions that retrocede longevity and mortality risks to captive reinsurers with an aim to provide regulatory capital credit to a transaction sponsor through creation of funding notes by a funding vehicle which is generally considered a VIE. The Group's participation in these transactions is generally limited to providing contingent funding support via a financial contract to a funding vehicle, which represents a potentially significant variable interest. The Group does not have power to direct activities of the funding vehicles and therefore is not a primary beneficiary of the funding vehicles in these transactions. The Group's maximum exposure in these transactions equals either the total contract notional or funding notes issued by the vehicle, depending on the specific contractual arrangements.

Swaps in trusts

The Group provides risk management services to certain asset securitisation trusts which qualify as VIEs. As the involvement of the Group is limited to interest rate and foreign exchange derivatives, it does not have power to direct any activities of the trusts and therefore does not qualify as primary beneficiary of any of these trusts. These activities are in run-off.

Debt financing vehicles

Debt financing vehicles issue preference shares or loan notes to provide the Group with funding. The Group is partially exposed to the asset risk by holding equity rights or by protecting some of the assets held by the VIEs via guarantees or derivative contracts. The assets held by the VIEs consist primarily of investment-grade securities, but also structured products, hedge fund units and derivatives.

The Group consolidates a debt financing vehicle as it has power over the investment management in the vehicle, which is considered to be the activity that most significantly impacts the entities' economic performance. In addition, the Group absorbs the variability of the investment return so that both criteria for a controlling financial interest are met.

Investment vehicles

Investment vehicles are private equity limited partnerships, in which the Group is invested as part of its investment strategy. Typically, the Group's variable interests arise through limited partner ownership interests in the vehicles. The Group does not own the general partners of the limited partnerships, and does not have any significant kick-out or participating rights. 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 vehicles decrease. The maximum exposure to loss equals the carrying amount of the ownership interest.

Other

The VIEs in this category were created for various purposes. Generally, the Group is exposed to the asset risk of the VIEs by holding an equity stake in the VIE or by guaranteeing a part or the entire asset value to third-party investors. A significant portion of the Group's exposure is either retroceded or hedged. The assets held by the VIEs consist mainly of residential real estate and other.

The Group did not provide financial or other support to any VIEs during 2015 that it was not previously contractually required to provide.

Consolidated VIEs

The following table shows the total assets and liabilities on the Group's balance sheet relating to VIEs of which the Group is the primary beneficiary as of 31 December 2014 and 30 June 2015:

USD millions	2014 Carrying value	2014 Whereof restricted	2015 Carrying value	2015 Whereof restricted
Fixed income securities available-for-sale	4 200	4 200	4 164	4 164
Short-term investments	95	95	92	92
Other invested assets	16		19	
Cash and cash equivalents	25	25	32	32
Accrued investment income	38	38	44	44
Premiums and other receivables			35	35
Deferred acquisition costs			9	9
Deferred tax assets	19	19	15	15
Other assets	16		18	3
Total assets	4 409	4 377	**4 428**	**4 394**

	2014 Carrying value	2014 Whereof limited recourse	2015 Carrying value	2015 Whereof limited recourse
Unpaid claims and claim adjustment expenses			52	52
Liabilities for life and health policy benefits			1	1
Unearned premiums			27	27
Reinsurance balances payable			5	5
Deferred and other non-current tax liabilities	177	177	109	109
Accrued expenses and other liabilities	7	7	14	14
Long-term debt	2 903	2 903	2 919	2 919
Total liabilities	3 087	3 087	**3 127**	**3 127**

Non-consolidated VIEs

The following table shows the total assets and liabilities in 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 2014 and 30 June 2015:

USD millions	2014	**2015**
Fixed income securities available-for-sale	69	69
Policy loans, mortgages and other loans	84	
Other invested assets	1 451	1 789
Total assets	1 604	**1 858**
Accrued expenses and other liabilities	167	35
Total liabilities	167	**35**

The following table shows the Group's assets, liabilities and maximum exposure to loss related to VIEs in which the Group held a variable interest but was not the primary beneficiary as of 31 December 2014 and 30 June 2015:

				2014				**2015**
USD millions	Total assets	Total liabilities	Maximum exposure to loss[1]	Difference between exposure and liabilities	Total assets	Total liabilities	Maximum exposure to loss[1]	Difference between exposure and liabilities
Insurance-linked/credit-linked securitisations	70		68	68	69		69	69
Life and health funding vehicles			1 683	1 683	3		1 735	1 735
Swaps in trusts	35	82	–[2]	–	120	35	–[2]	–
Debt financing	378		28	28	387		28	28
Investment vehicles	845		845	845	1 080		1 081	1 081
Other	276	85	1 076	991	199		199	199
Total	1 604	167	–[2]	–	**1 858**	**35**	**–[2]**	**–**

[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.
[2] The maximum exposure to loss for swaps in trusts cannot be meaningfully quantified due to their derivative character.

The assets and liabilities for the swaps in trusts represent the positive and negative fair values of the derivatives the Group has entered into with the trusts. Liabilities are recognised for certain debt financing VIEs when losses occur. To date, the respective debt financing VIEs have not incurred any losses.

13 Benefit plans

Net periodic benefit cost
Pension and post-retirement cost for the six months ended 30 June 2014 and 2015 were USD 60 million and USD 62 million, respectively.

Employer's contributions for 2015
For the six months ended 30 June 2015, the Group contributed USD 109 million to its defined benefit pension plans and USD 8 million to other post-retirement plans, compared to USD 119 million and USD 9 million, respectively, in the same period of 2014.

The expected 2015 contributions to the defined benefit pension plans and to the post-retirement benefit plans, revised as of 30 June 2015 for the latest information, amount to USD 254 million and USD 17 million, respectively.

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Cautionary note on forward-looking statements

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" and "may fluctuate" and similar expressions or by future or conditional verbs such as "will", "should", "would" and "could". These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause Swiss Re's actual results of operations, financial condition, solvency ratios, liquidity position or prospects to be materially different from any future results of operations, financial condition, solvency ratios, liquidity position or prospects expressed or implied by such statements or cause Swiss Re to not achieve its published targets. Such factors include, among others:

- instability affecting the global financial system and developments related thereto;
- deterioration in global economic conditions;
- Swiss Re'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 Swiss Re's financial strength or otherwise;
- 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 Swiss Re's investment assets;
- changes in Swiss Re's investment result as a result of changes in its investment policy or the changed composition of its investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
- uncertainties in valuing credit default swaps and other credit-related instruments;
- possible inability to realise amounts on sales of securities on Swiss Re's balance sheet equivalent to their mark-to-market values recorded for accounting purposes;
- the outcome of tax audits, the ability to realise tax loss carryforwards and the ability to realise deferred tax assets (including by reason of the mix of earnings in a jurisdiction or deemed change of control), which could negatively impact future earnings;
- the possibility that Swiss Re's hedging arrangements may not be effective;
- the lowering or loss of one of the financial strength or other ratings of one or more Swiss Re companies, and developments adversely affecting Swiss Re's ability to achieve improved ratings;
- the cyclicality of the reinsurance industry;
- uncertainties in estimating reserves;
- uncertainties in estimating future claims for purposes of financial reporting, particularly with respect to large natural catastrophes, as significant uncertainties may be involved in estimating losses from such events and preliminary estimates may be subject to change as new information becomes available;

- the frequency, severity and development of insured claim events;
- acts of terrorism and acts of war;
- mortality, morbidity and longevity experience;
- policy renewal and lapse rates;
- extraordinary events affecting Swiss Re's clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- current, pending and future legislation and regulation affecting Swiss Re or its ceding companies and the interpretation of legislation or regulations by regulators;
- legal actions or regulatory investigations or actions, including those in respect of industry requirements or business conduct rules of general applicability;
- changes in accounting standards;
- significant investments, acquisitions or dispositions, and any delays, unexpected costs or other issues experienced in connection with any such transactions;
- changing levels of competition; and
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks.

These factors are not exhaustive. Swiss Re 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

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

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

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

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

Regulatory changes

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

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

Other changes are focused principally on banking institutions, but some could have direct applicability to insurance or reinsurance operations and others could have a general impact on the regulatory landscape for financial institutions, which might indirectly impact capital requirements and/or required reserve levels or have other direct or indirect effects on the Group. Changes are particularly likely to impact financial institutions designated as "systemically important," a designation which is expected to result in enhanced regulatory supervision and heightened capital, liquidity and diversification requirements under evolving reforms.

There is an emerging focus on classifying certain insurance companies as systemically important as well. The Group could be designated as a global systemically important financial institution (SIFI) under the framework for systemically important financial institutions developed by the Financial Stability Board, or as a systemically important non-bank financial company by the Financial Stability Oversight Council (the FSOC) in the United States. Separately, the International Association of Insurance Supervisors, an international body that represents insurance regulators and supervisors, published a methodology for identifying global systemically important insurers ("G-SIIs") and on a framework for supervision of internationally active insurance groups. Initial designation of insurers as G-SIIs took place in July 2013, and initial designation of reinsurers as G-SIIs has been postponed pending further development of the methodology due by November 2015, to be applied in 2016. If and when reinsurers are included in the list of G-SIIs, the Group could be so designated. Were the Group to be designated as a G-SII, it could be subject to one or both of the resulting regimes, once implemented, including capital standards under both regimes (the Basic Capital Requirement for G-SIIs and the Insurance Capital Standard for Internationally Active Insurance Groups ("IAIGs")). In addition, the Group ultimately will be subject to oversight of its Swiss regulator in respect of recovery and resolution planning.

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

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

Market risk

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

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

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

Credit risk

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

The Group is also subject to credit and other risks in its credit business, including reliance on banks that underwrite and are expected to 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 reinsurance 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 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.

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 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, and market conditions could increase the risk of downgrade. 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.

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

As claims paying and financial strength ratings are key factors in establishing the competitive position of 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 either 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 reinsurance 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 rights and obligations under insurance, reinsurance and other contractual agreements. From time to time, the Group may institute, or be named as a defendant in, legal proceedings, and the Group may be a claimant or respondent in arbitration proceedings. These proceedings could involve coverage or other disputes with ceding companies, disputes with parties to which the Group transfers risk under reinsurance arrangements, disputes with other counterparties or other matters. The Group cannot predict the outcome of any of the foregoing, which could be material for the Group.

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

Insurance, operational and other risks

As part of the Group's ordinary course operations, the Group is subject to a variety of risks, including risks that reserves may not adequately cover future claims and benefits, risks that catastrophic events (including hurricanes, windstorms, floods, earthquakes, acts of terrorism, man-made disasters such as industrial accidents, explosions, and fires, 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 alternative capacity); cyclicality of the industry; risks related to emerging claims and coverage issues (including, for example, trends to establish stricter building standards, which can lead to higher industry losses for earthquake cover based on higher replacement values); risks 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. In addition, the occurrence of future risks that the Group's risk management procedures fail to identify or anticipate could have a material adverse effect on the Group. Any of the foregoing, as well as other concerns in respect of the Group's business, could also give rise to reputational risk.

Use of models; accounting matters

The Group is subject to risks relating to the preparation of estimates and assumptions that management uses, for example, as part of its risk models as well as those that affect the reported amounts of assets, liabilities, revenues and expenses in the Group's financial statements, 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. To the extent that management's estimates or assumptions prove to be incorrect, it could have a material impact on underwriting results (in the case of risk models) or on reported financial condition or results of operations, and such impact could be material.

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

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

The Group also publishes, on an annual basis, a report of its results, including financial statements and an accompanying independent assurance report, 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 are available after release of its annual US GAAP results and 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.

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