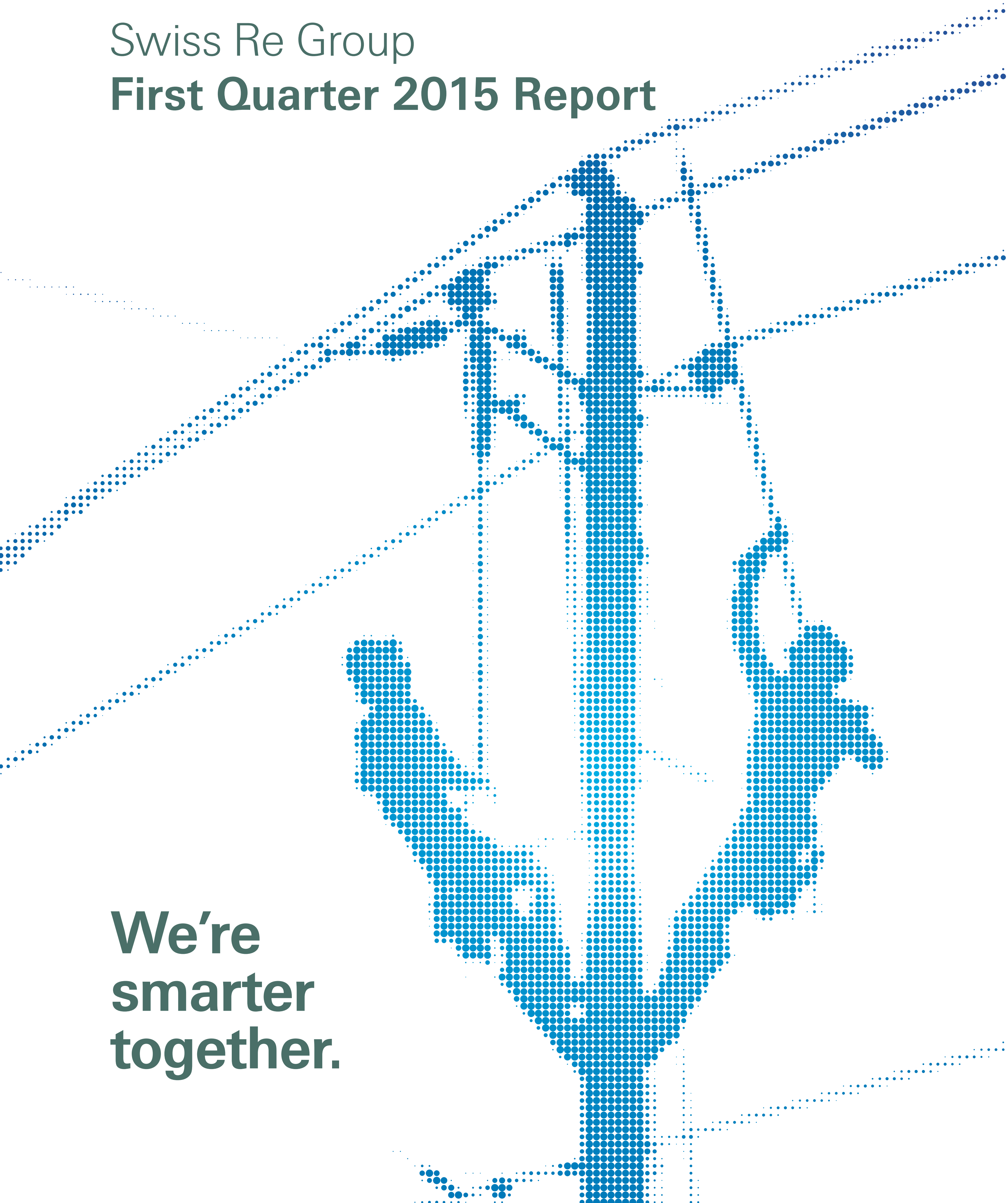
Swiss Re

Swiss Re Group

First Quarter 2015 Report



We're smarter together.

Key Information

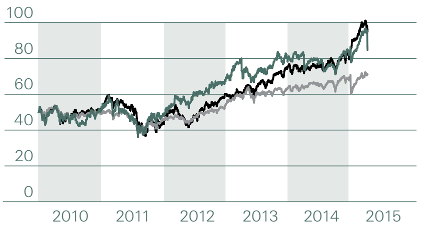
Financial highlights

For the three months ended 31 March

USD millions, unless otherwise stated	2014	2015	Change in %
Group			
Net income attributable to common shareholders	1 226	**1 440**	17
Premiums earned and fee income	7 551	**7 562**	
Earnings per share in CHF	3.20	**4.00**	25
Common shareholders' equity (31.12.2014/31.03.2015)	34 828	**36 578**	5
Return on equity[1] in %	14.9	**16.1**	
Return on investments in %	3.7	**3.9**	
Number of employees[2] (31.12.2014/31.03.2015)	12 224	**12 109**	–1
Property & Casualty Reinsurance[3]			
Net income attributable to common shareholders	990	**808**	–18
Premiums earned	3 813	**3 767**	–1
Combined ratio in %	79.2	**84.4**	
Return on equity[1] in %	29.5	**22.7**	
Life & Health Reinsurance[3]			
Net income attributable to common shareholders	64	**277**	333
Premiums earned and fee income	2 672	**2 692**	1
Operating margin in %	10.1	**9.6**	
Return on equity[1] in %	4.4	**17.2**	
Corporate Solutions			
Net income attributable to common shareholders	80	**167**	109
Premiums earned	830	**882**	6
Combined ratio in %	95.2	**87.8**	
Return on equity[1] in %	12.0	**29.0**	
Admin Re®			
Net income attributable to common shareholders	48	**206**	329
Premiums earned and fee income	236	**221**	–6
Return on equity[1] in %	3.2	**12.7**	

[1] Return on equity is calculated by dividing 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.

Share information



Financial strength ratings

As of 24 April 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 April 2015	
Share price in CHF	84.65
Market capitalisation in CHF millions	29 067

Share performance

in %	1 January 2010 – 24 April 2015 (p.a.)	**Year to 24 April 2015**
Swiss Re	10.5	1.2
Swiss Market Index	6.8	3.5
STOXX Europe 600 Insurance Index	12.9	15.4

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

Continuing our steady progress toward the 2011–2015 financial targets

1.4
Group net income (USD billions)
First three months of 2015

Dear shareholders,

We are pleased to report a strong net income of USD 1.4 billion for the first quarter of 2015. All Business Units contributed to the performance of the Group.

In Property & Casualty Reinsurance we earned a very strong net income of USD 808 million in the first three months of the year. Our robust underwriting was supported by a benign natural catastrophe environment and favourable prior-year development, leading to a continued low combined ratio of 84.4%. Property & Casualty remains the main driver of our strong Group performance.

Our Life & Health Reinsurance segment contributed net income of USD 277 million and return on equity was 17.2%, driven by realised gains and foreign exchange re-measurement. Excluding such items and using the equity capital of USD 5.5 billion that we announced as the basis for our 2015 target at the June 2013 Investors' Day, the return on equity of the segment is within the target of 10%–12%. After addressing the underperforming areas last year, this first quarter's performance is good evidence that our strategy for the segment is on track.

Corporate Solutions delivered net income of USD 167 million and a combined ratio of 87.8%. The Business Unit continues to make good progress on its promise of profitable growth – all the more impressive given the generally softening market for commercial insurance. We look forward to further progress in Corporate Solutions' high growth market strategy with the opening of a South African office, planned for the second quarter of this year.

Admin Re® reported net income of USD 206 million and gross cash generation of USD 52 million. After a demanding 2014 in which Admin Re® continued its exit of the US market and laid the foundation for further acquisitions in the UK, the Business Unit is now well-positioned to deliver on its ambitious dividend and gross cash generation objectives.

Our asset management team continues to successfully navigate the challenges of low interest rates, turbulent markets and heightened uncertainty. Thanks to their hard work we achieved another strong Group return on investments (annualised) for the quarter of 3.9% – even higher than in the first quarter of 2014.

Please bear in mind that our reporting currency, the US dollar, has had a strong influence on these results. While premiums earned and fee income of USD 7.6 billion are in line with the first quarter of 2014, for example, they would be 7% higher in constant currency. This is just one example of the turbulence in our business environment.

Walter B. Kielholz
Chairman of the Board of Directors

Michel M. Liès
Group CEO

Low interest rates present a more fundamental issue for our businesses. Obviously no one knows when this may change, but it is clear that the experiment of central banks has been costly. We attempted to quantify the costs – including a cost to US savers alone of roughly USD 470 billion – in our recent study on financial repression, which you can find on our website.

Our gratitude for this strong first quarter goes – once more – to our employees and their dedication to outperform, especially through disciplined and expert underwriting. Our approach of underwriting based on economic value steering has been a key factor in our success. And we fully expect it to continue. Our clients continue to put their trust in this strength, as evidenced by successful April renewals.

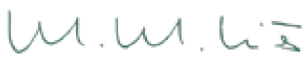
We also thank our employees for continuing to spot opportunities amidst uncertainty. New risks such as cybersecurity need re/insurance solutions. And so do the high growth markets identified by Reinsurance and Corporate Solutions. Our capital strength is the foundation for our leadership in these new risks and markets, as demonstrated by the Group Swiss Solvency Test ratio of 223% as reported in our April submission to FINMA, our regulatory group supervisor.

Moving to personnel news, we are happy to welcome Trevor Manuel and Philip K. Ryan to Swiss Re's Board of Directors. Trevor was a minister in the South African government for more than 20 years, 13 of which he served as Finance Minister. As a South African native, Trevor's first-hand knowledge about the opportunities and challenges in the African high growth markets will be an important differentiator as we push for greater insurance penetration in these markets. Philip has been Chairman of the Swiss Re America Holding Corporation Board since 2012 and has a thorough understanding of the company's business in its largest region in terms of premium income, the Americas. Philip's in-depth financial markets and insurance expertise, combined with his knowledge about Swiss Re, will help to ensure continued success in the mature and growing markets of the Americas.

Last but not least we thank you, our shareholders, for your loyalty and trust, again most recently at the Annual General Meeting. With your endorsement we will conduct the public share buy-back programme as proposed there. As explained, we aim to return capital to you when excess capital is available and other business opportunities do not meet our hurdle rates. With your support we are confident that we can continue shaping the future of the wholesale re/insurance industry.

Zurich, 30 April 2015

Walter B. Kielholz
Chairman of the Board of Directors



Michel M. Liès
Group CEO

Key events

19 February 2015

Swiss Re delivered a full-year net income of USD 3.5 billion for 2014, driven by a strong underwriting performance and investment results. A regular dividend of CHF 4.25, a special dividend of CHF 3.00 per share will be proposed and a public share buy-back programme.

Property & Casualty Reinsurance reported a full-year net income of USD 3.6 billion mainly due to strong underwriting, benign natural catastrophe losses and net reserve releases. Life & Health Reinsurance reported a full-year net loss of USD 462 million, reflecting the impact from several management actions as well as the unwinding of an asset funding structure supporting a longevity transaction, expected to enhance future profitability. Corporate Solutions generated profitable growth for the year. Admin Re® reported an excellent gross cash generation of USD 945 million, up 81.4% compared to 2013. Given the business performance and the strong capital position, Swiss Re's Board of Directors will propose a regular dividend of CHF 4.25 and a special dividend of CHF 3.00 per share. In addition, Swiss Re's Board of Directors proposes a public share buy-back of up to CHF 1.0 billion.

18 March 2015

Swiss Re announced proposals for Annual General Meeting

Based on Swiss Re's strong performance in 2014, the Board of Directors proposed to increase the regular dividend to CHF 4.25 per share, up from last year's CHF 3.85 per share. In addition, a special dividend of CHF 3.00 per share was proposed. Swiss Re also requested permission to establish a public share buy-back programme of up to CHF 1 billion at any time ahead of the 2016 Annual General Meeting to achieve its objective of returning capital to shareholders when excess capital is available and other business opportunities do not meet its internal investment hurdle rate. Swiss Re proposed to ask the Annual General Meeting for permission to cancel the repurchased shares. The Board of Directors proposed the election of Trevor Manuel and Philip K. Ryan as new non-executive and independent members. Swiss Re published the 2014 Annual Report and the Economic Value Management (EVM) 2014 report.

25 March 2015

Insured losses from disasters below average in 2014

According to the latest sigma study, global insured losses from natural catastrophes and man-made disasters were USD 35 billion in 2014, down from USD 44 billion in 2013 and well below the USD 64 billion average of the previous 10 years. There were 189 natural catastrophe events in 2014, the highest ever on sigma records, causing global economic losses of USD 110 billion. Around 12 700 people lost their lives in all disaster events, down from as many as 27 000 in 2013, making it one of the lowest numbers ever recorded in a single year.

26 March 2015

Current high levels of financial repression create significant costs

Swiss Re developed a Financial Repression Index, the first of its kind, to quantify the costs of interest rates being at artificially low levels for households and long-term investors. Since the financial crisis, US savers alone have lost roughly USD 470 billion in interest income.

Financial repression describes official policies directing funds to markets that would otherwise go elsewhere and reduces diversification of funding sources to the economy, representing a risk for financial stability.

21 April 2015

Swiss Re shareholders approve 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 its Annual General Meeting. This included the increase in regular dividend to CHF 4.25 per share and an additional special dividend of CHF 3.00 per share, as well as a share buy-back. 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.

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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

Business Unit		Year	Net premiums earned and fee income (USD millions)	Net income (USD millions)

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. The unit aims to extend Swiss Re's industry-leading position with disciplined underwriting, prudent portfolio management and diligent client service.

Read more: page 10

Segment	Year	Net premiums earned and fee income (USD millions)	Net income (USD millions)
Property & Casualty	2015	3767	808
	2014	3813	990
Life & Health	2015	2692	277
	2014	2672	64

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 over 40 offices worldwide and is a growth engine of the Swiss Re Group.

Read more: page 14

Year	Net premiums earned and fee income (USD millions)	Net income (USD millions)
2015	882	167
2014	830	80

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

Year	Net premiums earned and fee income (USD millions)	Net income (USD millions)
2015	221	206
2014	236	48

Total

(after consolidation)

Year	Net premiums earned and fee income (USD millions)	Net income (USD millions)
2015	7562	1440
2014	7551	1226

Return on equity (annualised)	Operating performance
22.7% (29.5% 1Q14)	84.4% (79.2% 1Q14) **Combined ratio**
17.2% (4.4% 1Q14)	9.6% (10.1% 1Q14) **Operating margin**
29.0% (12.0% 1Q14)	87.8% (95.2% 1Q14) **Combined ratio**
12.7% (3.2% 1Q14)	52m (USD 202m 1Q14) **Gross cash generation**
16.1% (14.9% 1Q14)	

Group results

Swiss Re reported net income of USD 1.4 billion for the first quarter of 2015, up from USD 1.2 billion for the same period in 2014, driven by continued strong underwriting and investment results. Earnings per share for the quarter were CHF 4.00 or USD 4.21, compared to CHF 3.20 (USD 3.58) for the first three months of 2014.

Net income for Reinsurance in the first quarter of 2015 was USD 1.1 billion, in line with the prior-year period. Property & Casualty accounted for USD 808 million, compared to USD 990 million in the first quarter of 2014, once more reflecting a good underwriting result and a benign natural catastrophe experience. Life & Health accounted for USD 277 million, compared to USD 64 million for the same period in 2014, driven by realised gains on sales of securities and foreign exchange re-measurement.

Corporate Solutions reported net income of USD 167 million, compared to USD 80 million for the prior-year period. The strong result was driven by continued profitable business performance across most lines of business.

Admin Re® delivered net income of USD 206 million, compared to USD 48 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, favourable investment market performance in the UK and tax credits following the finalisation of the 2014 UK year-end statutory results. The sale of Aurora National Life Assurance Company closed on 1 April 2015, continuing Admin Re®'s exit from the US market.

Common shareholders' equity, excluding non-controlling interests and the impact of contingent capital instruments, increased to USD 36.6 billion as of 31 March 2015 from USD 34.8 billion at the end of December 2014, reflecting the net income for the quarter and unrealised gains on fixed income securities. Annualised return on equity was 16.1% for the first quarter of 2015, compared to 10.5% for 2014 and 14.9% (annualised) for the first quarter of 2014.

Book value per common share increased to USD 106.88 or CHF 103.78 at the end of March 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 7.6 billion for the first quarter of 2015, in line with the prior-year quarter. At constant exchange rates, premiums and fees increased by 7%, reflecting growth in selected markets and lines of business across the Group.

Premiums earned by Property & Casualty Reinsurance were USD 3.8 billion, a slight decrease compared to the prior-year period. At constant exchange rates, premiums earned increased by 6%, driven by growth in US casualty business and lower external retrocession. The Property & Casualty Reinsurance combined ratio was 84.4%, compared to 79.2% for the first quarter of 2014. Both periods benefited from a low level of natural catastrophe and man-made losses, whereas favourable impacts from prior accident years were lower in the first quarter of 2015 compared to the prior-year period.

Corporate Solutions premiums earned increased by 6% to USD 882 million, reflecting continued successful organic growth across most lines of business, especially credit and other specialty lines, and across all regions, with the highest growth in Latin America and Europe. However, the pace of growth has slowed due to the challenging market environment. At constant exchange rates, premiums earned increased by 9%. The Corporate Solutions combined ratio for the first quarter of 2015 was 87.8%, compared to 95.2% for the same period in 2014, driven by lower losses in property and specialty lines. Both periods benefited from the absence of major natural catastrophe losses.

Life & Health Reinsurance premiums earned and fee income were USD 2.7 billion, in line with the prior-year period. The operating margin was 9.6% for the first quarter of 2015, compared to 10.1% for the same period in 2014. At constant exchange rates premiums earned and fees increased by 9%, primarily driven by new business in Asia and in the US.

Admin Re® generated gross cash of USD 52 million for the quarter, down from USD 202 million for the prior-year period. The 2014 amount included a one-off impact of USD 142 million following the finalisation of the 2013 year-end UK statutory valuation.

Investment result and expenses

The return on investments was 3.9% for the first quarter of 2015, compared to 3.7% for the same period in 2014. The result for the current quarter reflected the impact of higher realised gains from sales, partially offset by lower net investment income during 2015.

The Group's non-participating net investment income was USD 0.9 billion, compared to USD 1.0 billion for the same period of the prior year. The difference primarily related to a reduced result from Principal Investments in the current period. The Group fixed income running yield was 3.0% in the reporting period.

The Group reported non-participating net realised gains of USD 559 million in the first quarter of 2015, primarily from sales of fixed income securities and listed equities, partially offset by losses on interest rate derivatives.

Acquisition costs for the Group increased to USD 1.5 billion for the first quarter of 2015, up from USD 1.4 billion for the prior-year period, mainly reflecting the impact of the recapture of retrocessions.

Income statement

USD millions	2014	2015	Change in %
Revenues			
Premiums earned	7 428	7 413	–
Fee income from policyholders	123	149	21
Net investment income – non-participating	1 007	890	–12
Net realised investment gains/losses – non-participating	285	559	96
Net investment result – unit-linked and with-profit	99	1 441	–
Other revenues	2	12	500
Total revenues	8 944	**10 464**	17
Expenses			
Claims and claim adjustment expenses	–2 456	–2 435	–1
Life and health benefits	–2 468	–2 357	–4
Return credited to policyholders	–152	–1 452	855
Acquisition costs	–1 359	–1 538	13
Administrative expenses	–701	–735	5
Other expenses	–85	–49	–42
Interest expenses	–188	–147	–22
Total expenses	–7 409	**–8 713**	18
Income before income tax expense	1 535	1 751	14
Income tax expense	–291	–294	1
Net income before attribution of non-controlling interests	1 244	**1 457**	17
Income attributable to non-controlling interests	–1		–
Net income after attribution of non-controlling interests	1 243	**1 457**	17
Interest on contingent capital instruments	–17	–17	–
Net income attributable to common shareholders	1 226	**1 440**	17

Administrative and other expenses amounted to USD 784 million for the first quarter of 2015, in line with the same period in 2014.

Interest expenses were USD 147 million, down from USD 188 million for the prior-year period, mainly due to the unwinding of an asset funding structure in the fourth quarter of 2014 supporting a longevity transaction in Life & Health Reinsurance.

The Group reported a tax expense of USD 294 million on pre-tax income of USD 1.8 billion for the first quarter of 2015, compared to an expense of USD 291 million on pre-tax income of USD 1.5 billion for the same period in 2014. This translates into an effective tax rate in the current and prior-year reporting periods of 16.8% and 19.0%, respectively. The tax rate in the current period includes the impact of tax on profits earned in higher tax jurisdictions, offset by the benefits from the partial release of a valuation allowance, income exempt from tax, adjustments to prior year provisions from local statutory to US GAAP changes, and the expiry of the tax audit statute of limitations in various jurisdictions.

Reinsurance

The Reinsurance Business Unit, which comprises the segments Property & Casualty Reinsurance and Life & Health Reinsurance, reported a net income of USD 1.1 billion in the first quarter of 2015. Summaries of each segment's performance are below.

Property & Casualty Reinsurance

Net income for the first quarter of 2015 was USD 808 million compared to USD 990 million in the same period of 2014. The result reflected good underwriting results and a benign natural catastrophe experience. Net reserve releases from prior accident years were lower than in the prior-year period. The investment result for the first quarter of 2015 was higher than in 2014.

Net premiums earned

Net premiums earned were USD 3.8 billion in the first quarter of 2015, only a slight decrease compared to the same period of 2014. Premium growth from US casualty business and lower external retrocessions were offset by unfavourable foreign currency movements. Excluding the impact of foreign exchange movements, net premiums earned would have been 6% higher in the first quarter of 2015 than in the same period of 2014.

Combined ratio

Property & Casualty Reinsurance reported a combined ratio of 84.4% for the first quarter of 2015, compared to an exceptionally low combined ratio of 79.2% in the prior-year period. The increase in the combined ratio was mainly driven by less positive prior-year experience in the first quarter of 2015 compared to the first quarter 2014. In both periods the combined ratio benefited from benign natural catastrophe and man-made loss experience.

For the first quarter of 2015 the expected impact from large natural catastrophes was 10.3 percentage points, while the actual impact was 0.5 percentage points. Favourable development of prior accident years also improved the combined ratio by 1.6 percentage points this quarter, compared to 5.7 percentage points in the same quarter of 2014.

Administrative expense ratio

The administrative expense ratio improved to 8.0% in the first quarter of 2015 compared to 8.7% in 2014, mainly driven by a lower expense base, partly compensated by lower premium volume quarter over quarter.

Lines of business

The property combined ratio increased to 73.1% in the first quarter of 2015, compared to 56.5% in the first quarter of 2014. Both periods included benign natural catastrophe experience. The first quarter of 2015 was impacted by unfavourable prior-year experience compared to net reserve releases in the same period of 2014.

The casualty combined ratio was 100.4% in the first quarter of 2015, compared to 112.4% in 2014. The improvement was mainly driven by favourable prior accident year development and lower expenses.

The specialty combined ratio increased to 68.6% for the first quarter of 2015, compared to 60.3% in 2014, driven by less favourable prior accident year development quarter over quarter.

Investment result

The return on investments was 4.2% for the first quarter of 2015, compared to 3.6% in the same period of 2014, reflecting an increase in the investment result of USD 40 million. The increase was mainly driven by higher net investment income from market value gains on alternative investments.

Net investment income increased by USD 58 million to USD 271 million in the first quarter of 2015, mainly due to market value gains on private equity investments, as well as increased income from fixed income securities stemming from duration lengthening in 2014.

Net realised gains were USD 202 million compared to USD 217 million in the first quarter of 2014, as the prior period included additional realised gains from sales of listed equities associated with a reduction in exposure, largely offset by additional realised gains from sales of fixed income securities in the current period.

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

Shareholders' equity

Common shareholders' equity increased to USD 14.7 billion as of 31 March 2015 from USD 13.9 billion as of 31 December 2014, primarily driven by the net income for the quarter and higher unrealised gains, partly offset by the impact of foreign exchange movements. The annualised return on equity for the first quarter of 2015 was 22.7% compared to 29.5% in the same quarter of 2014. The decrease was mainly due to the lower net income in 2015.

Outlook

Property catastrophe reinsurance rates continue to be under pressure as expected due to excess capital in the markets and the absence of losses. Special lines experienced moderate rate reductions. Casualty rates are softer overall, with some increases in US liability primary rates. Terms and conditions are mostly stable in our casualty portfolio. We continue to achieve business at above-average rates by leveraging our services and know-how to secure private placements and tailored solutions.

Our superior risk selection and differentiation remains key in this softening market 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 was USD 277 million for the first quarter of 2015, compared to USD 64 million for the first quarter of 2014. The substantial increase was due to realised gains on securities and foreign exchange re-measurement. Net income in the first quarter of 2014 included net realised losses driven primarily by an interest rate hedge. Excluding realised gains and losses, earnings are stable and within expectations. The annualised return on equity was 17.2%. After adjusting for realised gains and using the equity capital of USD 5.5 billion that we announced as the basis for our 2015 target at the June 2013 Investors' Day, return on equity was 11.6%.

Net premiums earned and fee income

Premiums earned and fee income remained stable at USD 2.7 billion as the unfavourable impact of a strengthening US dollar offset the underlying growth in premiums. Premiums were higher in all markets, driven by new business in Asia and the US, and by a change in the accounting for certain contracts in EMEA. At constant foreign exchange rates, premiums earned and fee income would have been 9% higher in the first quarter of 2015 than in the same period of 2014.

Operating margin

The operating margin was 9.6% for the first quarter of 2015 and is broadly stable compared to 10.1% in the same period of 2014.

Administrative expense ratio

The administrative expense ratio at 7.0% has essentially remained flat from the prior year.

Lines of business

Operating income for the life business increased slightly to USD 148 million in the first quarter of 2015, from USD 138 million in the same period of 2014. These results benefited from the 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 offset by less favourable market performance on the Variable Annuities and pre-2000 Guaranteed Minimum Death Benefit products.

Operating income for the health business decreased to USD 144 million from USD 177 million in the first quarter of 2014, mainly due to model changes in the Americas, lower interest on cedent deposits and foreign exchange development.

Investment result

The return on investments for the first quarter of 2015 was 3.4%, compared to 2.8% in the same period of 2014, reflecting an increase in the investment result of USD 51 million. The increase was mainly driven by net realised gains from sales in the current period, compared to losses associated with hedging positions in the previous period.

Net investment income decreased by USD 60 million to USD 271 million in the first quarter of 2015, mainly due to reduced market value gains on private equity investments, a lower invested asset base following the unwinding of the asset funding structure and a reduced contribution from securitised products in the current period. The fixed income running yield was 3.5% in the reporting period.

Net realised gains were USD 29 million compared to net realised losses of USD 82 million in the first quarter of 2014, as the prior period was negatively impacted by mark-to-market losses on hedging positions.

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

Shareholders' equity

Common shareholders' equity increased to USD 6.7 billion as of 31 March 2015 from USD 6.2 billion as of 31 December 2014. The primary driver for the higher equity in the first quarter of 2015 was net income and the increase in unrealised gains on available-for-sale securities due to the continued decline in interest rates.

Return on equity was 17.2% for the first quarter of 2015 compared to 4.4% for the same period in 2014. After adjusting for realised gains and using the equity capital of USD 5.5 billion that we announced as the basis for our 2015 target at the June 2013 Investors' Day, the return on equity was 11.6%.

Outlook

Life & Health Reinsurance business is expected to grow modestly in the medium term. Cession rates in mature markets are decreasing 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 in high growth markets where growth remains dynamic, and particularly in health. 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 continue to aim that our future new business meets the Group's return on equity hurdle rates.

Corporate Solutions

As part of its High Growth Markets initiative, Corporate Solutions announced in February that it obtained a license to operate in South Africa. Operations should begin in Johannesburg in the second quarter of 2015. In this market Corporate Solutions will focus on providing solutions for property, mining and engineering risks, as well as customised solutions for the agriculture and energy sectors.

Performance

Net income was USD 167 million in the first quarter of 2015, an increase of 108.8% compared to USD 80 million in the same period of 2014. The strong 2015 result was driven by continued profitable business performance across most lines of business.

Net premiums earned

Net premiums earned increased by 6%, or 9% at constant exchange rates, to USD 882 million in the first quarter of 2015 compared to USD 830 million in the same period of 2014. The increase was driven by continued successful organic growth across most lines of business, especially credit and other specialty lines, and across all regions, with the highest growth in Latin America and Europe. However the pace of growth has slowed due to the challenging market environment. Gross premiums written and premiums for insurance in derivative form, net of internal fronting for the Reinsurance Business Unit, decreased 21%, or 17% at constant exchange rates, to USD 661 million in the first three months of 2015 compared to USD 833 million in the same period of 2014, which included a large multi-year transaction.

Combined ratio

The combined ratio improved by 7.4 percentage points to 87.8% in the first quarter of 2015 compared to 95.2% in the same period of 2014, driven by lower losses in property and speciality lines. Both periods benefited from the absence of major natural catastrophe losses.

Lines of business

The property combined ratio for the first quarter of 2015 improved by 21.4 percentage points to 80.1%, reflecting continued profitable business performance in most regions.

The casualty combined ratio improved by 4.6 percentage points to 95.4% in the first quarter 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 110.1% in the first quarter of 2015 compared to 89.4% in the same period of 2014, due to a large surety loss in Latin America.

In other specialty lines, the combined ratio improved by 3.2 percentage points to 75.4% in the first quarter of 2015, with continued organic growth mainly in Europe, partially offset by a large aviation loss. Prior-year development was favourable in both periods, though to a lesser extent in 2014.

Investment result

The return on investments was 3.4% for the first quarter of 2015, compared to 3.7% in the same period of 2014.

Net investment income increased by USD 7 million to USD 33 million in the first quarter of 2015, mainly due to a larger invested asset base.

Net realised gains were USD 40 million compared to USD 43 million in the first quarter of 2014.

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 realised gains of USD 38 million in the first three months of 2015 compared to USD 18 million in the same period of 2014, reflecting 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, partially offset by the strong first quarter net income. The annualised return on equity was 29.0% in the first quarter of 2015, compared to 12.0% in the same period of 2014.

Outlook

The market for commercial insurance is in a soft phase. Corporate Solutions believes it is well positioned to 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 206 million in the first quarter of 2015 compared with USD 48 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, favourable investment market performance in the UK and tax credits following the finalisation of the UK 2014 year-end statutory results. The sale of Aurora National Life Assurance Company closed, continuing Admin Re®'s exit from the US market.

Gross cash generation

Admin Re® generated gross cash of USD 52 million in the first quarter of 2015, compared with USD 202 million in the same period of 2014. The 2014 amount included a one-off impact of USD 142 million following the finalisation of the 2013 year-end UK statutory valuation.

Investment result

Return on investments was 5.2% for the first quarter of 2015 compared to 4.9% in the same period of 2014, reflecting an increase in the investment result of USD 15 million. The increase was driven by higher realised gains from sales of government bonds, partially offset by lower net investment income.

Net investment income decreased by USD 43 million to USD 186 million in the first quarter of 2015, mainly due to the impact of foreign exchange translation, as well as an unfavourable impact from inflation-linked securities in the current period.

Net realised gains increased by USD 58 million to USD 112 million in the first quarter of 2015, as the current period included additional realised gains from sales of government bonds as part of the preparation for Solvency II.

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

Expenses

Expenses were USD 81 million in the first three months of 2015 compared to USD 87 million in the corresponding period of 2014. The decrease was mainly due to movements in the GBP to USD foreign exchange rates.

Shareholders' equity

Common shareholders' equity increased by USD 200 million to USD 6.6 billion compared to 31 December 2014. The increase was mainly attributable to net income and increased unrealised gains, driven by declining interest rates in the UK and the US, partially offset by foreign exchange movements during 2015.

The annualised return on equity was 12.7% for the first quarter of 2015 compared to 3.2% 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 approximately USD 600 million of dividends to be paid to Group in the corresponding period.

Income statement

For the three months ended 31 March

USD millions	Note	2014	2015
Revenues			
Premiums earned	3	7 428	**7 413**
Fee income from policyholders	3	123	**149**
Net investment income – non-participating business	7	1 007	**890**
Net realised investment gains/losses – non-participating business (total impairments for the three months ended 31 March were 5 in 2014 and 5 in 2015, of which 5 and 5, respectively, were recognised in earnings)	7	285	**559**
Net investment result – unit-linked and with-profit business	7	99	**1 441**
Other revenues		2	**12**
Total revenues		8 944	**10 464**
Expenses			
Claims and claim adjustment expenses	3	–2 456	**–2 435**
Life and health benefits	3	–2 468	**–2 357**
Return credited to policyholders		–152	**–1 452**
Acquisition costs	3	–1 359	**–1 538**
Other expenses		–786	**–784**
Interest expenses		–188	**–147**
Total expenses		–7 409	**–8 713**
Income before income tax expense		1 535	**1 751**
Income tax expense		–291	**–294**
Net income before attribution of non-controlling interests		1 244	**1 457**
Income/loss attributable to non-controlling interests		–1	
Net income after attribution of non-controlling interests		1 243	**1 457**
Interest on contingent capital instruments		–17	**–17**
Net income attributable to common shareholders		1 226	**1 440**
Earnings per share in USD			
Basic	11	3.58	**4.21**
Diluted	11	3.28	**3.83**
Earnings per share in CHF[1]			
Basic	11	3.20	**4.00**
Diluted	11	2.93	**3.64**

[1] 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

For the three months ended 31 March

USD millions	2014	2015
Net income before attribution of non-controlling interests	1 244	**1 457**
Other comprehensive income, net of tax:		
Change in unrealised investment gains/losses	829	**1 195**
Change in other-than-temporary impairment	2	**1**
Change in foreign currency translation	–3	**–929**
Change in adjustment for pension benefits		**29**
Total comprehensive income before attribution of non-controlling interests	2 072	**1 753**
Interest on contingent capital instruments	–17	**–17**
Comprehensive income attributable to non-controlling interests	–1	
Total comprehensive income attributable to common shareholders	2 054	**1 736**

Reclassification out of accumulated other comprehensive income

For the three months ended 31 March

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	1 559	3	–27	–4	1 531
Amounts reclassified out of accumulated other comprehensive income	–383			10	–373
Tax	–347	–1	24	–6	–330
Balance as of period end	2 451	–4	–3 900	–534	–1 987

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	1 927	2	–809	23	**1 143**
Amounts reclassified out of accumulated other comprehensive income	–347			16	**–331**
Tax	–385	–1	–120	–10	**–516**
Balance as of period end	**6 613**	**–2**	**–5 604**	**–796**	**211**

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

Balance sheet

Assets

USD millions	Note	31.12.2014	31.03.2015
Investments	7, 8, 9		
Fixed income securities:			
Available-for-sale, at fair value (including 12 677 in 2014 and 15 667 in 2015 subject to securities lending and repurchase agreements) (amortised cost: 2014: 77 867; 2015: 80 062)		84 450	**88 061**
Trading (including 645 in 2014 and 18 in 2015 subject to securities lending and repurchase agreements)		2 219	**1 255**
Equity securities:			
Available-for-sale, at fair value (including 311 in 2014 and 676 in 2015 subject to securities lending and repurchase agreements) (cost: 2014: 3 133; 2015: 4 124)		4 024	**5 182**
Trading		65	**71**
Policy loans, mortgages and other loans		3 205	**3 163**
Investment real estate		888	**881**
Short-term investments, at fair value (including 3 217 in 2014 and 2 422 in 2015 subject to securities lending and repurchase agreements)		14 127	**11 451**
Other invested assets		9 684	**9 150**
Investments for unit-linked and with-profit business (including fixed income securities trading: 3 680 in 2014 and 3 538 in 2015, equity securities trading: 20 045 in 2014 and 19 812 in 2015)		25 325	**24 842**
Total investments		143 987	**144 056**
Cash and cash equivalents (including 65 in 2014 and 37 in 2015 subject to securities lending)		7 471	**9 237**
Accrued investment income		1 049	**903**
Premiums and other receivables		12 265	**13 973**
Reinsurance recoverable on unpaid claims and policy benefits		6 950	**6 578**
Funds held by ceding companies		11 222	**10 810**
Deferred acquisition costs	5	4 840	**5 064**
Acquired present value of future profits	5	3 297	**3 163**
Goodwill		4 025	**3 883**
Income taxes recoverable		212	**204**
Deferred tax assets		6 118	**6 181**
Other assets		3 025	**4 267**
Total assets		204 461	**208 319**

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

Liabilities and equity

USD millions	Note	31.12.2014	31.03.2015
Liabilities			
Unpaid claims and claim adjustment expenses		57 954	**55 868**
Liabilities for life and health policy benefits	8	33 605	**32 016**
Policyholder account balances		29 242	**29 005**
Unearned premiums		10 576	**12 529**
Funds held under reinsurance treaties		3 385	**3 402**
Reinsurance balances payable		2 115	**2 014**
Income taxes payable		909	**552**
Deferred and other non-current tax liabilities		9 445	**9 992**
Short-term debt	10	1 701	**1 447**
Accrued expenses and other liabilities		6 873	**11 467**
Long-term debt	10	12 615	**12 243**
Total liabilities		168 420	**170 535**
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	**1 827**
Treasury shares, net of tax		–1 185	**–1 192**
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax		5 418	**6 613**
Other-than-temporary impairment, net of tax		–3	**–2**
Foreign currency translation, net of tax		–4 675	**–5 604**
Adjustment for pension and other post-retirement benefits, net of tax		–825	**–796**
Total accumulated other comprehensive income		–85	**211**
Retained earnings		34 257	**35 697**
Shareholders' equity		35 930	**37 680**
Non-controlling interests		111	**104**
Total equity		36 041	**37 784**
Total liabilities and equity		204 461	**208 319**

[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 twelve months ended 31 December and the three months ended 31 March

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	**9**
Realised gains/losses on treasury shares	6	**12**
Dividends on common shares[1]	–3 129	
Balance as of period end	1 806	**1 827**
Treasury shares, net of tax		
Balance as of 1 January	–1 099	**–1 185**
Purchase of treasury shares	–223	**–21**
Issuance of treasury shares, including share-based compensation to employees	137	**14**
Balance as of period end	–1 185	**–1 192**
Net unrealised investment gains/losses, net of tax		
Balance as of 1 January	1 622	**5 418**
Changes during the period	3 796	**1 195**
Balance as of period end	5 418	**6 613**
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	**–929**
Balance as of period end	–4 675	**–5 604**
Adjustment for pension and other post-retirement benefits, net of tax		
Balance as of 1 January	–534	**–825**
Changes during the period	–291	**29**
Balance as of period end	–825	**–796**
Retained earnings		
Balance as of 1 January	30 766	**34 257**
Net income after attribution of non-controlling interests	3 569	**1 457**
Interest on contingent capital instruments, net of tax	–69	**–17**
Purchase of non-controlling interests	–9	
Balance as of period end	34 257	**35 697**
Shareholders' equity	35 930	**37 680**
Non-controlling interests		
Balance as of 1 January	25	**111**
Changes during the period	86	**–7**
Balance as of period end	111	**104**
Total equity	36 041	**37 784**

[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 three months ended 31 March

USD millions	2014	2015
Cash flows from operating activities		
Net income attributable to common shareholders	1 226	**1 440**
Add net income attributable to non-controlling interests	1	
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items	96	**148**
Net realised investment gains/losses	–130	**–1 796**
Income from equity-accounted investees, net of dividends received	32	**60**
Change in:		
Technical provisions and other reinsurance assets and liabilities, net	–1 221	**638**
Funds held by ceding companies and under reinsurance treaties	457	**100**
Reinsurance recoverable on unpaid claims and policy benefits	356	**222**
Other assets and liabilities, net	–33	**–178**
Income taxes payable/recoverable	44	**–300**
Trading positions, net[1]	468	**530**
Net cash provided/used by operating activities	1 296	**864**
Cash flows from investing activities		
Fixed income securities:		
Sales	16 446	**12 831**
Maturities	861	**1 049**
Purchases	–18 440	**–16 463**
Net purchases/sales/maturities of short-term investments	706	**2 324**
Equity securities:		
Sales	3 395	**399**
Purchases	–738	**–1 361**
Securities purchased/sold under agreement to resell/repurchase, net[1]	–1 317	**927**
Net purchases/sales/maturities of other investments[1]	372	**1 693**
Net cash provided/used by investing activities	1 285	**1 399**
Cash flows from financing activities		
Issuance/repayment of long-term debt	–27	**239**
Issuance/repayment of short-term debt	–292	**–427**
Purchase/sale of treasury shares	–26	**–21**
Net cash provided/used by financing activities	–345	**–209**
Total net cash provided/used	2 236	**2 054**
Effect of foreign currency translation	36	**–288**
Change in cash and cash equivalents	2 272	**1 766**
Cash and cash equivalents as of 1 January	8 072	**7 471**
Cash and cash equivalents as of 31 March	10 344	**9 237**

[1] The Group reviewed the nature of certain items within the statement of cash flow. The "Securities purchased/sold under agreement to resell/purchase, net" are reclassified from the operating cash flow to the investing cash flow, and the 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 are adjusted accordingly.

Interest paid was USD 94 million and USD 64 million for the three months ended 31 March 2014 and 2015 respectively.

Tax paid was USD 245 million and USD 574 million for the years ended 31 March 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.

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). The transaction closed in the second quarter of 2015 and, therefore, the subject business was still within the consolidation scope of the Swiss Re Group as of 31 March 2015.

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 Swiss Re 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 31 March 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 April 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. 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. The new disclosure requirements pertaining to secured borrowings that apply to the Group will be provided in the financial statements for the period ending 30 June 2015, in line with the specific effective date provided in the ASU. The other requirements of the ASU were adopted on 1 January 2015 and the adoption did not have an effect on the Group's financial statements.

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.

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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 comparative periods have been adjusted accordingly. 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 over 40 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 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). For more details on the transaction and its impact on the Swiss Re Group financial statements, please refer to Note 6.

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 31 March

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Revenues							
Premiums earned	3 813	2 659	830	126			7 428
Fee income from policyholders		13		110			123
Net investment income – non-participating	225	414	21	312	39	–4	1 007
Net realised investment gains/losses – non-participating	233	–70	63	51	8		285
Net investment result – unit-linked and with-profit		–54		153			99
Other revenues	12				78	–88	2
Total revenues	4 283	2 962	914	752	125	–92	8 944
Expenses							
Claims and claim adjustment expenses	–1 923		–531		–2		–2 456
Life and health benefits		–2 130		–338			–2 468
Return credited to policyholders		46		–198			–152
Acquisition costs	–764	–449	–101	–45			–1 359
Other expenses	–333	–214	–158	–87	–72	78	–786
Interest expenses	–62	–123		–12	–5	14	–188
Total expenses	–3 082	–2 870	–790	–680	–79	92	–7 409
Income before income tax expense	1 201	92	124	72	46	0	1 535
Income tax expense	–205	–16	–44	–24	–2		–291
Net income before attribution of non-controlling interests	996	76	80	48	44	0	1 244
Income/loss attributable to non-controlling interests	–1						–1
Net income after attribution of non-controlling interests	995	76	80	48	44	0	1 243
Interest on contingent capital instruments	–5	–12					–17
Net income attributable to common shareholders	990	64	80	48	44	0	1 226
Claims ratio in %	50.4		64.0				52.9
Expense ratio in %	28.8		31.2				29.2
Combined ratio in %	79.2		95.2				82.1
Management expense ratio in %		6.9					
Operating margin in %		10.1					

Business segments – income statement
For the three months ended 31 March

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Revenues							
Premiums earned	3 767	2 677	882	87			7 413
Fee income from policyholders		15		134			149
Net investment income – non-participating	279	334	30	280	–36	3	890
Net realised investment gains – non-participating	197	155	88	116	3		559
Net investment result – unit-linked and with-profit		75		1 366			1 441
Other revenues	13	2	4		75	–82	12
Total revenues	**4 256**	**3 258**	**1 004**	**1 983**	**42**	**–79**	**10 464**
Expenses							
Claims and claim adjustment expenses	–1 962		–473				–2 435
Life and health benefits		–2 037		–320			–2 357
Return credited to policyholders		–83		–1 369			–1 452
Acquisition costs	–917	–489	–118	–14			–1 538
Other expenses	–300	–211	–183	–81	–84	75	–784
Interest expenses	–60	–77	–6	–4	–4	4	–147
Total expenses	**–3 239**	**–2 897**	**–780**	**–1 788**	**–88**	**79**	**–8 713**
Income/loss before income tax expense	**1 017**	**361**	**224**	**195**	**–46**	**0**	**1 751**
Income tax expense/benefit	–204	–72	–57	11	28		–294
Net income/loss before attribution of non-controlling interests	**813**	**289**	**167**	**206**	**–18**	**0**	**1 457**
Income/loss attributable to non-controlling interests							0
Net income/loss after attribution of non-controlling interests	**813**	**289**	**167**	**206**	**–18**	**0**	**1 457**
Interest on contingent capital instruments	–5	–12					–17
Net income/loss attributable to common shareholders	**808**	**277**	**167**	**206**	**–18**	**0**	**1 440**
Claims ratio in %	52.1		53.7				52.3
Expense ratio in %	32.3		34.1				32.7
Combined ratio in %	84.4		87.8				85.0
Management expense ratio in %		7.0					
Operating margin in %		9.6					

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 31 March

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Assets							
Fixed income securities	33 399	29 812	5 915	20 164	26		89 316
Equity securities	2 371	967	946		969		5 253
Other investments	8 707	1 610	116	1 629	7 061	–5 929	13 194
Short-term investments	5 306	3 036	1 353	1 282	474		11 451
Investments for unit-linked and with-profit business		923		23 919			24 842
Cash and cash equivalents	6 759	576	624	1 252	26		9 237
Deferred acquisition costs	2 059	2 679	325	1			5 064
Acquired present value of future profits		1 237		1 926			3 163
Reinsurance recoverable	3 383	1 662	7 448	293		–6 208	6 578
Other reinsurance assets	12 333	8 134	2 299	3 708	1	–1 692	24 783
Goodwill	1 865	1 915	103				3 883
Other	10 168	4 816	988	1 251	503	–6 171	11 555
Total assets	**86 350**	**57 367**	**20 117**	**55 425**	**9 060**	**–20 000**	**208 319**
Liabilities							
Unpaid claims and claim adjustment expenses	39 635	9 665	11 485	1 223	38	–6 178	55 868
Liabilities for life and health policy benefits		15 701	241	16 110		–36	32 016
Policyholder account balances		1 490		27 515			29 005
Other reinsurance liabilities	12 870	2 345	4 304	497	4	–2 075	17 945
Short-term debt	257	4 554			521	–3 885	1 447
Long-term debt	4 170	6 764	496	813			12 243
Other	14 390	9 368	1 244	2 679	2 153	–7 823	22 011
Total liabilities	**71 322**	**49 887**	**17 770**	**48 837**	**2 716**	**–19 997**	**170 535**
Shareholders' equity	**15 005**	**7 480**	**2 266**	**6 588**	**6 344**	**–3**	**37 680**
Non-controlling interests	23		81				104
Total equity	**15 028**	**7 480**	**2 347**	**6 588**	**6 344**	**–3**	**37 784**
Total liabilities and equity	**86 350**	**57 367**	**20 117**	**55 425**	**9 060**	**–20 000**	**208 319**

b) Property & Casualty Reinsurance business segment – by line of business

For the three months ended 31 March

2014 USD millions	Property	Casualty	Specialty	Total
Premiums earned	1 738	1 511	564	3 813
Expenses				
Claims and claim adjustment expenses	–575	–1 178	–170	–1 923
Acquisition costs	–248	–406	–110	–764
Other expenses	–159	–114	–60	–333
Total expenses before interest expenses	–982	–1 698	–340	–3 020
Underwriting result	756	–187	224	793
Net investment income				225
Net realised investment gains/losses				233
Other revenues				12
Interest expenses				–62
Income before income tax expenses				1 201
Claims ratio in %	33.1	78.0	30.2	50.4
Expense ratio in %	23.4	34.4	30.1	28.8
Combined ratio in %	56.5	112.4	60.3	79.2

Property & Casualty Reinsurance business segment – by line of business

For the three months ended 31 March

2015 USD millions	Property	Casualty	Specialty	Total
Premiums earned	**1 519**	**1 653**	**595**	**3 767**
Expenses				
Claims and claim adjustment expenses	–654	–1 072	–236	–1 962
Acquisition costs	–290	–493	–134	–917
Other expenses	–167	–95	–38	–300
Total expenses before interest expenses	**–1 111**	**–1 660**	**–408**	**–3 179**
Underwriting result	**408**	**–7**	**187**	**588**
Net investment income				279
Net realised investment gains/losses				197
Other revenues				13
Interest expenses				–60
Income before income tax expenses				**1 017**
Claims ratio in %	43.0	64.8	39.7	52.1
Expense ratio in %	30.1	35.6	28.9	32.3
Combined ratio in %	73.1	100.4	68.6	84.4

c) Life & Health Reinsurance business segment – by line of business
For the three months ended 31 March

2014 USD millions	Life	Health	Total
Revenues			
Premiums earned	1 733	926	2 659
Fee income from policyholders	13		13
Net investment income – non-participating	248	166	414
Net investment income – unit-linked and with-profit	2		2
Net realised investment gains/losses – unit-linked and with-profit	–56		–56
Net realised investment gains/losses – insurance-related derivatives	30		30
Total revenues before non-participating realised gains/losses	1 970	1 092	3 062
Expenses			
Life and health benefits	–1 421	–709	–2 130
Return credited to policyholders	46		46
Acquisition costs	–300	–149	–449
Other expenses	–157	–57	–214
Total expenses before interest expenses	–1 832	–915	–2 747
Operating income	138	177	315
Net realised investment gains/losses – non-participating and excluding insurance-related derivatives			–100
Interest expenses			–123
Income before income tax expenses			92
Management expense ratio in %	7.9	5.2	6.9
Operating margin[1] in %	6.8	16.2	10.1

[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 31 March

2015 USD millions	Life	Health	Total
Revenues			
Premiums earned	1 700	977	2 677
Fee income from policyholders	15		15
Net investment income – non-participating	216	118	334
Net investment income – unit-linked and with-profit	3		3
Net realised investment gains/losses – unit-linked and with-profit	72		72
Net realised investment gains/losses – insurance-related derivatives	10	–1	9
Other revenues	2		2
Total revenues before non-participating realised gains/losses	**2 018**	**1 094**	**3 112**
Expenses			
Life and health benefits	–1 325	–712	–2 037
Return credited to policyholders	–83		–83
Acquisition costs	–306	–183	–489
Other expenses	–156	–55	–211
Total expenses before interest expenses	**–1 870**	**–950**	**–2 820**
Operating income	**148**	**144**	**292**
Net realised investment gains/losses – non-participating and excluding insurance-related derivatives			146
Interest expenses			–77
Income before income tax expenses			**361**
Management expense ratio in %	8.1	5.0	7.0
Operating margin[1] in %	7.6	13.2	9.6

[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.

3 Insurance information

Premiums earned and fees assessed against policyholders

For the three months ended 31 March

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Total
Premiums earned, thereof:						
Direct		195	677	160		1 032
Reinsurance	4 017	2 703	128	42		6 890
Intra-group transactions (assumed and ceded)	–69	65	69	–65		0
Premiums earned before retrocession to external parties	3 948	2 963	874	137		7 922
Retrocession to external parties	–135	–304	–44	–11		–494
Net premiums earned	3 813	2 659	830	126	0	7 428

Fee income from policyholders, thereof:						
Direct				87		87
Reinsurance		13		23		36
Intra-group transactions (assumed and ceded)						0
Gross fee income before retrocession to external parties		13		110		123
Retrocession to external parties						0
Net fee income	0	13	0	110	0	123

Premiums earned and fees assessed against policyholders
For the three months ended 31 March

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Total
Premiums earned, thereof:						
Direct		181	704	127		1 012
Reinsurance	3 823	2 757	201	34		6 815
Intra-group transactions (assumed and ceded)	–2	62	2	–62		0
Premiums earned before retrocession to external parties	3 821	3 000	907	99		7 827
Retrocession to external parties	–54	–323	–25	–12		–414
Net premiums earned	**3 767**	**2 677**	**882**	**87**	**0**	**7 413**
Fee income from policyholders, thereof:						
Direct				110		110
Reinsurance		15		24		39
Intra-group transactions (assumed and ceded)						0
Gross fee income before retrocession to external parties		15		134		149
Retrocession to external parties						0
Net fee income	**0**	**15**	**0**	**134**	**0**	**149**

Claims and claim adjustment expenses

For the three months ended 31 March

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	–2 363	–2 216	–549	–523	–6	–5 657
Intra-group transactions (assumed and ceded)	–201	–61	201	61		0
Claims before retrocession to external parties	–2 564	–2 277	–348	–462	–6	–5 657
Retrocession to external parties	273	302	86	21		682
Net claims paid	–2 291	–1 975	–262	–441	–6	–4 975
Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:						
Gross – with external parties	492	–157	–61	119	4	397
Intra-group transactions (assumed and ceded)	156	12	–156	–12		0
Unpaid claims and claim adjustment expenses; life and health benefits before retrocession to external parties	648	–145	–217	107	4	397
Retrocession to external parties	–280	–10	–52	–4		–346
Net unpaid claims and claim adjustment expenses; life and health benefits	368	–155	–269	103	4	51
Claims and claim adjustment expenses; life and health benefits	–1 923	–2 130	–531	–338	–2	–4 924

Acquisition costs

For the three months ended 31 March

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	–807	–493	–99	–45		–1 444
Intra-group transactions (assumed and ceded)	10		–10			0
Acquisition costs before retrocession to external parties	–797	–493	–109	–45		–1 444
Retrocession to external parties	33	44	8			85
Net acquisition costs	–764	–449	–101	–45	0	–1 359

Claims and claim adjustment expenses

For the three months ended 31 March

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	–1 933	–2 355	–533	–342		–5 163
Intra-group transactions (assumed and ceded)	–87	–55	87	55		0
Claims before retrocession to external parties	–2 020	–2 410	–446	–287		–5 163
Retrocession to external parties	153	323	39	10		525
Net claims paid	**–1 867**	**–2 087**	**–407**	**–277**	**0**	**–4 638**
Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:						
Gross – with external parties	–58	60	94	–39		57
Intra-group transactions (assumed and ceded)	138	1	–138	–1		0
Unpaid claims and claim adjustment expenses; life and health benefits before retrocession to external parties	80	61	–44	–40		57
Retrocession to external parties	–175	–11	–22	–3		–211
Net unpaid claims and claim adjustment expenses; life and health benefits	**–95**	**50**	**–66**	**–43**	**0**	**–154**
Claims and claim adjustment expenses; life and health benefits	**–1 962**	**–2 037**	**–473**	**–320**	**0**	**–4 792**

Acquisition costs

For the three months ended 31 March

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	–932	–547	–121	–15		–1 615
Intra-group transactions (assumed and ceded)						0
Acquisition costs before retrocession to external parties	–932	–547	–121	–15		–1 615
Retrocession to external parties	15	58	3	1		77
Net acquisition costs	**–917**	**–489**	**–118**	**–14**	**0**	**–1 538**

Reinsurance receivables

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

USD millions	2014	2015
Premium receivables invoiced	1 355	1 757
Receivables invoiced from ceded re/insurance business	341	553
Assets arising from the application of the deposit method of accounting and meeting the definition of financing receivables	779	685
Recognised allowance	–86	–84

Policyholder dividends

Policyholder dividends are recognised as an element of policyholder benefits. In the three months ended 31 March 2014 and 2015, the relative percentage of participating insurance of the life and health policy benefits was 8% and 8%, respectively. The amount of policyholder dividend expense for the three months ended 31 March 2014 and 2015 was USD 26 million and USD 24 million, respectively.

4 Premiums written

For the three months ended 31 March

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Gross premiums written, thereof:							
Direct		385	585	177			1 147
Reinsurance	6 571	2 779	195	42			9 587
Intra-group transactions (assumed)	147	66	43			–256	0
Gross premiums written	6 718	3 230	823	219		–256	10 734
Intra-group transactions (ceded)	–43		–147	–66		256	0
Gross premiums written before retrocession to external parties	6 675	3 230	676	153			10 734
Retrocession to external parties	–17	–303	–47	–11			–378
Net premiums written	6 658	2 927	629	142	0	0	10 356

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Gross premiums written, thereof:							
Direct		376	531	127			1 034
Reinsurance	6 066	2 845	97	34			9 042
Intra-group transactions (assumed)	134	62	46			–242	0
Gross premiums written	6 200	3 283	674	161		–242	10 076
Intra-group transactions (ceded)	–46		–134	–62		242	0
Gross premiums written before retrocession to external parties	6 154	3 283	540	99			10 076
Retrocession to external parties	–26	–322	–34	–12			–394
Net premiums written	**6 128**	**2 961**	**506**	**87**	**0**	**0**	**9 682**

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

As of 31 December 2014 and 31 March 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	1 237	143	83			1 463
Effect of acquisitions/disposals and retrocessions						0
Amortisation	–904	–89	–118			–1 111
Effect of foreign currency translation	–30	–98				–128
Closing balance as of 31 March 2015	**2 059**	**2 679**	**325**	**1**	**0**	**5 064**

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 31 March 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	–33	–28	–61
Interest accrued on unamortised PVFP	44	103	147	12	22	34
Effect of foreign currency translation	–45	–90	–135	–36	–70	–106
Effect of change in unrealised gains/losses			0		–1	–1
Closing balance	1 294	2 003	3 297	**1 237**	**1 926**	**3 163**

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 Assets held for sale

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).

The purchase price includes a cash payment of USD 180 million, at closing. A pre-tax loss of USD 243 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 is expected, whereof USD 247 million was recognised in the fourth quarter of 2014. The transaction was concluded on 1 April 2015.

Aurora primarily consists of bonds and policyholder liabilities. The expected loss on the disposition of the net assets has been reflected in "Net realised investment gains/losses – non-participating" in the income statement of the Admin Re® segment.

The major classes of assets and liabilities held for sale for the year ended 31 December 2014 and the three months ended 31 March 2015 were as follows:

USD millions	2014	**2015**
Assets		
Fixed income securities available-for-sale	3 456	3 496
Policy loans, mortgages and other loans	157	154
Short-term investments	6	1
Cash and cash equivalents	23	19
Accrued investment income	37	33
Premiums and other receivables	6	9
Reinsurance recoverable on unpaid claims and policy benefits	7	8
Other assets held for sale	1	1
Total assets	3 693	**3 721**
Liabilities		
Unpaid claims and claim adjustment expenses	15	22
Liabilities for life and health policy benefits	1 494	1 479
Policyholder account balances	1 151	1 130
Accrued expenses and other liabilities held for sale	292	315
Total liabilities	2 952	**2 946**

7 Investments

Investment income

Net investment income by source (excluding unit-linked and with-profit business) for the three months ended 31 March was as follows:

USD millions	2014	2015
Fixed income securities	689	650
Equity securities	20	14
Policy loans, mortgages and other loans	33	32
Investment real estate	36	36
Short-term investments	27	23
Other current investments	27	36
Share in earnings of equity-accounted investees	98	20
Cash and cash equivalents	9	11
Net result from deposit-accounted contracts	24	21
Deposits with ceding companies	148	136
Gross investment income	1 111	**979**
Investment expenses	–90	–86
Interest charged for funds held	–14	–3
Net investment income – non-participating	1 007	**890**

Dividends received from investments accounted for using the equity method were USD 130 million and USD 80 million for the three months ended 31 March 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 three months ended 31 March were as follows:

USD millions	2014	2015
Fixed income securities available-for-sale:		
Gross realised gains	203	381
Gross realised losses	–106	–40
Equity securities available-for-sale:		
Gross realised gains	304	77
Gross realised losses	–27	–16
Other-than-temporary impairments	–5	–5
Net realised investment gains/losses on trading securities	4	39
Change in net unrealised investment gains/losses on trading securities	17	27
Other investments:		
Net realised/unrealised gains/losses	–156	–83
Net realised/unrealised gains/losses on insurance-related activities	30	35
Foreign exchange gains/losses	21	144
Net realised investment gains/losses – non-participating	285	**559**

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 three months ended 31 March was as follows:

USD millions	2014 Unit-linked	2014 With-profit	2015 Unit-linked	2015 With-profit
Investment income – fixed income securities	29	22	21	22
Investment income – equity securities	188	11	139	8
Investment income – other	3	1	9	5
Total investment income – unit-linked and with-profit business	220	34	**169**	**35**
Realised gains/losses – fixed income securities	31	34	27	32
Realised gains/losses – equity securities	–209	–12	1 127	51
Realised gains/losses – other	2	–1		
Total realised gains/losses – unit-linked and with-profit business	–176	21	**1 154**	**83**
Total net investment result – unit-linked and with-profit business	44	55	**1 323**	**118**

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 three months ended 31 March was as follows:

USD millions	2014	2015
Balance as of 1 January	228	137
Credit losses for which an other-than-temporary impairment was not previously recognised		
Reductions for securities sold during the period	–25	–10
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	–9	–2
Impact of foreign exchange movements	1	–4
Balance as of 31 March	195	**125**

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 31 March 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	14 814	1 370	–3		16 181
US Agency securitised products	4 130	63	–22		4 171
States of the United States and political subdivisions of the states	1 053	94	–2		1 145
United Kingdom	8 129	1 310	–14		9 425
Canada	3 056	803	–33		3 826
Germany	3 786	462	–55		4 193
France	2 659	427	–40		3 046
Other	7 362	482	–68		7 776
Total	44 989	5 011	–237		49 763
Corporate debt securities	29 630	3 083	–86	–1	32 626
Mortgage- and asset-backed securities	5 443	244	–14	–1	5 672
Fixed income securities available-for-sale	**80 062**	**8 338**	**–337**	**–2**	**88 061**
Equity securities available-for-sale	**4 124**	**1 126**	**–68**		**5 182**

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 31 March 2015 were as follows:

USD millions	2014	2015
Debt securities issued by governments and government agencies	1 997	1 049
Corporate debt securities	60	52
Mortgage- and asset-backed securities	162	154
Fixed income securities trading – non-participating	2 219	**1 255**
Equity securities trading – non-participating	65	**71**

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 31 March 2015 were as follows:

		2014		2015
USD millions	Unit-linked	With-profit	Unit-linked	With-profit
Fixed income securities trading	1 870	1 810	1 786	1 752
Equity securities trading	19 054	991	18 818	994
Investment real estate	736	429	700	408
Other invested assets	435		384	
Total investments for unit-linked and with-profit business	22 095	3 230	**21 688**	**3 154**

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 31 March 2015, USD 11 579 million and USD 11 848 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	4 533	4 573
Due after one year through five years	17 920	18 459	19 497	20 175
Due after five years through ten years	17 300	18 329	17 381	18 727
Due after ten years	32 334	37 137	33 380	39 086
Mortgage- and asset-backed securities with no fixed maturity	5 564	5 768	5 271	5 500
Total fixed income securities available-for-sale	77 867	84 450	**80 062**	**88 061**

Assets pledged

As of 31 March 2015, investments with a carrying value of USD 7 660 million were on deposit with regulatory agencies in accordance with local requirements, and investments with a carrying value of USD 9 582 million were placed on deposit or pledged to secure certain reinsurance liabilities, including pledged investments in subsidiaries.

As of 31 December 2014 and 31 March 2015, securities of USD 16 915 million and USD 18 820 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 2 743 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 31 March 2015, a real estate portfolio with a carrying value of USD 233 million serves as collateral for short-term senior operational debt of USD 257 million.

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

As of 31 December 2014 and 31 March 2015, the fair value of the equity securities, the government and corporate debt securities received as collateral was USD 3 907 million and USD 3 647 million, respectively. Of this, the amount that was sold or repledged as of 31 December 2014 and 31 March 2015 was USD 494 million and USD 1 381 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 31 March 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	4 413	–3 667	746	–26	**720**
Reverse repurchase agreements	3 394	–1 860	1 534	–1 534	**0**
Securities borrowing	107		107	–107	**0**
Total	**7 914**	**–5 527**	**2 387**	**–1 667**	**720**

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	–3 619	2 789	–830	196	**–634**
Repurchase agreements	–2 533	1 560	–973	971	**–2**
Securities lending	–2 070	300	–1 770	1 644	**–126**
Total	**–8 222**	**4 649**	**–3 573**	**2 811**	**–762**

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.

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 31 March 2015. As of 31 December 2014 and 31 March 2015, USD 52 million and USD 57 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 11 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	756	3	91		847	3
US Agency securitised products	1 387	16	303	6	1 690	22
States of the United States and political subdivisions of the states	111	1	13	1	124	2
United Kingdom	654	14	2		656	14
Canada	132	15	79	18	211	33
Germany	808	53	37	2	845	55
France	416	39	14	1	430	40
Other	1 508	48	387	20	1 895	68
Total	5 772	189	926	48	6 698	237
Corporate debt securities	2 399	64	448	23	2 847	87
Mortgage- and asset-backed securities	928	6	228	9	1 156	15
Total	**9 099**	**259**	**1 602**	**80**	**10 701**	**339**

Mortgages, loans and real estate

As of 31 December 2014 and 31 March 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	246
Mortgage loans	1 888	1 939
Other loans	1 065	978
Investment real estate	888	881

The fair value of the real estate as of 31 December 2014 and 31 March 2015 was USD 2 482 million and USD 2 489 million, respectively. The carrying value of policy loans, mortgages and other loans approximates fair value.

Depreciation expense related to income-producing properties was USD 7 million and USD 7 million for the three months ended 31 March 2014 and 2015, respectively. Accumulated depreciation on investment real estate totalled USD 539 million and USD 541 million as of 31 December 2014 and 31 March 2015, respectively.

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

8 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 three months ended 31 March 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 a transparent and liquid market.

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

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

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

Equity securities held by the Group for proprietary investment purposes are mainly classified in 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 31 March 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	15 515	73 415	386		89 316
Debt securities issued by US government and government agencies	15 515	1 827			17 342
US Agency securitised products		4 187			4 187
Debt securities issued by non-US governments and government agencies		29 283			29 283
Corporate debt securities		32 305	373		32 678
Mortgage- and asset-backed securities		5 813	13		5 826
Fixed income securities backing unit-linked and with-profit business		3 538			3 538
Equity securities held for proprietary investment purposes	5 218		35		5 253
Equity securities backing unit-linked and with-profit business	19 802	10			19 812
Short-term investments held for proprietary investment purposes	4 644	6 807			11 451
Short-term investments backing unit-linked and with-profit business		21			21
Derivative financial instruments	55	3 882	476	–3 667	746
Interest rate contracts	7	2 448			2 455
Foreign exchange contracts		466			466
Equity contracts	48	955	341		1 344
Credit contracts		1	2		3
Other contracts		12	133		145
Other invested assets	1 133	550	1 685		3 368
Total assets at fair value	**46 367**	**88 223**	**2 582**	**–3 667**	**133 505**
Liabilities					
Derivative financial instruments	–14	–2 946	–659	2 789	–830
Interest rate contracts	–6	–1 922			–1 928
Foreign exchange contracts		–398			–398
Equity contracts	–8	–621	–39		–668
Credit contracts			–13		–13
Other contracts		–5	–607		–612
Liabilities for life and health policy benefits			–173		–173
Accrued expenses and other liabilities	–1 831	–1 508			–3 339
Total liabilities at fair value	**–1 845**	**–4 454**	**–832**	**2 789**	**–4 342**

[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 31 March 2015, the reconciliation of the fair values of assets and liabilities measured on a recurring basis using significant unobservable inputs were 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			–37	–11	**–48**	25	14	**39**
Included in other comprehensive income	2	–4		–12	**–14**			**0**
Purchases			16	12	**28**			**0**
Issuances						–20		**–20**
Sales	–1		–8	–95	**–104**	13		**13**
Settlements	–16		–24		**–40**	81		**81**
Transfers into level 3[1]			8		**8**	–1		**–1**
Transfers out of level 3[1]					**0**			**0**
Impact of foreign exchange movements				–21	**–21**			**0**
Closing balance as of 31 March	**386**	**35**	**476**	**1 685**	**2 582**	**–659**	**–173**	**–832**

[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 three months ended 31 March were as follows:

USD millions	2014	**2015**
Gains/losses included in net income for the period	61	–9
Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date	–1	13

Quantitative information about level 3 fair value measurements

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

USD millions	2014 Fair value	**2015 Fair value**	Valuation technique	Unobservable input	Range (weighted average)
Assets					
Corporate debt securities	388	**373**			
Private placement corporate debt	317	300	Corporate Spread Matrix	Illiquidity premium	15 bps–186 bps (53 bps)
Private placement credit tenant leases	71	71	Discounted Cash Flow Model	Illiquidity premium	75 bps–175 bps (98 bps)
Derivative equity contracts	396	**341**			
OTC equity option referencing correlated equity indices	396	341	Proprietary Option Model	Correlation	–30%–100% (35%)[1]
Liabilities					
Derivative equity contracts	–130	**–39**			
OTC equity option referencing correlated equity indices	–46	–39	Proprietary Option Model	Correlation	–30%–100% (35%)[1]
Other derivative contracts and liabilities for life and health policy benefits	–803	**–780**			
Variable annuity and fair valued GMDB contracts	–639	–634	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 31 March 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	678	268	non-redeemable	n.a.
Hedge funds	344	279		redeemable[1]	45–95 days[2]
Private equity direct	109	116		non-redeemable	n.a.
Real estate funds	203	207	72	non-redeemable	n.a.
Total	1 366	**1 280**	**340**		

[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 31 March 2015 were as follows:

USD millions	2014	**2015**
Assets		
Other invested assets	9 684	9 150
of which at fair value pursuant to the fair value option	444	404
Liabilities		
Liabilities for life and health policy benefits	–33 605	–32 016
of which at fair value pursuant to the fair value option	–187	–173

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 three months ended 31 March were as follows:

USD millions	2014	**2015**
Other invested assets	10	–40
Liabilities for life and health policy benefits	–2	13
Total	8	**–27**

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 31 March 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		246	246
Mortgage loans		1 939	1 939
Other loans		978	978
Investment real estate		2 489	2 489
Total assets	**0**	**5 652**	**5 652**
Liabilities			
Debt	–9 861	–5 932	–15 793
Total liabilities	**–9 861**	**–5 932**	**–15 793**

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.

9 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 31 March 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	92 335	2 455	–1 928	527
Foreign exchange contracts	13 803	355	–390	–35
Equity contracts	18 829	1 344	–668	676
Credit contracts	289	3	–13	–10
Other contracts	20 010	145	–612	–467
Total	**145 266**	**4 302**	**–3 611**	**691**
Derivatives designated as hedging instruments				
Foreign exchange contracts	2 578	111	–8	103
Total	**2 578**	**111**	**–8**	**103**
Total derivative financial instruments	**147 844**	**4 413**	**–3 619**	**794**
Amount offset				
Where a right of set-off exists		–2 395	2 395	
Due to cash collateral		–1 272	394	
Total net amount of derivative financial instruments		**746**	**–830**	**–84**

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 31 March 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. For the three months ended 31 March, the gains and losses of derivative financial instruments not designated as hedging instruments were as follows:

USD millions	2014	2015
Derivatives not designated as hedging instruments		
Interest rate contracts	–51	–30
Foreign exchange contracts	15	219
Equity contracts	3	–102
Credit contracts	–3	–1
Other contracts	–6	53
Total gain/loss recognised in income	–42	**139**

Hedging activities
The Group designates certain derivative financial instruments as hedging instruments. The designation of derivative financial instruments is primarily used for overall portfolio and risk management strategies. As of 31 March, 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. For the three months ended 31 March, the gains and losses attributable to the hedged risks were as follows:

	2014		2015	
USD millions	Gains/losses on derivatives	Gains/losses on hedged items	Gains/losses on derivatives	Gains/losses on hedged items
Fair value hedging relationships				
Foreign exchange contracts	–4	4	119	–119
Total gain/loss recognised in income	–4	4	**119**	**–119**

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 three months ended 31 March 2015, the Group recorded an accumulated net unrealised foreign currency remeasurement gain of USD 894 million and a gain of USD 1 443 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 31 March 2015 was approximately USD 1 817 million and USD 2 018 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 67 million as of 31 December 2014 and 31 March 2015, respectively. For derivative financial instruments containing credit risk-related contingent features, the Group posted collateral of USD 6 million and USD 10 million as of 31 December 2014 and 31 March 2015, respectively. In the event of a reduction of the Group's credit rating to below investment grade, a fair value of USD 57 million additional collateral would have had to be posted as of 31 March 2015. The total equals the amount needed to settle the instruments immediately as of 31 March 2015.

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 31 March 2015 was as follows:

USD millions	2014	2015
Senior financial debt	654	669
Senior operational debt	1 047	778
Short-term debt – financial and operational debt	1 701	**1 447**
Senior financial debt	3 513	3 744
Senior operational debt	713	534
Subordinated financial debt	5 486	5 206
Subordinated operational debt	2 903	2 759
Long-term debt – financial and operational debt	12 615	**12 243**
Total carrying value	14 316	**13 690**
Total fair value	16 225	**15 793**

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 31 March 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 4.1 billion (thereof USD 3.0 billion limited- or non-recourse), respectively.

Interest expense on long-term debt and contingent capital instruments

Interest expense on long-term debt for the three months ended 31 March was as follows:

USD millions	2014	2015
Senior financial debt	30	30
Senior operational debt	4	3
Subordinated financial debt	72	73
Subordinated operational debt	64	34
Total	170	**140**

In addition to the above, interest expense on contingent capital instruments classified as equity was USD 17 million and USD 17 million for the three months ended 31 March 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.

11 Earnings per share

Earnings per share for the three months ended 31 March were as follows:

USD millions (except share data)	2014	2015
Basic earnings per share		
Net income	1 244	**1 457**
Non-controlling interests	–1	
Interest on contingent capital instruments[1]	–17	**–17**
Net income attributable to common shareholders	1 226	**1 440**
Weighted average common shares outstanding	342 749 025	**342 110 887**
Net income per share in USD	3.58	**4.21**
Net income per share in CHF[2]	3.20	**4.00**
Effect of dilutive securities		
Change in income available to common shares due to contingent capital instruments[1]	17	**17**
Change in average number of shares due to contingent capital instruments	35 745 192	**35 745 192**
Change in average number of shares due to employee options	989 582	**2 450 503**
Diluted earnings per share		
Net income assuming debt conversion and exercise of options	1 243	**1 457**
Weighted average common shares outstanding	379 483 799	**380 306 582**
Net income per share in USD	3.28	**3.83**
Net income per share in CHF[2]	2.93	**3.64**

[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. In 2014, the Group paid a dividend per share of CHF 3.85 as well as an additional special dividend of CHF 4.15 for the 2013 financial year. On 19 February 2015, the Board of Directors of the Group proposed a dividend of CHF 4.25 as well as an additional special dividend of CHF 3.00 for the 2014 financial year to be paid in 2015. This was approved by shareholders at the Annual General Meeting on 21 April 2015. 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 December 2014 and 31 March 2015:

		2014		2015
USD millions	Carrying value	Whereof restricted	Carrying value	Whereof restricted
Fixed income securities available-for-sale	4200	4200	4205	4205
Short-term investments	95	95	53	53
Other invested assets	16		17	
Cash and cash equivalents	25	25	54	54
Accrued investment income	38	38	47	47
Deferred tax assets	19	19	35	35
Other assets	16		26	12
Total assets	4409	4377	**4437**	**4406**

	Carrying value	Whereof limited recourse	Carrying value	Whereof limited recourse
Deferred and other non-current tax liabilities	177	177	199	199
Accrued expenses and other liabilities	7	7	21	21
Long-term debt	2903	2903	2759	2759
Total liabilities	3087	3087	**2979**	**2979**

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 31 March 2015:

USD millions	2014	2015
Fixed income securities:		
Available-for-sale	69	66
Policy loans mortgages and other loans	84	
Other invested assets	1 451	1 751
Total assets	1 604	**1 817**
Accrued expenses and other liabilities	167	55
Total liabilities	167	**55**

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 31 March 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	66		65	65
Life and health funding vehicles			1 683	1 683	2		1 732	1 732
Swaps in trusts	35	82	–[2]	–	157	55	–[2]	–
Debt financing	378		28	28	363		27	27
Investment vehicles	845		845	845	1 044		1 044	1 044
Other	276	85	1 076	991	185		185	185
Total	1 604	167	–[2]	–	**1 817**	**55**	**–[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 three months ended 31 March 2014 and 2015 were USD 29 million and USD 29 million, respectively.

Employer's contributions for 2015

For the three months ended 31 March 2015, the Group contributed USD 57 million to its defined benefit pension plans and USD 4 million to other post-retirement plans, compared to USD 63 million and USD 4 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 31 March 2015 for the latest information, amount to USD 255 million and USD 17 million, respectively.

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

Pessimistic global growth forecasts, particularly in respect of Europe, and heightened 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 the post-crisis recovery and the risks that the world economy continues to face, notwithstanding positive macro-economic trends in the United States. The International Monetary Fund recently reduced its forecast for global economic growth and reports that the risk of a recession and deflation in the eurozone has risen sharply. In the European Union, it remains unclear whether proposals for a single resolution mechanism and other components of a banking union in the European Union, as well as actions of the European Central Bank, will create the conditions necessary for increased bank lending and greater economic growth. Uncertainty around economic growth could be compounded by domestic political considerations in various EU member states and a possible exit of Greece from the eurozone.

Countries in emerging market regions in Asia and Latin America recently have experienced deceleration in GDP growth. 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.

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.

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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29 October 2015
Third quarter 2015 results

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