Swiss Re

Swiss Reinsurance Company Consolidated

2014 Annual Report

Content

Income statement

For the years ended 31 December

USD millions	Note	2013	2014
Revenues			
Premiums earned	3	24 905	**26 992**
Fee income from policyholders	3	162	**163**
Net investment income – non-participating	8	3 120	**3 187**
Net realised investment gains/losses – non-participating business (total impairments for the years ended 31 December were 34 in 2013 and 35 in 2014, of which 34 and 35, respectively, were recognised in earnings)	8	427	**550**
Net investment result – unit-linked and with-profit	8	249	**75**
Other revenues		71	**60**
Total revenues		28 934	**31 027**
Expenses			
Claims and claim adjustment expenses	3	–7 907	**–8 523**
Life and health benefits	3	–8 665	**–9 602**
Return credited to policyholders		–631	**–450**
Acquisition costs	3	–4 449	**–5 920**
Other expenses		–2 814	**–2 458**
Interest expenses		–777	**–713**
Total expenses		–25 243	**–27 666**
Income before income tax expense		3 691	**3 361**
Income tax expense	12	–219	**–395**
Net income before attribution of non-controlling interests		3 472	**2 966**
Income attributable to non-controlling interests		–2	**–1**
Net income after attribution of non-controlling interests		3 470	**2 965**
Interest on contingent capital instruments		–67	**–69**
Net income attributable to common shareholder		3 403	**2 896**

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

Statement of comprehensive income

For the years ended 31 December

USD millions	2013	**2014**
Net income before attribution of non-controlling interests	3 472	**2 966**
Other comprehensive income, net of tax:		
Change in unrealised gains/losses	–2 318	**2 721**
Change in other-than-temporary impairment	21	**3**
Change in foreign currency translation	–347	**–734**
Change in adjustment for pension benefits	457	**–291**
Total comprehensive income before attribution of non-controlling interests	1 285	**4 665**
Interest on contingent capital instruments	–67	**–69**
Comprehensive income attributable to non-controlling interests	–2	**–1**
Total comprehensive income attributable to common shareholder	1 216	**4 595**

Reclassification out of accumulated other comprehensive income

For the years ended 31 December

2013 USD millions	Unrealised 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	3 059	–27	–3 180	–928	–1 076
Change during the period	–2 842	32	–388	530	–2 668
Amounts reclassified out of accumulated other comprehensive income	–430			58	–372
Tax	954	–11	41	–131	853
Balance as of period end	741	–6	–3 527	–471	–3 263

2014 USD millions	Unrealised 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	741	–6	–3 527	–471	**–3 263**
Change during the period	4 846	4	–498	–417	**3 935**
Amounts reclassified out of accumulated other comprehensive income	–1 107		–41	31	**–1 117**
Tax	–1 018	–1	–195	95	**–1 119**
Balance as of period end	**3 462**	**–3**	**–4 261**	**–762**	**–1 564**

[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

As of 31 December

Assets

USD millions	Note	2013	2014
Investments	8, 9, 10		
Fixed income securities:			
Available-for-sale, at fair value (including 11 155 in 2013 and 12 325 in 2014 subject to securities lending and repurchase agreements) (amortised cost: 2013: 58 774; 2014: 60 600)		59 123	**65 127**
Trading (including 1 in 2013 and 645 in 2014 subject to securities lending and repurchase agreements)		1 522	**2 219**
Equity securities:			
Available-for-sale, at fair value (including 65 in 2013 and 190 in 2014 subject to securities lending and repurchase agreements) (cost: 2013: 4 594; 2014: 1 975)		5 294	**2 396**
Trading		615	**65**
Policy loans, mortgages and other loans		4 340	**3 908**
Investment real estate		820	**881**
Short-term investments, at fair value (including 3 194 in 2013 and 2 025 in 2014 subject to securities lending and repurchase agreements)		17 777	**10 520**
Other invested assets		9 233	**7 353**
Investments for unit-linked and with-profit business (equity securities trading: 988 in 2013 and 894 in 2014)		988	**894**
Total investments		99 712	**93 363**
Cash and cash equivalents (including 4 in 2013 and 45 in 2014 subject to securities lending)		5 883	**5 855**
Accrued investment income		690	**721**
Premiums and other receivables		10 806	**10 340**
Reinsurance recoverable on unpaid claims and policy benefits	3	6 654	**5 346**
Funds held by ceding companies		13 451	**12 173**
Deferred acquisition costs	6	4 424	**4 480**
Acquired present value of future profits	6	2 085	**1 899**
Goodwill		4 091	**3 916**
Income taxes recoverable		425	**109**
Deferred tax assets	12	5 023	**5 206**
Other assets		2 973	**2 895**
Total assets		156 217	**146 303**

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

Liabilities and equity

USD millions	Note	2013	2014
Liabilities			
Unpaid claims and claim adjustment expenses		56 338	**52 177**
Liabilities for life and health policy benefits	9	20 324	**19 284**
Policyholder account balances		6 690	**6 610**
Unearned premiums		8 127	**7 825**
Funds held under reinsurance treaties		3 218	**3 083**
Reinsurance balances payable		2 488	**1 966**
Income taxes payable		593	**802**
Deferred and other non-current tax liabilities	12	6 913	**7 490**
Short-term debt	11	5 992	**4 959**
Accrued expenses and other liabilities		9 551	**8 016**
Long-term debt	11	14 722	**11 265**
Total liabilities		134 956	**123 477**
Equity			
Contingent capital instruments	11	1 102	**1 102**
Common shares CHF 0.10 par value 2013: 344 052 565; 2014: 344 052 565 shares authorised and issued		32	**32**
Additional paid-in capital		8 853	**8 823**
Shares in Swiss Re Ltd, net of tax		–148	**–10**
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax		741	**3 462**
Other-than-temporary impairment, net of tax		–6	**–3**
Cumulative translation adjustments, net of tax		–3 527	**–4 261**
Accumulated adjustment for pension and post-retirement benefits, net of tax		–471	**–762**
Total accumulated other comprehensive income		–3 263	**–1 564**
Retained earnings		14 660	**14 421**
Shareholder's equity		21 236	**22 804**
Non-controlling interests		25	**22**
Total equity		21 261	**22 826**
Total liabilities and equity		156 217	**146 303**

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

Statement of shareholder's equity

For the years ended 31 December

USD millions	2013	2014
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	32	**32**
Issue of common shares		
Balance as of period end	32	**32**
Additional paid-in capital		
Balance as of 1 January	8 875	**8 853**
Share-based compensation	13	**–35**
Realised gains/losses on treasury shares	–35	**5**
Balance as of period end	8 853	**8 823**
Shares in Swiss Re Ltd, net of tax		
Balance as of 1 January	–144	**–148**
Change of shares in Swiss Re Ltd	–4	**138**
Balance as of period end	–148	**–10**
Net unrealised gains/losses, net of tax		
Balance as of 1 January	3 059	**741**
Changes during the period[1]	–2 318	**2 721**
Balance as of period end	741	**3 462**
Other-than-temporary impairment, net of tax		
Balance as of 1 January	–27	**–6**
Changes during the period	21	**3**
Balance as of period end	–6	**–3**
Foreign currency translation, net of tax		
Balance as of 1 January	–3 180	**–3 527**
Changes during the period[1]	–347	**–734**
Balance as of period end	–3 527	**–4 261**
Adjustment for pension and other post-retirement benefits, net of tax		
Balance as of 1 January	–928	**–471**
Changes during the period	457	**–291**
Balance as of period end	–471	**–762**
Retained earnings		
Balance as of 1 January	14 129	**14 660**
Net income after attribution of non-controlling interests	3 470	**2 965**
Interest on contingent capital instruments, net of tax	–67	**–69**
Dividends on common shares and dividends-in-kind[1]	–2 973	**–3 135**
Effect of new reinsurance agreements[2]	101	
Balance as of period end	14 660	**14 421**
Shareholder's equity	21 236	**22 804**
Non-controlling interests		
Balance as of 1 January	24	**25**
Change during the period	–1	**–4**
Income attributable to non-controlling interests	2	**1**
Balance as of period end	25	**22**
Total equity	21 261	**22 826**

[1] The impact of the transfer of the shares of Swiss Re Principal Investments Company Ltd through a dividend-in-kind to Swiss Re Ltd has been included in 2013.
[2] Effective 31 December 2013, a novation of a reinsurance contract to a Group legal entity resulted in an increase in retained earnings of USD 101 million.

Statement of cash flow

For the years ended 31 December

USD millions	2013	2014
Cash flows from operating activities		
Net income attributable to common shareholder	3 403	**2 896**
Add net income attributable to non-controlling interests	2	**1**
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items[1]	316	**322**
Net realised investment gains/losses	–637	**–588**
Income from equity-accounted investees, net of dividends received	–76	**1**
Change in:		
Technical provisions and other reinsurance assets and liabilities, net[1]	–2 087	**–1 207**
Funds held by ceding companies and under reinsurance treaties[1]	1 020	**557**
Reinsurance recoverable on unpaid claims and policy benefits	908	**972**
Other assets and liabilities, net[1]	256	**–218**
Income taxes payable/recoverable	–130	**–58**
Trading positions, net	–877	**–807**
Securities purchased/sold under agreement to resell/repurchase, net	84	**219**
Net cash provided/used by operating activities	2 182	**2 090**
Cash flows from investing activities		
Fixed income securities:		
Sales	71 627	**48 287**
Maturities	2 900	**3 384**
Purchases	–70 477	**–59 378**
Net purchase/sale/maturities of short-term investments	–1 954	**6 545**
Equity securities:		
Sales	2 095	**5 985**
Purchases	–4 403	**–2 428**
Cash paid/received for acquisitions/disposal and reinsurance transactions, net		**39**
Net purchases/sales/maturities of other investments	–170	**303**
Net cash provided/used by investing activities	–382	**2 737**
Cash flows from financing activities		
Issuance/repayment of long-term debt	40	**37**
Issuance/repayment of short-term debt	–2 554	**–1 501**
Purchase/sale of shares in Swiss Re Ltd	4	**32**
Dividends paid to parent	–1 871	**–3 120**
Net cash provided/used by financing activities	–4 381	**–4 552**
Total net cash provided/used	–2 581	**275**
Effect of foreign currency translation	–198	**–303**
Change in cash and cash equivalents	–2 779	**–28**
Cash and cash equivalents as of 1 January	8 662	**5 883**
Cash and cash equivalents as of 31 December	5 883	**5 855**

[1] The Group revised the definition of certain items within the operating cash flow with no impact on "Net cash provided/used by operating activities". The amortisation of deferred acquisition costs and present value for future profits is reclassified from "Depreciation, amortisation and other non-cash items" and the changes in certain other reinsurance assets and liabilities are reclassified from "Funds held by ceding companies and under reinsurance treaties" and "Other assets and liabilities, net" to "Technical provisions and other reinsurance assets and liabilities, net". Comparatives are adjusted accordingly.

Interest paid was USD 939 million and USD 891 million for the years ended 31 December 2013 and 2014, respectively.

Tax paid was USD 352 million and USD 444 million for the years ended 31 December 2013 and 2014, 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 Reinsurance Company Ltd ("SRZ") and its subsidiaries (collectively, the "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 and public sector clients.

SRZ is a wholly owned subsidiary of Swiss Re Ltd. Swiss Re Ltd is the ultimate parent company of the Swiss Re Group, which consists of four business segments: Property & Casualty Reinsurance, Life & Health Reinsurance, Corporate Solutions and Admin Re®. The presentation of each segment's balance sheet is closely aligned with the segment legal entity structure.

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and comply with Swiss law. All significant intra-group transactions and balances have been eliminated on consolidation.

In the fourth quarter of 2014, the Group entered into an agreement to sell Aurora National Life Assurance Company (Aurora) to Reinsurance Group of America, Incorporated (RGA). The transaction is expected to close in the second quarter of 2015 and, therefore, the subject business was still within the scope of the consolidated Swiss Re Group as of 31 December 2014. For more details on the transaction and its impact on the Group financial statements, please refer to Note 7.

On 25 March 2013, SRZ transferred the shares of Principal Investments through a dividend-in-kind to Swiss Re Ltd. Following the transfer, Principal Investments ceased to be a subsidiary of SRZ. Principal Investments instead became a subsidiary of Swiss Re Ltd. Risks and benefits related to this entity passed to Swiss Re Ltd as of 1 January 2013. Consequently these financial statements were prepared as if Principal Investments had been transferred to Swiss Re Ltd as of 1 January 2013.

Principles of consolidation

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

Use of estimates in the preparation of financial statements

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

Foreign currency remeasurement and translation

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

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

Valuation of financial assets

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

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

For assets or derivative structures at fair value, the Group uses market prices or inputs derived from market prices. A separate internal price verification process, independent of the trading function, provides an additional control over the market prices or market input used to determine the fair values of such assets. Although management considers that appropriate values have been ascribed to such assets, there is always a level of uncertainty and 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 December 2014, the Group had not provided any collateral on financial instruments in excess of its own market value estimates.

Investments

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

The cost of equity securities AFS is reduced to fair value, with a corresponding charge to realised investment losses if the decline in value, expressed in functional currency terms, is other-than-temporary. Subsequent recoveries of previously recognised impairments are not recognised in earnings.

For debt securities AFS that are other-than-temporary impaired and there is not an intention to sell, the impairment is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. The estimated credit loss amount is recognised in earnings, with the remainder of the loss amount recognised in other comprehensive income. In cases where there is an intention or requirement to sell, the accounting of the other-than-temporary impairment is the same as for equity securities AFS described above.

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

Policy loans, mortgages and other loans are carried at amortised cost. Interest income is recognised in accordance with the effective yield method.

Investment in real estate that the Group intends to hold for the production of income is carried at depreciated cost, net of any write-downs for impairment in value. Depreciation on buildings is recognised on a straight-line basis over the estimated useful life of the asset. Land is recognised at cost and not depreciated. Impairment in value is recognised if the sum of the estimated future undiscounted cash flows from the use of the real estate is lower than its carrying value. Impairment in value, depreciation and other related charges or credits are included in net investment income. Investment in real estate held for sale is carried at the lower of cost or fair value, less estimated selling costs, and is not depreciated. Reductions in the carrying value of real estate held for sale are included in realised investment losses.

As of 1 January 2014, the Group measures its short-term investments at fair value with changes in fair value recognised in net income. Previously, the Group carried short-term investments at amortised cost, which approximated fair value. The impact of this change is immaterial and comparatives have therefore not been restated. The Group considers highly liquid investments with a remaining maturity at the date of acquisition of one year or less, but greater than three months, to be short-term investments.

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

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

Derivative financial instruments and hedge accounting

The Group uses a variety of derivative financial instruments including swaps, options, forwards and exchange-traded financial futures for the Group's trading and hedging strategy in line with the overall risk management strategy. Derivative financial instruments are primarily used as a means of managing exposure to price, foreign currency and/or interest rate risk on planned or anticipated investment purchases, existing assets or existing liabilities and also to lock in attractive investment conditions for funds which become available in the future. The Group recognises all of its derivative instruments on the balance sheet at fair value. Changes in fair value on derivatives that are not designated as hedging instruments are recorded in income.

If the derivative is designated as a hedge of the fair value of assets or liabilities, changes in the fair value of the derivative are recognised in earnings, together with changes in the fair value of the related hedged item. If the derivative is designated as a hedge of the variability in expected future cash flows related to a particular risk, changes in the fair value of the derivative are reported in other comprehensive income until the hedged item is recognised in earnings. The ineffective portion of the hedge is recognised in earnings. When hedge accounting is discontinued on a cash flow hedge, the net gain or loss remains in accumulated other comprehensive income and is reclassified to earnings in the period in which the formerly hedged transaction is reported in earnings. When the Group discontinues hedge accounting because it is no longer probable that a forecasted transaction will occur within the required time period, the derivative continues to be carried on the balance sheet at fair value, and gains and losses that were previously recorded in accumulated other comprehensive income are recognised in earnings.

The Group recognises separately derivatives that are embedded within other host instruments if the economic characteristics and risks are not clearly and closely related to the economic characteristics and risks of the host instrument and if it meets the definition of a derivative if it were a free-standing contract.

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

The Group also designates non-derivative and derivative monetary financial instruments as a hedge of the foreign currency exposure of its net investment in certain foreign operations. From the inception of the hedging relationship, remeasurement gains and losses on the designated non-derivative and derivative monetary financial instruments and translation gains and losses on the hedged net investment are reported as translation gains and losses in shareholder's equity.

Cash and cash equivalents

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

Deferred acquisition costs

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

Deferred acquisition costs for short-duration contracts are amortised in proportion to premiums earned. Future investment income is considered in determining the recoverability of deferred acquisition costs for short-duration contracts. Deferred acquisition costs for long-duration contracts are amortised over the life of underlying contracts. Deferred acquisition costs for universal-life and similar products are amortised based on the present value of estimated gross profits. Estimated gross profits are updated quarterly.

Modifications of insurance and reinsurance contracts

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

Business combinations

The Group applies the acquisition method of accounting for business combinations. This method allocates the cost of the acquired entity to the assets and liabilities assumed based on their estimated fair values at the date of acquisition.

The underlying assets and liabilities acquired are subsequently accounted for according to the relevant GAAP guidance. This includes specific requirements applicable to subsequent accounting for assets and liabilities recognised as part of the acquisition method of accounting, including present value of future profits, goodwill and other intangible assets.

Acquired present value of future profits

The acquired present value of future profits (PVFP) of business in force is recorded in connection with the acquisition of life and/or health business. The initial value is determined actuarially by discounting estimated future gross profits as a measure of the value of business acquired. The resulting asset is amortised on a constant yield basis over the expected revenue recognition period of the business acquired, generally over periods ranging up to 30 years, with the accrual of interest added to the unamortised balance at the earned rate. The earned rate corresponds to either the current earned rate or the original earned rate depending on the business written. The rate is consistently applied for the entire life of the applicable business. For universal-life and similar products, PVFP is amortised in line with estimated gross profits, and estimated gross profits are updated quarterly. The carrying value of PVFP is reviewed periodically for indicators of impairment in value. Adjustments to reflect impairment in value are recognised in earnings during the period in which the determination of impairment is made or in other comprehensive income for shadow loss recognition.

Goodwill

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

Other assets

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

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

Real estate for own use as well as other classes of property, plant and equipment are carried at depreciated cost. Depreciation on buildings is recognised on a straight-line basis over the estimated useful life of the asset. Land is recognised at cost and not depreciated.

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

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

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

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

The Group does not discount liabilities arising from prospective property and casualty insurance and reinsurance contracts, including liabilities which are discounted for US statutory reporting purposes. Liabilities arising from property and casualty insurance and reinsurance contracts acquired in a business combination are initially recognised at fair value in accordance with the acquisition method of accounting. The Group does not discount life and health claim reserves except for disability income claims in payment which are recognised at the estimated present value of the remaining ultimate net costs of the incurred claims.

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

Liabilities for life and health policy benefits
Liabilities for life and health policy benefits from reinsurance business are generally calculated using the net premium method, based on assumptions as to investment yields, mortality, withdrawals, lapses and policyholder dividends. Assumptions are set at the time the contract is issued or, in the case of contracts acquired by purchase, at the purchase date. The assumptions are based on projections from past experience, making allowance for possible adverse deviation. Interest rate assumptions for life and health (re)insurance benefit liabilities are based on estimates of expected investment yields. Assumed mortality rates are generally based on experience multiples applied to the actuarial select and ultimate tables based on industry experience.

Liabilities for life and health policy benefits are increased with a charge to earnings if it is determined that future cash flows, including investment income, are insufficient to cover future benefits and expenses. Where assets backing liabilities for policy benefits are held at available for sale these liabilities for policyholder benefits are increased by a shadow adjustment, with a charge to other comprehensive income, where future cash flows at market rates are insufficient to cover future benefits and expenses.

Policyholder account balances
Policyholder account balances relate to universal life-type contracts and investment contracts.

Universal life-type contracts are long-duration insurance contracts, providing either death or annuity benefits, with terms that are not fixed and guaranteed.

Investment contracts are long-duration contracts that do not incorporate significant insurance risk, i.e. there is no mortality and morbidity risk, or the mortality and morbidity risk associated with the insurance benefit features offered in the contract is of insignificant amount or remote probability. Amounts received as payment for investment contracts are reported as policyholder account balances. Related assets are included in general account assets except for investments for unit-linked and with-profit business, which are presented in a separate line item on the face of the balance sheet.

Amounts assessed against policyholders for mortality, administration and surrender are shown as fee income. Amounts credited to policyholders are shown as interest credited to policyholders. Investment income and realised investment gains and losses allocable to policyholders are included in net investment income and net realised investment gains/losses except for unit-linked and with-profit business which is presented in a separate line item on the face of the income statement.

Unit-linked and with-profit business are presented together as they are similar in nature. 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 Swiss Re Group (typically 10%). Additional disclosures are provided in Note 8.

Funds held assets and liabilities

On the asset side, funds held by ceding companies consist mainly of amounts retained by the ceding company for business written on a funds withheld basis. In addition, amounts arising from the application of the deposit method of accounting to ceded retrocession or reinsurance contracts are included.

On the liability side, funds held under reinsurance treaties consist mainly of amounts arising from the application of the deposit method of accounting to inward insurance and reinsurance contracts. In addition, amounts retained from ceded business written on a funds withheld basis are included.

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

The deposit method of accounting is applied to insurance and reinsurance contracts that do not indemnify the ceding company or the Group against loss or liability relating to insurance risk. Under the deposit method of accounting, the deposit asset or liability is initially measured based on the consideration paid or received. For contracts that transfer neither significant timing nor underwriting risk, and contracts that transfer only significant timing risk, changes in estimates of the timing or amounts of cash flows are accounted for by recalculating the effective yield. The deposit is then adjusted to the amount that would have existed had the new effective yield been applied since the inception of the contract. The revenue and expense recorded for such contracts is included in net investment income. For contracts that transfer only significant underwriting risk, once a loss is incurred, the deposit is adjusted by the present value of the incurred loss. At each subsequent balance sheet date, the portion of the deposit attributable to the incurred loss is recalculated by discounting the estimated future cash flows. The resulting changes in the carrying amount of the deposit are recognised in claims and claim adjustment expenses.

Funds withheld balances are presented together with assets and liabilities arising from the application of the deposit method because of their common deposit type character.

Shadow adjustments

Shadow adjustments are recognized in other comprehensive income reflecting the offset of adjustments to deferred acquisition costs and PVFP, typically related to universal life-type contracts, and policyholder liabilities. The purpose is to reflect the fact that certain amounts recorded as unrealised investment gains and losses within shareholder's equity will ultimately accrue to policyholders and not the shareholder.

Shadow loss recognition testing becomes relevant in low interest rate environments. The test considers whether the hypothetical sale of AFS securities and the reinvestment of proceeds at lower yields would lead to negative operational earnings in future periods, thereby causing a loss recognition event. For shadow loss recognition testing, the Group uses current market yields to determine best estimate GAAP reserves rather than using locked in or current book yields. If the unlocked best estimate GAAP reserves based on current market rates are in excess of reserves based on locked in or current book yields, a shadow loss recognition reserve is set up. These reserves are recognised in other comprehensive income and do not impact net income. In addition, shadow loss recognition reserves can reverse up to the amount of losses recognised due to past loss events.

Premiums
Property and casualty reinsurance premiums are recorded when written and include an estimate for written premiums receivable at period end. Premiums earned are generally recognised in income over the contract period in proportion to the amount of reinsurance provided. Unearned premiums consist of the unexpired portion of reinsurance provided. Life reinsurance premiums are earned when due. Related policy benefits are recorded in relation to the associated premium or gross profits so that profits are recognised over the expected lives of the contracts.

Life and health reinsurance premiums for group coverages are generally earned over the term of the coverage. For group contracts that allow experience adjustments to premiums, such premiums are recognised as the related experience emerges.

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

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

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

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

Pensions and other post-retirement benefits
The Group accounts for its pension and other post-retirement benefit costs using the accrual method of accounting. Amounts charged to expense are based on periodic actuarial determinations.

Share-based payment transactions
As of 31 December 2014, the Group has a leadership performance plan, a fixed option plan, a restricted share plan, an employee participation plan and a global Swiss Re share participation plan. These plans are described in more detail in Note 14. The Group accounts for share-based payment transactions with employees using the fair value method. Under the fair value method, the fair value of the awards is recognised in earnings over the vesting period.

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

Shares in Swiss Re Ltd
Shares in Swiss Re Ltd are reported at cost in shareholder's equity. Shareholder's equity also includes stand-alone derivative instruments indexed to the Swiss Re Ltd shares held by the Group that meet the requirements for classification in shareholder's equity.

Subsequent events
Subsequent events for the current reporting period have been evaluated up to 17 March 2015. This is the date on which the financial statements are available to be issued.

Recent accounting guidance

In February 2013, the FASB issued ASU 2013-04, "Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date", an update to Topic 405, "Liabilities". ASU 2013-04 requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The Group adopted ASU 2013-04 on 1 January 2014. The adoption did not have an effect on the Group's financial statements.

In March 2013, the FASB issued ASU 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity", an update to Topic 830, "Foreign Currency Matters". ASU 2013-05 precludes the release of the cumulative translation adjustment into net income for derecognition events that occur within a foreign entity, unless such events represent a complete or substantially complete liquidation of the foreign entity. Derecognition events related to investments in a foreign entity result in the release of the entire cumulative translation adjustment related to the derecognised foreign entity, even when a non-controlling financial interest is retained. The Group adopted ASU 2013-05 on 1 January 2014. The adoption did not have an effect on the Group's financial statements.

In June 2013, the FASB issued ASU 2013-08, "Amendments to the Scope, Measurement, and Disclosure Requirements", an update to Topic 946, "Financial Services - Investment Companies". ASU 2013-08 changes the approach to the investment company assessment in Topic 946, clarifies the characteristics of an investment company, and provides comprehensive guidance for assessing whether an entity is an investment company. The Group adopted ASU 2013-08 on 1 January 2014. The adoption did not have an effect on the Group's financial statements.

In July 2013, the FASB issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists", an update to Topic 740, "Income Taxes". ASU 2013-11 requires an entity to present an unrecognised tax benefit as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, subject to some exceptions. The Group adopted ASU 2013-11 on 1 January 2014 on a prospective basis. The financial statement presentation of unrecognised tax benefits was adjusted accordingly.

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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 two core operating business segments: Property & Casualty Reinsurance and Life & Health Reinsurance. 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 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. As well as traditional reinsurance solutions, the business unit 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 shareholder's equity of the Group.

Other

Items not allocated to the business segments are included in the "Other" column which encompasses non-core activities. The "Other" column includes mainly certain costs not allocated to the Reinsurance business segments, certain Treasury activities as well as the remaining non-core activities which have been in run-off since November 2007.

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 7.

In the fourth quarter of 2014, the Group revised the allocation of certain project costs from the Reinsurance Business Units to Other. The comparative periods have not been adjusted as the costs relate primarily to projects launched in 2014. The revision had no impact on net income and shareholder's equity of the Group.

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. In the periods presented, significant intra-group transactions related to intra-group reinsurance arrangements and certain treasury-related activities are included.

a) Business segments – income statement

For the year ended 31 December

2013 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Revenues					
Premiums earned	14 542	9 967	396		24 905
Fee income from policyholders		56	106		162
Net investment income – non-participating	1 098	1 442	560	20	3 120
Net realised investment gains – non-participating	184	269	–26		427
Net investment result – unit-linked and with-profit		249			249
Other revenues	61		30	–20	71
Total revenues	15 885	11 983	1 066	0	28 934
Expenses					
Claims and claim adjustment expenses	–7 884		–23		–7 907
Life and health benefits		–8 075	–590		–8 665
Return credited to policyholders		–286	–345		–631
Acquisition costs	–2 761	–1 698	10		–4 449
Other expenses	–1 541	–877	–396		–2 814
Interest expenses	–207	–544	–26		–777
Total expenses	–12 393	–11 480	–1 370	0	–25 243
Income/loss before income tax expense	3 492	503	–304	0	3 691
Income tax expense/benefit	–244	–35	60		–219
Net income/loss before attribution of non-controlling interests	3 248	468	–244	0	3 472
Income attributable to non-controlling interests	–1		–1		–2
Net income/loss after attribution of non-controlling interests	3 247	468	–245	0	3 470
Interest on contingent capital instruments	–19	–48			–67
Net income/loss attributable to common shareholder	3 228	420	–245	0	3 403
Claims ratio in %	54.2				
Expense ratio in %	29.6				
Combined ratio in %	83.8				
Management expense ratio in %		7.6			
Operating margin in %		5.8			

Business segments – income statement

For the year ended 31 December

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Revenues					
Premiums earned	15 598	11 212	182		26 992
Fee income from policyholders		53	110		163
Net investment income – non-participating	1 076	1 544	545	22	3 187
Net realised investment gains/losses – non-participating	699	–255	106		550
Net investment result – unit-linked and with-profit		75			75
Other revenues	69		15	–24	60
Total revenues	**17 442**	**12 629**	**958**	**–2**	**31 027**
Expenses					
Claims and claim adjustment expenses	–8 493		–32	2	–8 523
Life and health benefits		–9 194	–406	–2	–9 602
Return credited to policyholders		–99	–351		–450
Acquisition costs	–3 382	–2 489	–49		–5 920
Other expenses	–1 175	–885	–398		–2 458
Interest expenses	–255	–438	–22	2	–713
Total expenses	**–13 305**	**–13 105**	**–1 258**	**2**	**–27 666**
Income/loss before income tax expense	**4 137**	**–476**	**–300**	**0**	**3 361**
Income tax expense/benefit	–552	63	94		–395
Net income/loss before attribution of non-controlling interests	**3 585**	**–413**	**–206**	**0**	**2 966**
Income attributable to non-controlling interests	–1				–1
Net income/loss after attribution of non-controlling interests	**3 584**	**–413**	**–206**	**0**	**2 965**
Interest on contingent capital instruments	–20	–49			–69
Net income/loss attributable to common shareholder	**3 564**	**–462**	**–206**	**0**	**2 896**
Claims ratio in %	54.5				
Expense ratio in %	29.2				
Combined ratio in %	83.7				
Management expense ratio in %		6.9			
Operating margin in %		2.6			

Business segments – balance sheet
As of 31 December

2013 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Total assets	86 394	60 499	16 484	–7 160	156 217

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Total assets	80 745	57 121	15 595	–7 158	146 303

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

For the year ended 31 December

2013 USD millions	Property	Casualty	Specialty	Total
Premiums earned	6 945	5 366	2 231	14 542
Expenses				
Claims and claim adjustment expenses	–3 342	–3 563	–979	–7 884
Acquisition costs	–883	–1 408	–470	–2 761
Other expenses	–796	–520	–225	–1 541
Total expenses before interest expenses	–5 021	–5 491	–1 674	–12 186
Underwriting result	1 924	–125	557	2 356
Net investment income				1 098
Net realised investment gains/losses				184
Other revenues				61
Interest expenses				–207
Income before income tax expenses				3 492
Claims ratio in %	48.1	66.4	43.9	54.2
Expense ratio in %	24.2	35.9	31.1	29.6
Combined ratio in %	72.3	102.3	75.0	83.8

Property & Casualty Reinsurance business segment – by line of business

For the year ended 31 December

2014 USD millions	Property	Casualty	Specialty	Total
Premiums earned	**6 783**	**6 437**	**2 378**	**15 598**
Expenses				
Claims and claim adjustment expenses	–3 013	–4 513	–967	–8 493
Acquisition costs	–1 049	–1 831	–502	–3 382
Other expenses	–669	–355	–151	–1 175
Total expenses before interest expenses	**–4 731**	**–6 699**	**–1 620**	**–13 050**
Underwriting result	**2 052**	**–262**	**758**	**2 548**
Net investment income				1 076
Net realised investment gains/losses				699
Other revenues				69
Interest expenses				–255
Income before income tax expenses				**4 137**
Claims ratio in %	44.4	70.1	40.6	54.5
Expense ratio in %	25.3	34.0	27.5	29.2
Combined ratio in %	69.7	104.1	68.1	83.7

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

For the years ended 31 December

2013 USD millions	Life	Health	Total
Revenues			
Premiums earned	6 678	3 289	9 967
Fee income from policyholders	56		56
Net investment income – non-participating	915	527	1 442
Net investment income – unit-linked and with-profit	39		39
Net realised investment gains/losses – unit-linked and with-profit	210		210
Net realised investment gains/losses – insurance-related derivatives	–123	6	–117
Total revenues before non-participating realised gains/losses	7 775	3 822	11 597
Expenses			
Life and health benefits	–5 216	–2 859	–8 075
Return credited to policyholders	–286		–286
Acquisition costs	–1 207	–491	–1 698
Other expenses	–636	–241	–877
Total expenses before interest expenses	–7 345	–3 591	–10 936
Operating income	430	231	661
Net realised investment gains/losses – non-participating and excluding insurance-related derivatives			386
Interest expenses			–544
Income before income tax expenses			503
Management expense ratio in %	8.3	6.3	7.6
Operating margin[1] in %	5.7	6.0	5.8

[1] Operating margin is calculated as operating income 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 years ended 31 December

2014 USD millions	Life	Health	Total
Revenues			
Premiums earned	7 166	4 046	11 212
Fee income from policyholders	53		53
Net investment income – non-participating	944	600	1 544
Net investment income – unit-linked and with-profit	37		37
Net realised investment gains/losses – unit-linked and with-profit	38		38
Net realised investment gains/losses – insurance-related derivatives	121	–7	114
Total revenues before non-participating realised gains/losses	**8 359**	**4 639**	**12 998**
Expenses			
Life and health benefits	–5 890	–3 304	–9 194
Return credited to policyholders	–99		–99
Acquisition costs	–1 808	–681	–2 489
Other expenses	–628	–257	–885
Total expenses before interest expenses	**–8 425**	**–4 242**	**–12 667**
Operating income	**–66**	**397**	**331**
Net realised investment gains/losses – non-participating and excluding insurance-related derivatives			–369
Interest expenses			–438
Income before income tax expenses			**–476**
Management expense ratio in %	7.7	5.5	6.9
Operating margin[1] in %	–0.8	8.6	2.6

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

d) Gross premiums earned and fee income from policyholders by geography

Gross premiums earned and fee income from policyholders by regions for the years ended 31 December

USD millions	2013	2014
Americas	12 239	11 865
Europe (including Middle East and Africa)	10 414	9 952
Asia-Pacific	6 250	7 556
Total	28 903	**29 373**

Gross premiums earned and fee income from policyholders by country for the years ended 31 December

USD millions	2013	2014
United States	9 476	9 253
China	2 255	3 053
United Kingdom	2 520	2 746
Australia	1 987	2 014
Germany	1 284	1 294
Canada	1 296	1 213
Japan	844	1 051
Ireland	812	894
France	1 642	857
Switzerland	545	770
Italy	549	486
Other	5 693	5 742
Total	28 903	**29 373**

Gross premiums earned and fee income from policyholders are allocated by country based on the underlying contract.

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3 Insurance information

Premiums earned and fees assessed against policyholders

For the year ended 31 December

2013 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Premiums earned, thereof:				
Direct		624	288	912
Reinsurance	16 912	10 735	181	27 828
Intra-group transactions (assumed and ceded)	28		–28	0
Premiums earned before retrocession to external parties	16 940	11 359	441	28 740
Retrocession to external parties	–2 398	–1 392	–45	–3 835
Net premiums earned	14 542	9 967	396	24 905

Fee income from policyholders, thereof:				
Direct			21	21
Reinsurance		57	85	142
Intra-group transactions (assumed and ceded)				0
Gross fee income before retrocession to external parties		57	106	163
Retrocession to external parties		–1		–1
Net fee income	0	56	106	162

Premiums earned and fees assessed against policyholders

For the year ended 31 December

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Premiums earned, thereof:				
Direct		758	36	794
Reinsurance	16 556	11 703	156	28 415
Intra-group transactions (assumed and ceded)				0
Premiums earned before retrocession to external parties	16 556	12 461	192	29 209
Retrocession to external parties	–958	–1 249	–10	–2 217
Net premiums earned	**15 598**	**11 212**	**182**	**26 992**
Fee income from policyholders, thereof:				
Direct			20	20
Reinsurance		54	90	144
Intra-group transactions (assumed and ceded)				0
Gross fee income before retrocession to external parties		54	110	164
Retrocession to external parties		–1		–1
Net fee income	**0**	**53**	**110**	**163**

Claims and claim adjustment expenses

For the year ended 31 December

2013 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Claims paid, thereof:				
Gross claims paid to external parties	–11 947	–8 894	–629	–21 470
Intra-group transactions (assumed and ceded)	–6	–4	10	0
Claims before receivables from retrocession to external parties	–11 953	–8 898	–619	–21 470
Retrocession to external parties	1 826	1 230	27	3 083
Net claims paid	–10 127	–7 668	–592	–18 387
Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:				
Gross - with external parties	3 096	–365	–49	2 682
Intra-group transactions (assumed and ceded)	–12	4	8	0
Unpaid claims and claim adjustment expenses; life and health benefits before impact of retrocession to external parties	3 084	–361	–41	2 682
Retrocession to external parties	–841	–46	20	–867
Net unpaid claims and claim adjustment expenses; life and health benefits	2 243	–407	–21	1 815
Claims and claim adjustment expenses; life and health benefits	–7 884	–8 075	–613	–16 572

Acquisition costs

For the year ended 31 December

2013 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Acquisition costs, thereof:				
Gross acquisition costs with external parties	–3 485	–2 007	–8	–5 500
Intra-group transactions (assumed and ceded)	–8		8	0
Acquisition costs before impact of retrocession to external parties	–3 493	–2 007		–5 500
Retrocession to external parties	732	309	10	1 051
Net acquisition costs	–2 761	–1 698	10	–4 449

Claims and claim adjustment expenses

For the year ended 31 December

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Claims paid, thereof:				
Gross claims paid to external parties	–10 749	–9 357	–501	–20 607
Intra-group transactions (assumed and ceded)	1	–1		0
Claims before receivables from retrocession to external parties	–10 748	–9 358	–501	–20 607
Retrocession to external parties	1 167	1 162	12	2 341
Net claims paid	**–9 581**	**–8 196**	**–489**	**–18 266**
Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:				
Gross – with external parties	2 030	–962	52	1 120
Intra-group transactions (assumed and ceded)	–3	3		0
Unpaid claims and claim adjustment expenses; life and health benefits before impact of retrocession to external parties	2 027	–959	52	1 120
Retrocession to external parties	–939	–39	–1	–979
Net unpaid claims and claim adjustment expenses; life and health benefits	**1 088**	**–998**	**51**	**141**
Claims and claim adjustment expenses; life and health benefits	**–8 493**	**–9 194**	**–438**	**–18 125**

Acquisition costs

For the year ended 31 December

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Acquisition costs, thereof:				
Gross acquisition costs with external parties	–3 588	–2 682	–49	–6 319
Intra-group transactions (assumed and ceded)				0
Acquisition costs before impact of retrocession to external parties	–3 588	–2 682	–49	–6 319
Retrocession to external parties	206	193		399
Net acquisition costs	**–3 382**	**–2 489**	**–49**	**–5 920**

Reinsurance assets and liabilities

The reinsurance assets and liabilities as of 31 December were as follows:

2013 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Assets					
Reinsurance recoverable on unpaid claims and policy benefits	4 752	1 756	193	–47	6 654
Deferred acquisition costs	1 591	2 845	–12		4 424
Liabilities					
Unpaid claims and claim adjustment expenses	45 578	9 869	941	–50	56 338
Liabilities for life and health policy benefits		17 392	2 932		20 324
Policyholder account balances		1 595	5 095		6 690

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Assets					
Reinsurance recoverable on unpaid claims and policy benefits	3 648	1 689	25	–16	5 346
Deferred acquisition costs	1 756	2 723	1		4 480
Liabilities					
Unpaid claims and claim adjustment expenses	41 233	10 177	784	–17	52 177
Liabilities for life and health policy benefits		16 442	2 842		19 284
Policyholder account balances		1 473	5 137		6 610

Reinsurance recoverable on unpaid claims and policy benefits

As of 31 December 2013 and 2014, the Group had a reinsurance recoverable of USD 6 654 million and USD 5 346 million, respectively. The concentration of credit risk is regularly monitored and evaluated. The reinsurance programme with Berkshire Hathaway and subsidiaries accounted for 72% of the Group's reinsurance recoverable as of year-end 2013 and 70% as of year-end 2014.

Reinsurance receivables

Reinsurance receivables as of 31 December were as follows:

USD millions	2013	**2014**
Premium receivables invoiced	1143	1 031
Receivables invoiced from ceded re/insurance business	361	265
Assets arising from the application of the deposit method of accounting and meeting the definition of financing receivables	1 270	777
Recognised allowance	–70	–61

4 Premiums written

For the years ended 31 December

2013 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Gross premiums written, thereof:					
Direct		643	321		964
Reinsurance	17 548	10 712	174		28 434
Intra-group transactions (assumed)	46			–46	0
Gross premiums written	17 594	11 355	495	–46	29 398
Intra-group transactions (ceded)			–46	46	0
Gross premiums written before retrocession to external parties	17 594	11 355	449		29 398
Retrocession to external parties	–1 437	–1 383	–49		–2 869
Net premiums written	16 157	9 972	400	0	26 529

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Gross premiums written, thereof:					
Direct		768	36		804
Reinsurance	16 678	11 666	156		28 500
Intra-group transactions (assumed)					0
Gross premiums written	16 678	12 434	192		29 304
Intra-group transactions (ceded)					0
Gross premiums written before retrocession to external parties	16 678	12 434	192		29 304
Retrocession to external parties	–537	–1 243	–10		–1 790
Net premiums written	**16 141**	**11 191**	**182**	**0**	**27 514**

5 Unpaid claims and claim adjustment expenses

The liability for unpaid claims and claim adjustment expenses as of 31 December is analysed as follows:

USD millions	2013	**2014**
Non-Life	45 756	41 270
Life & Health	10 582	10 907
Total	56 338	**52 177**

A reconciliation of the opening and closing reserve balances for non-life unpaid claims and claim adjustment expenses for the period is presented as follows:

USD millions	2013	**2014**
Balance as of 1 January	48 650	45 756
Reinsurance recoverable	–5 702	–4 873
Deferred expense on retroactive reinsurance	–229	–56
Net balance as of 1 January	42 719	**40 827**
Incurred related to:		
Current year	8 954	9 189
Prior year	–1 282	–759
Amortisation of deferred expense on retroactive reinsurance and impact of commutations	151	17
Total incurred	7 823	8 447
Paid related to:		
Current year	–1 717	–1 796
Prior year	–8 438	–7 797
Total paid	–10 155	–9 593
Foreign exchange	220	–2 142
Effect of acquisitions, disposals, new retroactive reinsurance and other items	220	85
Net balance as of 31 December	40 827	**37 624**
Reinsurance recoverable	4 873	3 632
Deferred expense on retroactive reinsurance	56	14
Balance as of 31 December	45 756	**41 270**

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

Prior-year development

In 2014, claims development on prior years was driven by favourable experience in all lines of business. For property, releases on recent years more than offset increases for the earthquakes in New Zealand. Within casualty, favourable experience in liability across all regions more than offset increases for asbestos and environmental losses and increases elsewhere in the portfolio. Unfavourable experience in motor in France and UK were offset by good claims experience in other countries. In addition, releases in accident & health due to positive experience combined with some favourable commutations contributed to the overall improvement on casualty. Favourable development in engineering contributed to the overall reserve releases on specialty lines due to a reassessment of reserves relating to Spain and France combined with very good claims experience.

A summary of prior year claims development by lines of business is shown below:

USD millions	2013	**2014**
Line of business:		
Property	–397	–139
Casualty	–468	–158
Specialty	–417	–462
Total	–1 282	**–759**

US asbestos and environmental claims exposure

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

At the end of 2014, the Reinsurance business unit carried net reserves for US asbestos and environmental liabilities equal to USD 1 886 million. During 2014, the Group incurred net losses of USD 263 million and paid net against these liabilities USD 162 million.

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

The Group maintains an active commutation strategy to reduce exposure. When commutation payments are made, the traditional "survival ratio" is artificially reduced by premature payments which should not imply a reduction in reserve adequacy.

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

As of 31 December, the DAC were as follows:

2013 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Opening balance as of 1 January 2013	1 103	2 713	–5	3 811
Deferred	3 217	491	–18	3 690
Effect of acquisitions/disposals and retrocessions		57		57
Amortisation	–2 710	–397	9	–3 098
Effect of foreign currency translation	–19	–19	2	–36
Closing balance as of 31 December 2013	1 591	2 845	–12	4 424

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Opening balance as of 1 January 2014	1 591	2 845	–12	4 424
Deferred	3 563	490	49	4 102
Effect of acquisitions/disposals and retrocessions		–28	13	–15
Amortisation	–3 332	–448	–49	–3 829
Effect of foreign currency translation	–66	–136		–202
Closing balance as of 31 December 2014	**1 756**	**2 723**	**1**	**4 480**

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, the PVFP was as follows:

			2013			**2014**
USD millions	Life & Health Reinsurance	Other	Total	Life & Health Reinsurance	Other	Total
Opening balance as of 1 January	1 358	628	1 986	1 451	634	2 085
Effect of acquisitions/disposals and retrocessions	206	–30	176			0
Amortisation	–151	10	–141	–156	–33	–189
Interest accrued on unamortised PVFP	35	4	39	44	4	48
Effect of foreign currency translation	3		3	–45		–45
Effect of change in unrealised gains/losses		22	22			0
Closing balance as of 31 December	1 451	634	2 085	**1 294**	**605**	**1 899**

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.

The percentage of PVFP which is expected to be amortised in each of the next five years is 7%, 7%, 7%, 7% and 6%.

7 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 preliminary purchase price includes a cash payment of USD 183 million, subject to finalisation at closing. An expected pre-tax loss of USD 247 million (including the impact of net unrealised gains and shadow loss reserve that will be reclassified from equity into the income statement) on the disposition of the net assets was recognised in the fourth quarter of 2014. The sale will only be effective upon the receipt of all required regulatory approvals, which is expected in the second quarter of 2015. The definitive purchase price will be adjusted at closing of the transaction based upon the difference in yields of the transferred investments and a representative basket of investments.

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 2014 income statement of the "Other" segment. This loss will be adjusted principally, for the definitive purchase price to be determined as of the closing of the transaction.

The major classes of assets and liabilities held for sale as of 31 December 2014 are listed below.

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

8 Investments

Investment income

Net investment income by source (excluding unit-linked and with-profit business) was as follows:

USD millions	2013	2014
Fixed income securities	1 932	2 098
Equity securities	118	74
Policy loans, mortgages and other loans	100	158
Investment real estate	139	144
Short-term investments	100	102
Other current investments	82	47
Share in earnings of equity-accounted investees	193	170
Cash and cash equivalents	45	36
Net result from deposit-accounted contracts	150	108
Deposits with ceding companies	613	591
Gross investment income	3 472	**3 528**
Investment expenses	–343	–331
Interest charged for funds held	–9	–10
Net investment income – non-participating	3 120	**3 187**

Dividends received from investments accounted for using the equity method were USD 117 million and USD 171 million for 2013 and 2014, respectively.

Realised gains and losses

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

USD millions	2013	2014
Fixed income securities available-for-sale:		
Gross realised gains	857	602
Gross realised losses	–623	–210
Equity securities available-for-sale:		
Gross realised gains	233	564
Gross realised losses	–37	–77
Other-than-temporary impairments	–34	–35
Net realised investment gains/losses on trading securities	–4	45
Change in net unrealised investment gains/losses on trading securities	–38	120
Other investments:		
Net realised/unrealised gains/losses	296	–314
Net realised/unrealised gains/losses on insurance-related activities	–256	–360
Loss related to sale of Aurora National Life Assurance Company[1]		–247
Foreign exchange gains/losses	33	462
Net realised investment gains/losses – non-participating	**427**	**550**

[1] Please refer to Note 7 "Assets held for sale" for more information.

Investment result – unit-linked and with-profit business

The net investment result on unit-linked and with-profit business credited to policyholders amounted to gains of USD 249 million and USD 75 million for 2013 and 2014, respectively, mainly originating from gains/losses on equity securities.

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 was as follows:

USD millions	2013	**2014**
Balance as of 1 January	295	218
Credit losses for which an other-than-temporary impairment was not previously recognised	1	9
Reductions for securities sold during the period	–52	–75
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	9	
Impact of increase in cash flows expected to be collected	–35	–21
Balance as of 31 December	218	**131**

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 were as follows:

2013 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	4 717	102	–152		4 667
US Agency securitised products	3 554	35	–74		3 515
States of the United States and political subdivisions of the states	731	6	–37		700
United Kingdom	7 659	83	–324		7 418
Canada	2 797	309	–64		3 042
Germany	4 047	86	–37		4 096
France	2 434	99	–11		2 522
Other	6 359	135	–269		6 225
Total	32 298	855	–968		32 185
Corporate debt securities	21 032	739	–441	–3	21 327
Mortgage- and asset-backed securities	5 444	232	–60	–5	5 611
Fixed income securities available-for-sale	58 774	1 826	–1 469	–8	59 123
Equity securities available-for-sale	4 594	761	–61		5 294

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	9 994	904	–4		10 894
US Agency securitised products	2 989	46	–23		3 012
States of the United States and political subdivisions of the states	825	68	–2		891
United Kingdom	4 750	743	–1		5 492
Canada	2 619	621	–1		3 239
Germany	4 314	358	–29		4 643
France	2 654	311	–18		2 947
Other	7 014	320	–108		7 226
Total	35 159	3 371	–186		38 344
Corporate debt securities	20 489	1 335	–139	–2	21 683
Mortgage- and asset-backed securities	4 952	170	–20	–2	5 100
Fixed income securities available-for-sale	**60 600**	**4 876**	**–345**	**–4**	**65 127**
Equity securities available-for-sale	**1 975**	**472**	**–51**		**2 396**

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 were as follows:

USD millions	2013	2014
Debt securities issued by governments and government agencies	1 202	1 997
Corporate debt securities	132	60
Mortgage- and asset-backed securities	188	162
Fixed income securities trading – non-participating	1 522	**2 219**
Equity securities trading – non-participating	615	**65**

Investments held for unit-linked and with-profit business

The carrying amounts of investments held for unit-linked business consist of equity securities trading. As of 31 December 2013 and 2014, these amounted to USD 988 million and USD 894 million, respectively.

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 2013 and 2014, USD 9 792 million and USD 9 781 million, respectively, of fixed income securities available-for-sale were callable.

USD millions	2013 Amortised cost or cost	2013 Estimated fair value	2014 Amortised cost or cost	2014 Estimated fair value
Due in one year or less	2 373	2 358	3 221	3 233
Due after one year through five years	15 358	15 569	13 972	14 327
Due after five years through ten years	10 829	10 951	13 843	14 562
Due after ten years	24 967	24 832	24 787	28 081
Mortgage- and asset-backed securities with no fixed maturity	5 247	5 413	4 777	4 924
Total fixed income securities available-for-sale	58 774	59 123	**60 600**	**65 127**

Assets pledged

As of 31 December 2014, investments with a carrying value of USD 7 060 million were on deposit with regulatory agencies in accordance with local requirements, and investments with a carrying value of USD 8 788 million were placed on deposit or pledged to secure certain reinsurance liabilities, including pledged investments in subsidiaries.

As of 31 December 2013 and 2014, securities of USD 14 419 million and USD 15 230 million, respectively, were transferred to third parties under securities lending transactions and repurchase agreements on a fully collateralised basis. Corresponding liabilities of USD 1 991 million and USD 1 951 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 December 2014, a real estate portfolio with a carrying value of USD 230 million serves as collateral for short-term senior operational debt of USD 503 million.

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

As of 31 December 2013 and 2014, the fair value of the equity securities, the government and corporate debt securities received as collateral was USD 7 816 million and USD 7 165 million, respectively. Of this, the amount that was sold or repledged as of 31 December 2013 and 2014 was USD 4 921 million and USD 3 738 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 was as follows:

2013 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	4 133	–2 877	1 256	–380	876
Reverse repurchase agreements	3 953	–1 811	2 142	–2 142	0
Securities borrowing			0		0
Total	8 086	–4 688	3 398	–2 522	876

2013 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	–4 108	2 656	–1 452	157	–1 295
Repurchase agreements	–2 009	1 811	–198	198	0
Securities lending	–1 792		–1 792	1 655	–137
Total	–7 909	4 467	–3 442	2 010	–1 432

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	4 420	–3 530	890	–188	**702**
Reverse repurchase agreements	3 254	–1 303	1 951	–1 951	**0**
Securities borrowing	87		87	–87	**0**
Total	**7 761**	**–4 833**	**2 928**	**–2 226**	**702**

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	–3 840	2 969	–871	141	**–730**
Repurchase agreements	–1 353	1 003	–350	350	**0**
Securities lending	–1 901	300	–1 601	1 475	**–126**
Total	**–7 094**	**4 272**	**–2 822**	**1 966**	**–856**

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 2013 and 2014. As of 31 December 2013 and 2014, USD 58 million and USD 39 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 3 million and USD 12 million, respectively, to declines in value for more than 12 months.

2013 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	2 342	152			2 342	152
US Agency securitised products	2 105	69	49	5	2 154	74
States of the United States and political subdivisions of the states	522	37	2		524	37
United Kingdom	5 838	324			5 838	324
Canada	801	62	11	2	812	64
Germany	1 630	33	199	4	1 829	37
France	492	9	47	2	539	11
Other	3 137	193	643	76	3 780	269
Total	16 867	879	951	89	17 818	968
Corporate debt securities	9 264	400	344	44	9 608	444
Mortgage- and asset-backed securities	1 549	40	542	25	2 091	65
Total	27 680	1 319	1 837	158	29 517	1 477

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	1 501	3	63	1	1 564	4
US Agency securitised products	965	12	462	11	1 427	23
States of the United States and political subdivisions of the states	66	1	16	1	82	2
United Kingdom	53	1			53	1
Canada	254	1	2		256	1
Germany	816	26	67	3	883	29
France	308	17	15	1	323	18
Other	1 263	71	826	37	2 089	108
Total	5 226	132	1 451	54	6 677	186
Corporate debt securities	3 273	88	985	53	4 258	141
Mortgage- and asset-backed securities	1 356	11	276	11	1 632	22
Total	**9 855**	**231**	**2 712**	**118**	**12 567**	**349**

Mortgages, loans and real estate

As of 31 December 2013 and 2014, 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	2013	**2014**
Policy loans	257	241
Mortgage loans	1 069	1 248
Other loans	3 014	2 419
Investment real estate	820	881

The fair value of the real estate as of 31 December 2013 and 2014 was USD 2 546 million and USD 2 475 million, respectively. The carrying value of policy loans, mortgages and other loans approximates fair value.

Depreciation expense related to income-producing properties was USD 25 million and USD 26 million for 2013 and 2014, respectively. Accumulated depreciation on investment real estate totalled USD 577 million and USD 539 million as of 31 December 2013 and 2014, respectively.

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

9 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 (e.g. 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 (e.g. 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 2014, 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 levels 1 and 2. Securities classified in level 1 are traded on public stock exchanges for which quoted prices are readily available. Level 2 equities include equity investments fair valued pursuant to the fair value option election and certain hedge fund positions; all valued based on primarily observable inputs.

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 Senior Risk Committee, chaired by the Group Chief Risk Officer, has a primary responsibility for governing and overseeing all of the Group's asset and derivative valuation policies and operating parameters (including level 3 measurements). The Senior Risk 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, the fair values of assets and liabilities measured on a recurring basis by level of input were as follows:

2013 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	4 182	55 844	619		60 645
Debt securities issued by US government and government agencies	4 182	1 204			5 386
US Agency securitised products		3 530			3 530
Debt securities issued by non-US governments and government agencies		24 471			24 471
Corporate debt securities		20 852	607		21 459
Mortgage- and asset-backed securities		5 787	12		5 799
Equity securities	6 332	554	11		6 897
Equity securities backing unit-linked and with-profit business	988				988
Equity securities held for proprietary investment purposes	5 344	554	11		5 909
Derivative financial instruments	31	3 597	505	–2 877	1 256
Interest rate contracts	8	2 377			2 385
Foreign exchange contracts		267			267
Derivative equity contracts	23	842	401		1 266
Credit contracts		18	28		46
Other contracts		93	76		169
Other invested assets	1 476	210	1 791		3 477
Total assets at fair value	12 021	60 205	2 926	–2 877	72 275
Liabilities					
Derivative financial instruments	–14	–3 100	–994	2 656	–1 452
Interest rate contracts		–2 127			–2 127
Foreign exchange contracts		–428			–428
Derivative equity contracts	–14	–527	–190		–731
Credit contracts		–11	–38		–49
Other contracts		–7	–766		–773
Liabilities for life and health policy benefits			–145		–145
Accrued expenses and other liabilities	–1 634	–1 271	–1 656		–4 561
Total liabilities at fair value	–1 648	–4 371	–2 795	2 656	–6 158

[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.

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	10 974	55 984	388		67 346
Debt securities issued by US government and government agencies	10 974	1 419			12 393
US Agency securitised products		3 028			3 028
Debt securities issued by non-US governments and government agencies		24 920			24 920
Corporate debt securities		21 368	375		21 743
Mortgage- and asset-backed securities		5 249	13		5 262
Equity securities	3 351		4		3 355
Equity securities backing unit-linked and with-profit business	894				894
Equity securities held for proprietary investment purposes	2 457		4		2 461
Short-term investments held for proprietary investment purposes[2]	4 484	6 036			10 520
Derivative financial instruments	40	3 843	537	–3 530	890
Interest rate contracts		2 625			2 625
Foreign exchange contracts		272			272
Derivative equity contracts	40	889	396		1 325
Credit contracts		1			1
Other contracts		56	141		197
Other invested assets	907	562	1 289		2 758
Total assets at fair value	**19 756**	**66 425**	**2 218**	**–3 530**	**84 869**
Liabilities					
Derivative financial instruments	–13	–3 110	–717	2 969	–871
Interest rate contracts	–5	–2 117			–2 122
Foreign exchange contracts		–407			–407
Derivative equity contracts	–8	–561	–130		–699
Credit contracts		–2	–10		–12
Other contracts		–23	–577		–600
Liabilities for life and health policy benefits			–187		–187
Accrued expenses and other liabilities	–1 035	–864	–1 559		–3 458
Total liabilities at fair value	**–1 048**	**–3 974**	**–2 463**	**2 969**	**–4 516**

[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.
[2] In the first quarter 2014, the Group changed the valuation of short-term investments from amortized cost to fair value. There is no material impact to net income, total assets or shareholder's equity.

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

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

2013 USD millions	Fixed income securities	Equity securities	Derivative assets	Other invested assets	Total assets	Derivative liabilities	Liabilities for life and health policy benefits	Accrued expenses and other liabilities	Total liabilities
Assets and liabilities									
Balance as of 1 January	637	74	1 010	2 071	3 792	–2 865	–272	–1 625	–4 762
Realised/unrealised gains/losses:									
Included in net income	–2	1	–329	57	–273	1 721	131		1 852
Included in other comprehensive income	–2			8	6				0
Purchases	54		25	342	421				0
Issuances			99		99	–62			–62
Sales	–37	–64	–233	–568	–902	212			212
Settlements	–31		–67		–98				0
Transfers into level 3[1]				134	134				0
Transfers out of level 3[1]				–280	–280				0
Impact of foreign exchange movements				27	27		–4	–31	–35
Closing balance as of 31 December	619	11	505	1 791	2 926	–994	–145	–1 656	–2 795

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

2014 USD millions	Fixed income securities	Equity securities	Derivative assets	Other invested assets	**Total assets**	Derivative liabilities	Liabilities for life and health policy benefits	Accrued expenses and other liabilities	**Total liabilities**
Assets and liabilities									
Balance as of 1 January	619	11	505	1 791	**2 926**	–994	–145	–1 656	**–2 795**
Realised/unrealised gains/losses:									
Included in net income	1	2		125	**128**	302	–39		**263**
Included in other comprehensive income	7	–1		–29	**–23**				**0**
Purchases	10		44	76	**130**				**0**
Issuances			28		**28**	–91			**–91**
Sales	–21	–3	–58	–523	**–605**	97			**97**
Settlements	–227		–24	–2	**–253**	–31			**–31**
Transfers into level 3[1]			42	32	**74**				**0**
Transfers out of level 3[1]	–1	–4		–130	**–135**				**0**
Impact of foreign exchange movements		–1		–51	**–52**		–3	97	**94**
Closing balance as of 31 December	**388**	**4**	**537**	**1 289**	**2 218**	**–717**	**–187**	**–1 559**	**–2 463**

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

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

The gains and losses relating to the assets and liabilities measured at fair value using significant unobservable inputs (level 3) for the years ended 31 December were as follows:

USD millions	2013	2014
Gains/losses included in net income for the period	1 579	391
Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date	1 437	90

Quantitative information about level 3 fair value measurements

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

USD millions	2013 Fair value	**2014** Fair value	Valuation technique	Unobservable input	Range (weighted average)
Assets					
Corporate debt securities	607	**375**			
Private placement corporate debt	341	304	Corporate Spread Matrix	Illiquidity premium	15 bps–186 bps (64 bps)
Private placement credit tenant leases	68	71	Discounted Cash Flow Model	Illiquidity premium	75 bps–175 bps (98 bps)
Derivative equity contracts	401	**396**			
OTC equity option referencing correlated equity indices	401	396	Proprietary Option Model	Correlation	–20 %–100 % (40 %)[1]
Liabilities					
Derivative equity contracts	–190	**–130**			
OTC equity option referencing correlated equity indices	–49	–46	Proprietary Option Model	Correlation	–20%–100% (40%)[1]
Other derivative contracts and liabilities for life and health policy benefits	–911	**–764**			
Variable annuity and fair valued GMDB contracts	–677	–639	Discounted Cash Flow Model	Risk margin	4% (n.a.)
				Volatility	4%–42%
				Lapse	0.5%–33%
				Mortality adjustment	–10%–0%
				Withdrawal rate	0%–90%
Embedded derivatives in Mod-Co and Coinsurance with Funds Withheld treaties	–125	–22	Discounted Cash Flow Model	Lapse	3%–10%
				Mortality adjustment	80% (n.a.)

[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 (i.e. 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.

The significant unobservable inputs underlying the fair valuation of an embedded derivative bifurcated from the Group's modified coinsurance (Mod-Co) and Coinsurance with Funds Withheld treaties are lapse and mortality adjustment to published mortality tables; both are applied to build an expectation of cash flows associated with the underlying block of term business. Both inputs are not expected to significantly fluctuate over time.

Other invested assets measured at net asset value

Other invested assets measured at net asset value as of 31 December, respectively, were as follows:

USD millions	2013 Fair value	**2014 Fair value**	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Private equity funds	687	657	224	non-redeemable	n.a.
Hedge funds	749	344		redeemable[1]	45-95 days[2]
Private equity direct	68	33		non-redeemable	n.a.
Real estate funds	231	203	74	non-redeemable	n.a.
Total	1 735	**1 237**	**298**		

[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:

Equity securities trading

The Group elected the fair value option for an investment previously classified as available-for-sale within other invested assets in the balance sheet. The Group economically hedges the investment with derivative instruments that offset this exposure. The changes in fair value of the derivatives are recorded in earnings. Electing the fair value option eliminates the mismatch previously caused by the economic hedging of the investment and reduces the volatility in the income statement. Over the first six months of 2014, these equity securities got redeemed.

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 were as follows:

USD millions	2013	2014
Assets		
Equity securities trading held for proprietary investment purposes	615	65
of which at fair value pursuant to the fair value option	544	0
Other invested assets	9 233	7 353
of which at fair value pursuant to the fair value option	57	50
Liabilities		
Liabilities for life and health policy benefits	–20 324	–19 284
of which at fair value pursuant to the fair value option	–145	–187

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 years ended 31 December were as follows:

USD millions	2013	2014
Equity securities trading held for proprietary investment purposes	35	2
Other invested assets	18	2
Liabilities for life and health policy benefits	125	–41
Total	178	**–37**

Fair value changes from equity securities trading are reported in "Net realised investment gains/losses - non-participating business". 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, were as follows:

2013 USD millions	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets			
Policy loans		257	257
Mortgage loans		1 069	1 069
Other loans		3 014	3 014
Investment real estate		2 546	2 546
Total assets	0	6 886	6 886
Liabilities			
Debt	–9 703	–10 998	–20 701
Total liabilities	–9 703	–10 998	–20 701

2014 USD millions	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets			
Policy loans		241	241
Mortgage loans		1 248	1 248
Other loans		2 419	2 419
Investment real estate		2 475	2 475
Total assets	**0**	**6 383**	**6 383**
Liabilities			
Debt	–9 441	–8 694	–18 135
Total liabilities	**–9 441**	**–8 694**	**–18 135**

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 needs 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.

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

2013 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	83 250	2 385	–2 127	258
Foreign exchange contracts	15 580	252	–417	–165
Equity contracts	20 111	1 266	–731	535
Credit contracts	2 676	46	–49	–3
Other contracts	23 176	169	–773	–604
Total	144 793	4 118	–4 097	21
Derivatives designated as hedging instruments				
Foreign exchange contracts	1 472	15	–11	4
Total	1 472	15	–11	4
Total derivative financial instruments	146 265	4 133	–4 108	25
Amount offset				
Where a right of set-off exists		–2 353	2 353	
Due to cash collateral		–524	303	
Total net amount of derivative financial instruments		1 256	–1 452	–196

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	83 942	2 625	–2 122	503
Foreign exchange contracts	12 924	223	–400	–177
Equity contracts	20 173	1 325	–699	626
Credit contracts	450	1	–12	–11
Other contracts	21 491	197	–600	–403
Total	**138 980**	**4 371**	**–3 833**	**538**
Derivatives designated as hedging instruments				
Foreign exchange contracts	2 770	49	–7	42
Total	**2 770**	**49**	**–7**	**42**
Total derivative financial instruments	**141 750**	**4 420**	**–3 840**	**580**
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		**890**	**–871**	**19**

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 2013 and 2014.

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 years ended 31 December, the gains and losses of derivative financial instruments not designated as hedging instruments were as follows:

USD millions	2013	**2014**
Derivatives not designated as hedging instruments		
Interest rate contracts	–223	–207
Foreign exchange contracts	–584	49
Equity contracts	–962	–172
Credit contracts	–71	9
Other contracts	1 731	–358
Total gain/loss recognised in income	–109	**–679**

Hedging activities

The Group designates certain derivative financial instruments as hedging instruments. The designation of derivative financial instruments is primarily used for overall portfolio and risk management strategies. As of 31 December 2013 and 2014, 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. Previously, the Group has entered into interest rate swaps to reduce the exposure to interest rate volatility. 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 years ended 31 December, the gains and losses attributable to the hedged risks were as follows:

USD millions	2013 Gains/losses on derivatives	2013 Gains/losses on hedged items	**2014** Gains/losses on derivatives	**2014** Gains/losses on hedged items
Fair value hedging relationships				
Interest rate contracts	–240	255		
Foreign exchange contracts	2	–1	122	–120
Total gain/loss recognised in income	–238	254	**122**	**–120**

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 years ended 31 December 2013 and 2014, the Group recorded an accumulated net unrealised foreign currency remeasurement loss of USD 57 million and a gain of USD 525 million, respectively, in shareholder's 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 2013 and 2014 was approximately USD 1 780 million and USD 1 866 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[1]
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 305 million and USD 112 million as of 31 December 2013 and 2014, respectively. For derivative financial instruments containing credit risk-related contingent features, the Group posted collateral of USD 2 million and USD 6 million as of 31 December 2013 and 2014, respectively. In the event of a reduction of the Group's credit rating to below investment grade, a fair value of USD 106 million additional collateral would have had to be posted as of 31 December 2014. The total equals the amount needed to settle the instruments immediately as of 31 December 2014.

Credit derivatives written/sold
In 2013, the Group has substantially completed the unwinding and de-risking activities and reduced its exposure in credit derivatives written/sold which decreased the related notional amount and fair values materially. As of 31 December 2014, the Group had no significant exposure in credit derivatives written/sold. The maximum potential payout, which is based on notional values, as of 31 December 2013 and 2014 was USD 640 million and nil, respectively.

[1] During 2014 the Group revised the disclosure on contracts that contain credit-risk related contingent features. The revision had no impact on net income and shareholder's equity of the Group.

11 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 was as follows:

USD millions	2013	**2014**
Senior financial debt	2 896	3 925
Senior operational debt	3 096	1 034
Short-term debt – financial and operational debt	5 992	**4 959**
Senior financial debt	3 233	2 659
Senior operational debt	708	713
Subordinated financial debt	5 367	4 990
Subordinated operational debt	5 414	2 903
Long-term debt – financial and operational debt	14 722	**11 265**
Total carrying value	20 714	**16 224**
Total fair value	20 701	**18 135**

Maturity of long-term debt

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

USD millions	2013	**2014**
Due in 2015	730	0[1]
Due in 2016	2 151	1 984
Due in 2017	1 341	1 215
Due in 2018	0	0
Due in 2019	1 981	1 922
Due after 2019	8 519	6 144
Total carrying value	14 722	**11 265**

[1] Balance was reclassified to short-term debt.

Senior long-term debt

Maturity	Instrument	Issued in	Currency	Nominal in millions	Interest rate	Book value in USD millions
2017	EMTN	2011	CHF	600	2.13%	601
2019	Senior notes[1]	1999	USD	234	6.45%	272
2022	Senior notes	2012	USD	250	2.88%	249
2024	EMTN	2014	CHF	250	1.00%	250
2026	Senior notes[1]	1996	USD	397	7.00%	519
2030	Senior notes[1]	2000	USD	193	7.75%	279
2042	Senior notes	2012	USD	500	4.25%	489
Various	Payment undertaking agreements	various	USD	579	various	713
Total senior long-term debt as of 31 December 2014						**3 372**
Total senior long-term debt as of 31 December 2013						3 941

[1] Assumed in the acquisition of GE Insurance Solutions.

Subordinated long-term debt

Maturity	Instrument	Issued in	Currency	Nominal in millions	Interest rate	first call in	Book value in USD millions
2024	Subordinated contingent write-off loan note	2013	USD	750	6.38%	2019	829
2042	Subordinated fixed-to-floating rate loan note	2012	EUR	500	6.63%	2022	597
2045	Subordinated contingent write-off securities	2013	CHF	175	7.50%	2020	212
2057	Subordinated private placement (amortising, limited recourse)	2007	GBP	1 862	4.83%		2 903
	Subordinated perpetual loan note	2006	EUR	1 000	5.25%	2016	1 209
	Subordinated perpetual loan note	2006	USD	752	6.85%	2016	752
	Subordinated perpetual loan note	2007	GBP	500	6.30%	2019	778
	Subordinated perpetual loan note	2007	AUD	300	7.64%	2017	245
	Subordinated perpetual loan note	2007	AUD	450	6 months BBSW +1.17%	2017	368
Total subordinated long-term debt as of 31 December 2014							**7 893**
Total subordinated long-term debt as of 31 December 2013							10 781

Interest expense on long-term debt and contingent capital instruments

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

USD millions	2013	2014
Senior financial debt	148	110
Senior operational debt	49	16
Subordinated financial debt	286	293
Subordinated operational debt	246	231
Total	729	**650**

Interest expense on contingent capital instruments was USD 67 million and USD 69 million for the years ended 31 December 2013 and 2014, respectively.

Long-term debt issued in 2014

In September 2014, SRZ issued 10-year senior notes maturing in 2024. The notes have a face value of CHF 250 million, with a fixed coupon of 1% per annum.

Contingent capital instruments

In February 2012, SRZ issued a perpetual subordinated instrument with stock settlement. The instrument has a face value of CHF 320 million, with a fixed coupon of 7.25% per annum until the first optional redemption date (1 September 2017).

In March 2012, SRZ issued a perpetual subordinated capital instrument with stock settlement. The instrument has a face value of USD 750 million, with a fixed coupon of 8.25% per annum until the first optional redemption date (1 September 2018).

Both instruments may be converted, at the option of the issuer, into Swiss Re Ltd shares at any time through at market conversion using the retrospective five-day volume weighted average share price with a 3% discount or within six months following a solvency event at a pre-set floor price (CHF 26 for the instrument with face value of CHF 320 million and USD 32 for the instrument with face value of USD 750 million, respectively). These instruments are referred to in these financial statements as "contingent capital instruments".

12 Income taxes

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

USD millions	2013	**2014**
Current taxes	578	1 002
Deferred taxes	–359	–607
Income tax expense	219	**395**

Tax rate reconciliation

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

USD millions	2013	**2014**
Income tax at the Swiss statutory tax rate of 21.0%	775	706
Increase (decrease) in the income tax charge resulting from:		
Foreign income taxed at different rates	6	77
Impact of foreign exchange movements	–8	–176
Tax exempt income/dividends received deduction	–121	–55
Change in valuation allowance	–312	–28
Basis differences in subsidiaries	–152	14
Change in statutory tax rates	47	0
Change in liability for unrecognised tax benefits including interest and penalties	–196	–197
Other, net	180	54
Total	219	**395**

The Group reported a tax charge of USD 395 million on a pre-tax income of USD 3 361 million for 2014, compared to a charge of USD 219 million on a pre-tax income of USD 3 691 million for 2013. This translates into an effective tax rate in the current and prior-year reporting periods of 11.8% and 5.9%, respectively. The higher tax rate in the current year results from the impact of tax on profits earned in higher tax jurisdictions and lower one-off tax benefits, partially offset by a higher tax benefit from foreign currency translation. The particularly low effective tax rate in 2013 was also driven by the conclusion of audits, rulings and revised tax opinions.

Deferred and other non-current taxes

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

USD millions	2013	2014
Deferred tax assets		
Income accrued/deferred	442	247
Technical provisions	759	583
Pension provisions	175	257
Benefit on loss carryforwards	3 216	3 517
Currency translation adjustments	505	367
Unrealized gains in income	16	47
Other	658	851
Gross deferred tax asset	5 771	5 869
Valuation allowance	–748	–639
Unrecognised tax benefits offsetting benefits on loss carryforwards[1]		–24
Total deferred tax assets	5 023	**5 206**
Deferred tax liabilities		
Present value of future profits	–377	–277
Income accrued/deferred	–627	–877
Bond amortisation	–199	–370
Deferred acquisition costs	–708	–694
Technical provisions	–2 450	–2 545
Unrealised gains on investments	–364	–1 188
Untaxed realised gains	–408	–238
Foreign exchange provisions	–123	–185
Other	–568	–492
Total deferred tax liabilities	–5 824	**–6 866**
Liability for unrecognised tax benefits including interest and penalties	–1 089	–624
Total deferred and other non-current tax liabilities	–6 913	**–7 490**
Net deferred and other non-current taxes	–1 890	**–2 284**

[1] The Group updated its unrecognised tax benefits presentation. Unrecognised tax benefits is now presented as a reduction to deferred tax assets when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. This change is applied prospectively.

As of 31 December 2014, the aggregate amount of temporary differences associated with investment in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised amount to approximately USD 3.8 billion. In the remote scenario in which these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

As of 31 December 2014, the Group had USD 10 559 million net operating tax loss carryforwards, expiring as follows: USD 27 million in 2018, USD 47 million in 2019, USD 9 123 million in 2020 and beyond, and USD 1 362 million never expire.

The Group also had capital loss carryforwards of USD 714 million, expiring as follows: USD 81 million in 2019 and USD 633 million never expire.

Net operating tax losses of USD 672 million and net capital tax losses of USD 43 million were utilised during the period ended 31 December 2014.

Income taxes paid in 2013 and 2014 were USD 352 million and USD 444 million, respectively.

Unrecognised tax benefits

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

USD millions	2013	2014
Balance as of 1 January	1 214	952
Additions based on tax positions related to the current year	101	22
Additions for tax positions related to the prior years	88	49
Reductions for tax positions of current year	–20	–137
Reductions for tax positions of prior years	–367	–215
Settlements	–83	–84
Other (including foreign currency translation)	19	–51
Balance as of 31 December	952	**536**

The amount of gross unrecognised tax benefits within the tabular reconciliation that, if recognised, would affect the effective tax rate were approximately USD 718 million and USD 497 million at 31 December 2013 and 2014, respectively.

Interest and penalties related to unrecognised tax benefits are recorded in income tax expense. Such expense in 2014 was USD 19 million (USD 128 million in 2013). As of 31 December 2013 and 2014, USD 137 million and USD 112 million, respectively, were accrued for the payment of interest (net of tax benefits) and penalties. The accrued interest balance as of 31 December 2014 is included within the deferred and other non-current taxes section reflected above and in the balance sheet.

The balance of gross unrecognised tax benefits as of 31 December 2014 presented in the table above excludes accrued interest and penalties of USD 112 million.

During the year, certain tax positions and audits in Switzerland, France, Germany, Canada and Japan were effectively settled.

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

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

Australia	2010 - 2014
Belgium	2010 - 2014
Brasil	2010 - 2014
Canada	2008 - 2014
China	2005 - 2014
Denmark	2010 - 2014
France	2008 - 2014
Germany	2007 - 2014
Hong Kong	2008 - 2014
India	2005 - 2014
Ireland	2010 - 2014
Israel	2008 - 2014
Italy	2009 - 2014
Japan	2009 - 2014

Korea	2013 - 2014
Luxembourg	2010 - 2014
Malaysia	2013 - 2014
Mexico	2009 - 2014
Netherlands	2010 - 2014
New Zealand	2009 - 2014
Singapore	2008 - 2014
Slovakia	2009 - 2014
South Africa	2011 - 2014
Spain	2010 - 2014
Switzerland	2011 - 2014
United Kingdom	2008, 2011 - 2014
United States	2009 - 2014

13 Benefit plans

Defined benefit pension plans and post-retirement benefits

The Swiss Re Group sponsors various funded defined benefit pension plans. Employer contributions to the plans are charged to income on a basis which recognises the costs of pensions over the expected service lives of employees covered by the plans. The Group's funding policy for these plans is to contribute annually at a rate that is intended to maintain a level percentage of compensation for the employees covered. A full valuation is prepared at least every three years.

The Swiss Re Group also provides certain healthcare and life insurance benefits for retired employees and their dependants. Employees become eligible for these benefits when they become eligible for pension benefits.

The measurement date of these plans is 31 December for each year presented.

2013 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Benefit obligation as of 1 January	3 691	1 774	382	5 847
Service cost	118	7	6	131
Interest cost	72	69	11	152
Amendments				0
Actuarial gains/losses	–338	–8	–47	–393
Benefits paid	–137	–60	–15	–212
Employee contribution	26			26
Acquisitions/disposals/additions				0
Effect of settlement, curtailment and termination	1			1
Effect of foreign currency translation	97	23	4	124
Benefit obligation as of 31 December	3 530	1 805	341	5 676
Fair value of plan assets as of 1 January	3 213	1 569		4 782
Actual return on plan assets	221	99		320
Company contribution	227	111	15	353
Benefits paid	–137	–60	–15	–212
Employee contribution	26			26
Acquisitions/disposals/additions				0
Effect of settlement, curtailment and termination	1			1
Effect of foreign currency translation	109	23		132
Fair value of plan assets as of 31 December	3 660	1 742	0	5 402
Funded status	130	–63	–341	–274

2014 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Benefit obligation as of 1 January	3 530	1 805	341	5 676
Service cost	100	7	5	112
Interest cost	76	76	12	164
Amendments	–90			–90
Actuarial gains/losses	587	193	52	832
Benefits paid	–129	–60	–17	–206
Employee contribution	27			27
Acquisitions/disposals/additions		–4		–4
Effect of settlement, curtailment and termination	1	–24		–23
Effect of foreign currency translation	–418	–114	–22	–554
Benefit obligation as of 31 December	**3 684**	**1 879**	**371**	**5 934**
Fair value of plan assets as of 1 January	3 660	1 742		5 402
Actual return on plan assets	281	217		498
Company contribution	101	65	17	183
Benefits paid	–129	–60	–17	–206
Employee contribution	27			27
Acquisitions/disposals/additions				0
Effect of settlement, curtailment and termination	1	–24		–23
Effect of foreign currency translation	–407	–117		–524
Fair value of plan assets as of 31 December	**3 534**	**1 823**	**0**	**5 357**
Funded status	**–150**	**–56**	**–371**	**–577**

Amounts recognised in the balance sheet, as of 31 December were as follows:

2013 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Non-current assets	130	44		174
Current liabilities		–2	–16	–18
Non-current liabilities		–105	–325	–430
Net amount recognised	130	–63	–341	–274

2014 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Non-current assets		185		185
Current liabilities		–3	–15	–18
Non-current liabilities	–150	–238	–356	–744
Net amount recognised	**–150**	**–56**	**–371**	**–577**

Amounts recognised in accumulated other comprehensive income, gross of tax, as of 31 December were as follows:

2013 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Net gain/loss	522	301	–109	714
Prior service cost/credit	–2	2	–88	–88
Total	520	303	–197	626

2014 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Net gain/loss	897	323	–45	1 175
Prior service cost/credit	–87	1	–77	–163
Total	**810**	**324**	**–122**	**1 012**

Components of net periodic benefit cost

The components of pension and post-retirement cost for the years ended 31 December were as follows:

2013 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Service cost (net of participant contributions)	118	7	6	131
Interest cost	72	69	11	152
Expected return on assets	–102	–76		–178
Amortisation of:				
Net gain/loss	57	17	–6	68
Prior service cost			–10	–10
Effect of settlement, curtailment and termination	1			1
Net periodic benefit cost	146	17	1	164

2014 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Service cost (net of participant contributions)	100	7	5	112
Interest cost	76	76	12	164
Expected return on assets	–112	–84		–196
Amortisation of:				
Net gain/loss	43	19	–12	50
Prior service cost	–5	–3	–11	–19
Effect of settlement, curtailment and termination	1	–2		–1
Net periodic benefit cost	**103**	**13**	**–6**	**110**

Other changes in plan assets and benefit obligations recognised in other comprehensive income for the years ended 31 December were as follows:

2013 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Net gain/loss	–457	–31	–46	–534
Prior service cost/credit				0
Amortisation of:				
Net gain/loss	–57	–17	6	–68
Prior service cost			10	10
Effect of settlement, curtailment and termination				0
Exchange rate gain/loss recognised during the year		6		6
Total recognised in other comprehensive income, gross of tax	–514	–42	–30	–586
Total recognised in net periodic benefit cost and other comprehensive income, gross of tax	–368	–25	–29	–422

2014 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Net gain/loss	418	60	52	530
Prior service cost/credit	–90	–4		–94
Amortisation of:				
Net gain/loss	–43	–19	12	–50
Prior service cost	5	3	11	19
Effect of settlement, curtailment and termination				0
Exchange rate gain/loss recognised during the year		–19		–19
Total recognised in other comprehensive income, gross of tax	**290**	**21**	**75**	**386**
Total recognised in net periodic benefit cost and other comprehensive income, gross of tax	**393**	**34**	**69**	**496**

The estimated net loss and prior service credit for the defined benefit pension plans that will be amortised from accumulated other comprehensive income into net periodic benefit cost in 2015 are USD 87 million and USD 9 million, respectively. The estimated net gain and prior service credit for the other defined post-retirement benefits that will be amortised from accumulated other comprehensive income into net periodic benefit cost in 2015 are USD 4 million and USD 10 million, respectively.

The accumulated benefit obligation (the current value of accrued benefits excluding future salary increases) for pension benefits was USD 5 235 million and USD 5 469 million as of 31 December 2013 and 2014, respectively.

Pension plans with an accumulated benefit obligation in excess of plan assets as of 31 December were as follows:

USD millions	2013	**2014**
Projected benefit obligation	592	4 769
Accumulated benefit obligation	591	4 720
Fair value of plan assets	490	4 379

Principal actuarial assumptions

	Swiss plan		Foreign plans weighted average		Other benefits weighted average	
	2013	**2014**	2013	**2014**	2013	**2014**
Assumptions used to determine obligations at the end of the year						
Discount rate	2.3%	1.1%	4.4%	3.4%	3.5%	2.7%
Rate of compensation increase	2.3%	2.3%	3.2%	2.8%	2.1%	2.1%
Assumptions used to determine net periodic pension costs for the year ended						
Discount rate	2.0%	2.3%	4.1%	4.4%	3.1%	3.5%
Expected long-term return on plan assets	3.3%	3.3%	4.9%	5.1%		
Rate of compensation increase	2.3%	2.3%	3.1%	3.2%	3.4%	2.1%
Assumed medical trend rates at year end						
Medical trend – initial rate					6.0%	6.0%
Medical trend – ultimate rate					4.5%	4.5%
Year that the rate reaches the ultimate trend rate					2018	2019

The expected long-term rates of return on plan assets are based on long-term expected inflation, interest rates, risk premiums and targeted asset category allocations. The estimates take into consideration historical asset category returns.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one percentage point change in assumed healthcare cost trend rates would have had the following effects for 2014:

USD millions	1 percentage point increase	1 percentage point decrease
Effect on total of service and interest cost components	1	–1
Effect on post-retirement benefit obligation	28	–24

Plan asset allocation by asset category

The actual asset allocation by major asset category for defined benefit pension plans as of the respective measurement dates in 2013 and 2014 is as follows:

	Swiss plan allocation			Foreign plans allocation		
	2013	**2014**	**Target allocation**	2013	**2014**	**Target allocation**
Asset category						
Equity securities	27%	28%	26%	33%	27%	26%
Debt securities	41%	46%	48%	60%	67%	71%
Real estate	19%	18%	20%	1%	0%	1%
Other	13%	8%	6%	6%	6%	2%
Total	100%	**100%**	**100%**	100%	**100%**	**100%**

Actual asset allocation is determined by a variety of current economic and market conditions and considers specific asset class risks.

Equity securities include Swiss Re common stock of USD 7 million (0.1% of total plan assets) and USD 6 million (0.1 % of total plan assets) as of 31 December 2013 and 2014, respectively.

The Group's pension plan investment strategy is to match the maturity profiles of the assets and liabilities in order to reduce the future volatility of pension expense and funding status of the plans. This involves balancing investment portfolios between equity and fixed income securities. Tactical allocation decisions that reflect this strategy are made on a quarterly basis.

Assets measured at fair value

For a description of the different fair value levels and valuation techniques see Note 9 "Fair value disclosures".

Certain items reported as pension plan assets at fair value in the table below are not within the scope of Note 9, namely two positions: real estate and an insurance contract.

Real estate positions classified as level 1 and level 2 are exchange traded real estate funds where a market valuation is readily available. Real estate reported on level 3 is property owned by the pension funds. These positions are accounted for at the capitalised income value. The capitalisation based on sustainable recoverable earnings is conducted at interest rates that are determined individually for each property, based on the property's location, age and condition. If properties are intended for disposal, the estimated selling costs and taxes are recognised in provisions. Sales gains or losses are allocated to income from real estate when the contract is concluded.

The fair value of the insurance contract is based on the fair value of the assets backing the contract.

Other assets classified within level 3 mainly consist of private equity investments valued with the same methodology as mentioned in Note 9.

As of 31 December, the fair values of pension plan assets by level of input were as follows:

2013 USD millions	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Fixed income securities:		2 562		2 562
Debt securities issued by the US government and government agencies		136		136
Debt securities issued by non-US governments and government agencies		752		752
Corporate debt securities		1 647		1 647
Residential mortgage-backed securities		21		21
Commercial mortgage-backed securities		1		1
Other asset-backed securities		5		5
Equity securities:				
Equity securities held for proprietary investment purposes	1 030	573		1 603
Derivative financial instruments	16			16
Real estate	54	17	631	702
Other assets	136	61	132	329
Total assets at fair value	1 236	3 213	763	5 212
Cash	190			190
Total plan assets	1 426	3 213	763	5 402

2014 USD millions	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Fixed income securities:	9	2 881		2 890
Debt securities issued by the US government and government agencies	9	146		155
Debt securities issued by non-US governments and government agencies		864		864
Corporate debt securities		1 846		1 846
Residential mortgage-backed securities		22		22
Commercial mortgage-backed securities		2		2
Other asset-backed securities		1		1
Equity securities:				
Equity securities held for proprietary investment purposes	976	483		1 459
Derivative financial instruments	–3			–3
Real estate	53	11	578	642
Other assets	21	59	139	219
Total assets at fair value	**1 056**	**3 434**	**717**	**5 207**
Cash	146	4		150
Total plan assets	**1 202**	**3 438**	**717**	**5 357**

Assets measured at fair value using significant unobservable inputs (Level 3)

For the years ended 31 December, the reconciliation of fair value of pension plan assets using significant unobservable inputs were as follows:

2013 USD millions	Real estate	Other assets	Total
Balance as of 1 January	572	125	697
Realised/unrealised gains/losses:			
Relating to assets still held at the reporting date	31	1	32
Relating to assets sold during the period		4	4
Purchases, issuances and settlements	11	–1	10
Transfers in and/or out of Level 3			0
Impact of foreign exchange movements	17	3	20
Closing balance as of 31 December	631	132	763

2014 USD millions	Real estate	Other assets	Total
Balance as of 1 January	631	132	763
Realised/unrealised gains/losses:			
Relating to assets still held at the reporting date		5	5
Relating to assets sold during the period		14	14
Purchases, issuances and settlements	13	–4	9
Transfers in and/or out of Level 3			0
Impact of foreign exchange movements	–66	–8	–74
Closing balance as of 31 December	**578**	**139**	**717**

Expected contributions and estimated future benefit payments

The employer contributions expected to be made in 2015 to the defined benefit pension plans are USD 233 million and to the post-retirement benefit plan are USD 15 million.

As of 31 December 2014, the projected benefit payments, which reflect expected future service, not adjusted for transfers in and for employees' voluntary contributions, are as follows:

USD millions	Swiss plan	Foreign plans	Other benefits	Total
2015	198	60	15	273
2016	194	65	16	275
2017	187	68	17	272
2018	188	70	18	276
2019	186	73	19	278
Years 2020–2024	886	395	102	1 383

Defined contribution pension plans

The Group sponsors a number of defined contribution plans to which employees and the Group make contributions. The accumulated balances are paid as a lump sum at the earlier of retirement, termination, disability or death. The amount expensed in 2013 and in 2014 was USD 69 million and USD 73 million, respectively.

14 Share-based payments

Since 2012 compensation arrangements are part of Swiss Re Group arrangements. Compensation awards for the Group, including those granted prior to 2012, settle in shares of Swiss Re Ltd. Performance measures of the compensation awards are measured at the Swiss Re Group level.

As of 31 December 2013 and 2014, the Group had the share-based compensation plans described below.

Total compensation cost for share-based compensation plans recognised in net income was USD 121 million and USD 69 million in 2013 and 2014, respectively. The related tax benefit was USD 26 million and USD 15 million, respectively.

Stock option plans

No options were granted under stock option plans from 2007 onwards. Options issued vest at the end of the fourth year and have a maximum life of ten years.

A summary of the activity of the Group's stock option plans is as follows:

2014	Weighted average exercise price in CHF	Number of options
Outstanding as of 1 January	89	100 000
Outstanding as of 31 December	**84**	**100 000**
Exercisable as of 31 December	**84**	**100 000**

The weighted remaining contractual life is 1.4 years and all stock options outstanding are also exercisable. The fair value of each option grant was estimated on the date of grant using a binomial option-pricing model. The underlying strike price for the outstanding option series has been adjusted for the special dividend payout in 2013 and 2014.

Restricted shares

The Group granted 10 458 and 25 153 restricted shares to selected employees in 2013 and 2014, respectively. Moreover, as an alternative to the Group's cash bonus programme, 295 535 and 302 260 shares were delivered during 2013 and 2014, respectively, which are not subject to forfeiture risk.

A summary of the movements in shares relating to outstanding awards granted under the restricted share plans for the year ended 31 December 2014 is as follows:

	Weighted average grant date fair value in CHF[1]	Number of shares
Non-vested at 1 January	67	528 974
Granted	81	327 413
Delivery of restricted shares	73	–277 551
Outstanding as of 31 December	**73**	**578 836**

[1] Equals the market price of the shares on the date of grant.

Long-term Incentive Plan

Between 2006 and 2011, the Group annually granted a Long-term Incentive plan (LTI) to selected employees with a three-year vesting period. The requisite service period as well as the maximum contractual term for each plan is three years and the final payment, if any, occurs at the end of this performance measurement period. The plans include a payout factor which was derived from Return on Equity (ROE) and Earnings per Share (EPS) targets over the vesting period. The payout ratio can vary between 0 and 2 and the final payment for each plan will depend on whether the performance targets have been achieved over the plan period. The fair values of the plans are based on stochastic models which consider the likelihood of achieving performance targets and the impact of dividends.

The 2010 LTI grant was settled in shares in March 2013. The payout factor was driven by average ROE and average EPS over the vesting period. The share price used for measurement is based on the date of grant and was CHF 48.15.

The 2011 LTI grant was settled in shares in March 2014. The payout factor was driven by average ROE and average EPS over the vesting period. The share price used for measurement is based on the date of grant and was CHF 39.39.

For the year ended 31 December 2014, no units were outstanding:

	LTI 2011
Non-vested at 1 January	873 795
Forfeitures	–855
Vested [1]	–872 940
Outstanding as of 31 December	**0**

[1] Refers to the number of units before the application of the payout factor.

Leadership Performance Plan

During 2011 the Compensation Committee reviewed the existing long-term incentive scheme, and in March 2012, the LTI was replaced by a new plan called the Leadership Performance Plan (LPP). The LPP plans are expected to be settled in shares, and the requisite service as well as the maximum contractual term are three years. For the LPP 2014 an additional two-year holding period applies for all Group EC and GMB members. At grant date the award is split equally into two underlying components - Restricted Share Units (RSU) and Performance Share Units (PSU). The RSU component is measured against a RoE performance condition and will vest within a range of 0–100%. The PSU is based on relative total shareholder return, measured against a pre-defined basket of peers and will vest within a range of 0–200%. The fair values of both components are measured separately, based on stochastic models.

The fair value assumptions included in the grant valuation are based on market estimates for dividends (and an additional special dividend of CHF 4.00 for the LPP 2013, respectively a special dividend of CHF 4.15 for the LPP 2014) and the risk free rate based on the average of the 5-year US government rate taken monthly over each annual period in the performance period. This resulted in risk free rates between 1.0% and 3.1% for LPP 2012, LPP 2013 and LPP 2014.

For the year ended 31 December 2014, the outstanding units were as follows:

	LPP 2012		LPP 2013		LPP 2014	
	RSU	PSU	RSU	PSU	RSU	PSU
Non-vested at 1 January	458 640	540 720	350 205	407 565		
Granted					364 280	368 145
Forfeitures	–18 770	–22 135	–15 555	–18 100	–4 660	–4 715
Outstanding as of 31 December	**439 870**	**518 585**	**334 650**	**389 465**	**359 620**	**363 430**
Grant date fair value in CHF	**42.00**	**35.60**	**61.19**	**52.59**	**60.85**	**60.21**

Unrecognised compensation costs
As of 31 December 2014, the total unrecognised compensation cost (net of forfeitures) related to non-vested, share-based compensation awards was USD 61 million and the weighted average period over which that cost is expected to be recognised is 1.8 years.

The number of shares authorised for the Group's share-based payments to employees was 5 538 418 and 3 930 229 as of 31 December 2013 and 2014, respectively. The Group's policy is to ensure that sufficient treasury shares are available at all times to settle future share-based compensation plans.

Employee Participation Plan
The Employee Participation Plan consists of a savings scheme lasting two or three years. Employees combine regular savings with the purchase of either actual or tracking options. The Group contributes to the employee savings over the period of the plan.

At maturity, either the employee receives shares or cash equal to the accumulated savings balance, or the employee may elect to exercise the options.

From 2013 onwards, the Employee Participation Plan was discontinued and no more options were issued. In 2013 and 2014, the Group contributed USD 29 million and USD 8 million, respectively.

Global Share Participation Plan
In June 2013, the Swiss Re Group introduced the Global Share Participation Plan, which is a share purchase plan that was rolled out globally for the benefit of employees of companies within the Swiss Re Group. The Group makes a financial contribution to participants in the Plan, by matching the commitment that they make during the plan cycle with additional Swiss Re Ltd shares.

If the employee is still employed by the Group at the end of a plan cycle, the employee will receive an additional number of shares equal to 30% of the total number of purchased and dividend shares held at that time. In 2013, the Group contributed USD 3 million and USD 7 million to the plans and authorised 28 218 and 109 461shares as of 31 December 2013 and 2014, respectively.

15 Related parties

Insurance activities

The Group assumes and cedes certain re/insurance contracts from/to affiliated companies within the Swiss Re Group, but outside the Group, resulting in the following related party transactions on the income statement and balance sheet:

For the year ended 31 December 2013 USD millions	Corporate Solutions	Admin Re®	Other	Total
Premiums earned	–256	254	86	84
Fee income from policyholders				0
Net investment income – non-participating	74			74
Other revenues		27		27
Total revenues	–182	281	86	185
Claims and claim adjustment expenses	301		–46	255
Life and health benefits		–213		–213
Return credited to policyholders				0
Acquisition costs	57	–2	–35	20
Total expenses	358	–215	–81	62

As of 31 December 2013 USD millions	Corporate Solutions	Admin Re®	Other	Total
Premiums and other receivables	30	105	4	139
Reinsurance recoverable on unpaid claims and policy benefits	471	24		495
Funds held by ceding companies	1 413	2		1 415
Deferred acquisition costs	–49		7	–42
Other assets	337			337
Total assets	2 202	131	11	2 344
Unpaid claims and claim adjustment expenses	6 209	8	48	6 265
Liabilities for life and health policy benefits		6		6
Unearned premiums	77		19	96
Funds held under reinsurance treaties			2	2
Reinsurance balances payable	379			379
Total liabilities	6 665	14	69	6 748

For the year ended 31 December 2014 USD millions	Corporate Solutions	Admin Re®	Other	Total
Premiums earned	–158	272	32	146
Fee income from policyholders				0
Net investment income – non-participating	43			43
Other revenues		9		9
Total revenues	**–115**	**281**	**32**	**198**
Claims and claim adjustment expenses	–32		–16	–48
Life and health benefits		–231		–231
Return credited to policyholders				0
Acquisition costs	27	–2	–13	12
Total expenses	**–5**	**–233**	**–29**	**–267**

As of 31 December 2014 USD millions	Corporate Solutions	Admin Re®	Other	Total
Premiums and other receivables	115	24	11	150
Reinsurance recoverable on unpaid claims and policy benefits	486			486
Funds held by ceding companies	1 337	1		1 338
Deferred acquisition costs	4		7	11
Other assets	180			180
Total assets	**2 122**	**25**	**18**	**2 165**
Unpaid claims and claim adjustment expenses	5 835	6	31	5 872
Liabilities for life and health policy benefits		–22		–22
Unearned premiums	153		18	171
Funds held under reinsurance treaties	1		1	2
Reinsurance balances payable	222		6	228
Total liabilities	**6 211**	**–16**	**56**	**6 251**

Investment activities

The Group conducts various investing activities with affiliated companies in the Swiss Re Group. These include loans, funding agreements and derivatives and result in the following related party transactions on the income statement and balance sheet:

For the year ended 31 December 2013 USD millions	Corporate Solutions	Admin Re®	Other	Total
Net investment income/loss – non-participating		44	5	49
Net realised investment gains/losses – non-participating			17	17

As of 31 December 2013 USD millions	Corporate Solutions	Admin Re®	Other	Total
Policy loans, mortgages and other loans		646	530	1 176
Other invested assets			34	34
Accrued investment income		24		24
Accrued expenses and other liabilities			4	4

For the year ended 31 December 2014 USD millions	Corporate Solutions	Admin Re®	Other	Total
Net investment income/loss – non-participating	–3	14	3	14
Net realised investment gains/losses – non-participating	–34		11	–23

As of 31 December 2014 USD millions	Corporate Solutions	Admin Re®	Other	Total
Policy loans, mortgages and other loans			343	343
Other invested assets	32		29	61
Accrued investment income				0
Accrued expenses and other liabilities	2	26	4	32

Financing activities

The Group enters into various financing activities where it borrows funds from affiliated companies in the Swiss Re Group. These activities result in the following related party transactions on the income statement and balance sheet:

For the year ended 31 December 2013 USD millions	Corporate Solutions	Admin Re®	Other	Total
Net investment income/loss – non-participating			7	7
Net realised investment gains/losses – non-participating			–67	–67
Interest expense			–37	–37

As of 31 December 2013 USD millions	Corporate Solutions	Admin Re®	Other	Total
Policy loans, mortgages and other loans			1 656[1]	1 656
Accrued investment income			5[1]	5
Short-term debt			2 757	2 757
Accrued expenses and other liabilities			1 665[1]	1 665

For the year ended 31 December 2014 USD millions	Corporate Solutions	Admin Re®	Other	Total
Net investment income/loss – non-participating			8	8
Net realised investment gains/losses – non-participating			–74	–74
Interest expense			–31	–31

As of 31 December 2014 USD millions	Corporate Solutions	Admin Re®	Other	Total
Policy loans, mortgages and other loans			1 559[1]	1 559
Accrued investment income			4[1]	4
Short-term debt			3 802	3 802
Accrued expenses and other liabilities			1 567[1]	1 567

[1] The balances reported in "Policy loans, mortgages and other loans" and "Accrued investment income", which are offset in "Accrued expenses and other liabilities", are part of two funding transactions of the Swiss Re Group. The counterparty of these balances is Swiss Re Specialised Investments Holdings (UK) Ltd.

Issued in	Instrument	Maturity	Currency	Nominal in millions	Interest rate	Book value in USD millions
2005	Senior loan	2028	GBP	100	1 month LIBOR	156
2008	Senior loan	2028	GBP	240	4.98%	375
2014	Senior loan	2015	USD	400	3 months LIBOR +0.15%	400
2014	Senior loan	2015	USD	2 871	3 months LIBOR +0.15%	2 871
Total short-term debt as of 31 December 2014						**3 802**

Operating transactions

The Group enters into various arrangements with affiliated companies in the Swiss Re Group for the provision of services. These activities result in the following related party transactions on the income statement and balance sheet:

For the year ended 31 December 2013 USD millions	Corporate Solutions	Admin Re®	Other	Total
Net investment income/loss – non-participating				0
Other revenues	11	9		20
Other expenses	450	17	–124	343

As of 31 December 2013 USD millions	Corporate Solutions	Admin Re®	Other	Total
Other assets	169	37	8	214
Accrued expenses and other liabilities	125		89	214

For the year ended 31 December 2014 USD millions	Corporate Solutions	Admin Re®	Other	Total
Net investment income/loss – non-participating				0
Other revenues	11	10		21
Other expenses	462	20	–145	337

As of 31 December 2014 USD millions	Corporate Solutions	Admin Re®	Other	Total
Other assets	52	3	6	61
Accrued expenses and other liabilities	12	16	61	89

As of 31 December 2013 and 2014, the Group's investment in mortgages and other loans included USD 304 million and USD 285 million, respectively, of loans due from employees, and USD 233 million and USD 210 million, respectively, due from officers. These loans generally consist of mortgages offered at variable and fixed interest rates.

16 Significant subsidiaries and equity investees

Significant subsidiaries and equity investees	Currency	Share capital (millions)	Affiliation in % as of 31.12.2014	Method of consolidation
Europe				
Belgium				
Swiss Re Treasury (Belgium) N.V., Brussels	EUR	382	100	f
Germany				
Swiss Re Germany AG, Unterföhring bei München	EUR	45	100	f
Liechtenstein				
Elips Life AG, Triesen	CHF	12	100	f
Elips Versicherungen AG, Triesen	CHF	5	100	f
Luxembourg				
Swiss Re Europe Holdings S.A., Luxembourg	EUR	105	100	f
Swiss Re Europe S.A., Luxembourg	EUR	350	100	f
Swiss Re Finance (Luxembourg) S.A., Luxembourg	EUR	0	100	f
Swiss Re Funds (Lux) I, Senningerberg[1]	EUR	10 397	100	f
Switzerland				
European Reinsurance Company of Zurich Ltd, Zurich	CHF	312	100	f
Swiss Re Investments Ltd, Zurich	CHF	1	100	f
United Kingdom				
Swiss Re Capital Markets Limited, London	USD	60	100	f
Swiss Re Services Limited, London	GBP	2	100	f
Americas and Caribbean				
Barbados				
European Finance Reinsurance Company Ltd., Bridgetown	USD	5	100	f
European International Reinsurance Company Ltd., Bridgetown	USD	1	100	f
Gasper Funding Corporation, Bridgetown	USD	17	100	f
Milvus I Reassurance Limited, Bridgetown	USD	0	100	f
Bermuda				
Ark Insurance Holdings Limited, Hamilton	USD	6	14	fv
CORE Reinsurance Company Limited, Hamilton	USD	0	100	f
Swiss Re Global Markets Limited, Hamilton	USD	0	100	f

Method of consolidation

f full
e equity
fv fair value
[1] Net asset value instead of share capital

Significant subsidiaries and equity investees	Currency	Share capital (millions)	Affiliation in % as of 31.12.2014	Method of consolidation
Brazil				
Swiss Re Brasil Resseguros S.A., Sao Paulo	BRL	194	100	f
United States				
Aurora National Life Assurance Company, Wethersfield	USD	3	100	f
Facility Insurance Corporation, Austin	USD	1	100	f
Facility Insurance Holding Corporation, Dallas	USD	0	100	f
Pillar Re Holdings, LLC, New York	USD	0	50	f
Sterling Re Inc., Burlington	USD	21	100	f
Swiss Re America Holding Corporation, Wilmington	USD	0	100	f
Swiss Re Capital Markets Corporation, New York	USD	0	100	f
Swiss Re Financial Markets Corporation, Wilmington	USD	0	100	f
Swiss Re Financial Products Corporation, Wilmington	USD	2 116	100	f
Swiss Re Financial Services Corporation, Wilmington	USD	0	100	f
Swiss Re Life & Health America Holding Company, Wilmington	USD	0	100	f
Swiss Re Life & Health America Inc., Hartford	USD	4	100	f
Swiss Re Partnership Holding, LLC, Dover	USD	368	100	f
Swiss Re Risk Solutions Corporation, Wilmington	USD	0	100	f
Swiss Re Solutions Holding Corporation, Wilmington	USD	9	100	f
Swiss Re Treasury (US) Corporation, Wilmington	USD	0	100	f
Swiss Reinsurance America Corporation, Armonk	USD	10	100	f
Africa				
South Africa				
Swiss Re Life and Health Africa Limited, Cape Town	ZAR	2	100	f
Asia-Pacific				
Australia				
Swiss Re Australia Ltd, Sydney	AUD	845	100	f
Swiss Re Life & Health Australia Limited, Sydney	AUD	980	100	f
China				
Alltrust Insurance Company of China Limited, Shanghai	CNY	2 178	5	fv
Vietnam				
Vietnam National Reinsurance Corporation, Hanoi	VND	1 008 277	25	e

17 Commitments and contingent liabilities

Leasing commitments

As part of its normal business operations, the Group enters into a number of lease agreements. As of 31 December, such agreements, which are operating leases, total the following obligations for the next five years and thereafter:

USD millions	2014
2015	78
2016	75
2017	68
2018	54
2019	39
After 2019	264
Total operating lease commitments	**578**
Less minimum non-cancellable sublease rentals	42
Total net future minimum lease commitments	**536**

The following schedule shows the composition of total rental expenses for all operating leases as of 31 December (except those with terms of a month or less that were not renewed):

USD millions	2013	2014
Minimum rentals	63	68
Sublease rental income	–1	0
Total	62	**68**

Other commitments

As a participant in limited and other investment partnerships, the Group commits itself to making available certain amounts of investment funding, callable by the partnerships for periods of up to 10 years. The total commitments remaining uncalled as of 31 December 2014 were USD 1 657 million.

The Group enters into a number of contracts in the ordinary course of reinsurance and financial services business which, if the Group's credit rating and/or defined statutory measures decline to certain levels, would require the Group to post collateral or obtain guarantees. The contracts typically provide alternatives for recapture of the associated business.

Legal proceedings

In the normal course of business operations, the Group is involved in various claims, lawsuits and regulatory matters. In the opinion of management, the disposition of these matters is not expected to have a material adverse effect on the Group's business, consolidated financial position or results of operations.

18 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.

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 2014 that it was not previously contractually required to provide.

Consolidated VIEs

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

USD millions	2013 Carrying value	2013 Whereof restricted	2014 Carrying value	2014 Whereof restricted
Fixed income securities available-for-sale	6 490	6 490	4 200	4 200
Short-term investments	61	61	95	95
Other invested assets	8		16	
Cash and cash equivalents	162	162	25	25
Accrued investment income	60	60	38	38
Deferred tax assets			19	19
Other assets	17		16	
Total assets	6 798	6 773	**4 409**	**4 377**

	2013 Carrying value	2013 Whereof limited recourse	2014 Carrying value	2014 Whereof limited recourse
Deferred and other non-current tax liabilities			177	177
Short-term debt	62	62		
Accrued expenses and other liabilities	20	20	7	7
Long-term debt	5 414	5 414	2 903	2 903
Total liabilities	5 496	5 496	**3 087**	**3 087**

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:

USD millions	2013	2014
Fixed income securities:		
Available-for-sale	71	69
Trading	15	
Policy loans mortgages and other loans		84
Other invested assets	966	880
Total assets	1 052	**1 033**
Short-term debt	417	
Accrued expenses and other liabilities	422	167
Total liabilities	839	**167**

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:

	2013				2014			
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	72		90	90	70		68	68
Life and health funding vehicles	18		792	792			1 683	1 683
Swaps in trusts	96	284	–[2]	–	35	82	–[2]	–
Investment vehicles	853		853	853	845		845	845
Other	13	555	910	355	83	85	883	798
Total	1 052	839	–[2]	–	**1 033**	**167**	**–[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. Liabilities of USD 85 million recognised for the "Other" category relate mainly to a guarantee granted.

19 Restructuring provision

In 2014, the Group set up a provision of USD 16 million for restructuring costs, and released USD 3 million.

The increase of the provision in the Property & Casualty Reinsurance business segment of USD 16 million is mostly related to office structure simplification costs and leaving benefits.

Changes in restructuring provisions are disclosed in the "Other expenses" line in the Group's income statement.

For the years ended 31 December, restructuring provision developed as follows:

2013 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Total
Balance as of 1 January	32	1	33
Increase in provision	46		46
Release of provision	–2		–2
Costs incurred	–12	–1	–13
Balance as of 31 December	64	0	64

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Total
Balance as of 1 January	64	0	64
Increase in provision	16		16
Release of provision	–3		–3
Costs incurred	–15		–15
Effect of foreign currency translation	–5		–5
Balance as of 31 December	**57**	**0**	**57**

20 Risk assessment

Risk management bodies and functions

Swiss Re's Board of Directors is ultimately responsible for the Group's governance principles and policies. It mainly performs risk oversight and governance through three committees:

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

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

The Group CRO, who is a member of the Group EC, reports directly to the Group CEO as well as to the Board's Finance and Risk Committee. He leads the Group Risk Management function, which is responsible for risk oversight and control across Swiss Re. The Group Risk Management function is comprised of central risk management units providing shared services, along with dedicated teams for the Reinsurance, Corporate Solutions, and Admin Re® Business Units.

The three Business Unit risk teams are led by dedicated Chief Risk Officers, who report directly to the Group CRO and have a secondary reporting line to their respective Business Unit CEO. The Business Unit CROs are responsible for risk oversight in their respective Business Unit, as well as for establishing proper risk governance to ensure efficient risk identification, assessment and control. They are supported by functional, regional and legal entity CROs, who are responsible for overseeing risk management issues that arise at regional or legal entity level.

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

The central risk management units support the CROs at Group, Business Unit and lower levels in discharging their oversight responsibilities. They do so by providing services such as:

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

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

The monitoring of reserves for the three Business Units is provided by a dedicated Actuarial Control Unit within Risk Management. In addition, actuarial management for Corporate Solutions and Admin Re® is part of Risk Management, whereas in Reinsurance the setting of the reserves is performed by valuation actuaries within the P&C and L&H Business Management units.

Risk management activities are also supported by our Group Internal Audit and Compliance units. Group Internal Audit performs independent, objective assessments of adequacy and effectiveness of internal control systems. It evaluates execution processes of Swiss Re, including those within Risk Management. Our Compliance function oversees Swiss Re's compliance with applicable laws, regulations, rules, and the Group's Code of Conduct. In addition, it assists the Board of Directors, the Group EC and management in identifying, mitigating and managing compliance risks.

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Report of the statutory auditor

Report of the statutory auditor
to the General Meeting of
Swiss Reinsurance Company Ltd
Zurich

Report of the statutory auditor on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Swiss Reinsurance Company Ltd and its subsidiaries, which comprise the consolidated balance sheet as of 31 December 2014, and the related consolidated income statement, statement of comprehensive income, statement of shareholders' equity, statement of cash flow and notes (pages 4 to 94) for the year then ended.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP) and the requirements of Swiss law. This responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Swiss Reinsurance Company Ltd and its subsidiaries at 31 December 2014, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America and comply with Swiss law.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers Ltd

Alex Finn
Audit expert
Auditor in charge

Bret Griffin

Zurich, 17 March 2015

Annual Report Swiss Reinsurance Company Ltd

Reinsurance and sub-holding company

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

Financial year 2014

Net income for 2014 amounted to CHF 1 666 million, compared to CHF 2 091 million in the prior year.

The financial year under review showed an increased reinsurance result, compared to prior year. The increase was driven by the improvement of the Life & Health Reinsurance result by CHF 1 264 million to a loss of CHF 390 million for the financial year 2014, reflecting various portfolio transactions, which are recognised through the respective lines in the income statement. The prior year was negatively impacted from one-off transactions, notably the recapture of pre-2004 US individual life business, which was originally retroceded by Swiss Re Life & Health America Inc. to Berkshire Hathaway and reserving assumption updates. The current year life and health result benefited from a novation to an affiliated company, partly offset by management actions including a partial recapture to improve the profitability in respect of the pre-2004 US individual life business. The result from Property & Casualty Reinsurance decreased by CHF 158 million to a gain of CHF 1 753 million in the financial year 2014, due to slightly higher loss and cost ratios but despite increased reinsurance retrocessions from other affiliated companies, following the expiry of a major quota share agreement.

The lower investment result, compared to prior year, was mainly due to less dividend income received from subsidiaries and lower realised gains on sale of investments.

Reinsurance result

Reinsurance result amounted to CHF 1 363 million in 2014, compared to CHF 257 million in 2013.

Premiums earned decreased from CHF 10 493 million in 2013 to CHF 10 311 million in 2014. Excluding the effect of foreign exchange movements, total premiums earned amounted to CHF 10 519 million in 2014.

Property and casualty premiums earned increased from CHF 6 139 million in 2013 to CHF 6 793 million in 2014. The increase was driven by the expiry of a major quota share agreement at year-end 2012, resulting in higher net retained business. The quota share expiry also resulted in higher reinsurance retrocessions from other Swiss Re Group companies.

Life and health premiums earned decreased from CHF 4 354 million in 2013 to CHF 3 518 million in 2014. The decrease was driven by novation of business to an affiliated company and the partial recapture of pre-2004 US individual life business as part of the management actions in the current year. The prior year was impacted by the initial portfolio entry of a new intragroup retrocession treaty with Swiss Re Life & Health America Inc., related to pre-2004 US individual life business. These impacts were partly offset by a portfolio transfer, combined with higher volume retroceded from an affiliated company in 2014, and by new external business written in late 2013, which generated higher premiums earned in the year under review.

Claims and claim adjustment expenses increased from CHF 6 302 million in 2013 to CHF 7 564 million in 2014. Excluding the effect of foreign exchange movements, total claims and claim adjustment expenses amounted to CHF 7 712 million in 2014.

Property and casualty claims and claim adjustment expenses increased from CHF 2 724 million in 2013 to CHF 3 166 million in 2014. The increase was mainly due to the expiry of a major quota share agreement at year-end 2012, resulting in higher net retained business. The current year experienced higher man-made losses compared to 2013, but it was a benign year 2014 in respect to large natural catastrophe events. In line with the prior year, the Company further strengthened its reserves by increasing the equalisation provision by CHF 400 million.

Life and health claims and claim adjustment expenses increased by CHF 820 million to CHF 4 398 million in 2014, driven mainly by external treaties signed in late 2013.

Positive life and health benefits of CHF 1 293 million reflected a novation of business to an affiliated company. The prior year benefits of an expense of CHF 2 578 million were negatively impacted by the initial portfolio entry of the retrocession treaty with Swiss Re Life & Health America Inc. and reserving assumption updates. The current year's positive life and health benefits were partly offset by a portfolio transfer, combined with higher volume retroceded from an affiliated company.

Investment result
Investment result amounted to CHF 1 388 million in 2014, compared to CHF 2 638 million in 2013. Excluding the effect of foreign exchange movements, investment result amounted to CHF 1 328 million in 2014

Investment income decreased by CHF 4 641 million to CHF 2 778 million, mainly due to a dividend received in 2013 from a subsidiary in liquidation. The current year additionally showed lower valuation readjustments on derivative financial instruments related to the life and health variable annuity business and lower realised gains on sale of fixed income securities and shares in investment funds.

Investment expenses decreased by CHF 3 352 million to CHF 1 003 million in 2014, reflecting the prior year valuation adjustment on a subsidiary in liquidation, following its dividend payment. The year under review benefitted from lower valuation adjustments on derivative financial instruments related to the hedge of the life and health variable annuity business and on fixed income securities.

Result from other income and expenses
Other net expenses, which remained materially unchanged compared to prior year, primarily included interest expenses on publicly issued debt and trademark license fees, partly offset by realised foreign exchange gains.

Assets
Total assets increased by 4% to CHF 78 977 million as of 31 December 2014, compared to the prior year. Excluding the effect of foreign exchange movements, total assets amounted to CHF 74 455 million as of 31 December 2014.

Total investments decreased by CHF 1 960 million to CHF 50 704 million as of 31 December 2014. The decrease mainly resulted from sales in relation with the funding of the ordinary dividend to the parent company, the asset transfer related to novation of reinsurance business to an affiliated company and the partial recapture of US individual life business as well as the reduction of a current account credit balance. The decrease was partly offset by liquidity generated by the reinsurance business, the strengthening of the US dollar against the Swiss francs and the invested cash from the increase of a loan credit facility.

Premiums and other receivables from reinsurance increased by CHF 1 606 million to CHF 6 847 million as of 31 December 2014, reflecting higher business volume for both, Life & Health Reinsurance and Property & Casualty Reinsurance, due to new business written and a change in intragroup reinsurance programme.

Funds held by ceding companies increased by CHF 2 615 million to CHF 15 022 million, driven by a change of a property and casualty treaty with an affiliated company, resulting in a funds withheld structure as well as the strengthening of the US dollar against the Swiss francs. The increase was partly offset by the release in connection with novation of life and health business to an affiliated company.

The increase in other assets by CHF 368 million to CHF 2 251 million was mostly driven by securities lending collateral and reverse repurchase transactions.

Liabilities
Total liabilities increased by 6% to CHF 68 270 million as of 31 December 2014. Excluding the effect of foreign exchange movements, total liabilities amounted to CHF 63 910 million as of 31 December 2014.

Technical provisions increased by CHF 3 210 million to CHF 43 027 million as of 31 December 2014, driven by strengthening of the US dollar against the Swiss francs.

Unpaid claims were additionally impacted by the commutation of a property and casualty treaty and by negative developments for the prior year's claims for natural catastrophe events. Life and health unpaid claims increased mainly as a result of a change in a quota share agreement with an affiliated company. Liabilities for life and health benefits decreased, mainly driven by novation of business to an affiliated company and the partial recapture of US individual life business. In addition, the equalisation provision was increased by CHF 400 million in 2014.

The increase in debt from CHF 9 518 million as of 31 December 2013 to CHF 11 047 million as of 31 December 2014 was driven by additional drawdowns of a credit facility from the parent company.

Funds held under reinsurance treaties increased by CHF 1 174 million, reflecting mainly the increase in casualty business retroceded to an affiliated company and the increase of value of life and health funds withheld liabilities due to interest changes.

Other liabilities decreased by CHF 1 740 million to CHF 3 246 million as of 31 December 2014, mainly affected by the decrease of the current account credit balance with an affiliated company. Higher intragroup payables under securities lending agreements and securities sold under agreement to repurchase partially offset the decrease.

Shareholder's equity
Shareholder's equity decreased from CHF 11 797 million as of 31 December 2013 to CHF 10 707 million as of 31 December 2014.

The decrease reflected the ordinary dividend in cash of CHF 2 756 million, partly offset by the net income for 2014 of CHF 1 666 million.

Income statement Swiss Reinsurance Company Ltd

For the years ended 31 December

CHF millions	Notes	2013	2014
Reinsurance	2		
Premiums earned		10 493	**10 311**
Claims and claim adjustment expenses		–6 302	**–7 564**
Life and health benefits		–2 578	**1 293**
Change in equalisation provision		–400	**–400**
Acquisition costs		–1 604	**–2 282**
Other reinsurance result		1 141	**371**
Operating costs		–919	**–753**
Allocated investment return		426	**387**
Reinsurance result		257	**1 363**
Investments	3		
Investment income		7 419	**2 778**
Investment expenses		–4 355	**–1 003**
Allocated investment return		–426	**–387**
Investment result		2 638	**1 388**
Other income and expenses			
Other interest income		40	**26**
Other interest expenses		–481	**–456**
Other income		269	**170**
Other expenses		–473	**–421**
Result from other income and expenses		–645	**–681**
Income before income tax expense		2 250	**2 070**
Income tax expense		–159	**–404**
Net income		2 091	**1 666**

The accompanying notes are an integral part of Swiss Reinsurance Company Ltd's financial statements.

Balance sheet Swiss Reinsurance Company Ltd

As of 31 December

Assets

CHF millions	Notes	2013	2014
Non-current assets			
Investments			
Investments in subsidiaries and affiliated companies		15 336	**15 388**
Loans to subsidiaries and affiliated companies		6 874	**6 499**
Mortgages and other loans		792	**905**
Equity securities		1 524	**672**
Fixed income securities		16 317	**16 859**
Shares in investment funds		3 372	**3 942**
Short-term investments		6 379	**4 857**
Alternative investments		1 716	**1 331**
Assets in derivative financial instruments		354	**251**
Total investments		52 664	**50 704**
Tangible assets		63	**59**
Intangible assets		41	**65**
Total non-current assets		52 768	**50 828**
Current assets			
Premiums and other receivables from reinsurance	4	5 241	**6 847**
Funds held by ceding companies	4	12 407	**15 022**
Deferred acquisition costs	4	604	**842**
Cash and cash equivalents		2 194	**2 172**
Other receivables		442	**649**
Other assets		1 883	**2 251**
Accrued income		380	**366**
Total current assets		23 151	**28 149**
Total assets		75 919	**78 977**

The accompanying notes are an integral part of Swiss Reinsurance Company Ltd's financial statements.

Liabilities and shareholder's equity

CHF millions	Notes	2013	2014
Liabilities			
Technical provisions	5		
Unpaid claims		24 255	**26 334**
Liabilities for life and health policy benefits		12 135	**11 975**
Unearned premiums		2 459	**3 311**
Provisions for profit commissions		168	**207**
Equalisation provision		800	**1 200**
Total technical provisions		39 817	**43 027**
Non-technical provisions			
Provision for taxation		57	**337**
Provision for currency fluctuation		858	**821**
Other provisions		540	**444**
Total non-technical provisions		1 455	**1 602**
Debt			
Debentures		6 100	**6 524**
Loans		3 418	**4 523**
Total debt		9 518	**11 047**
Funds held under reinsurance treaties	5	4 460	**5 634**
Reinsurance balances payable	5	2 901	**2 948**
Liabilities from derivative financial instruments		756	**552**
Other liabilities		4 986	**3 246**
Accrued expenses		229	**214**
Total liabilities		64 122	**68 270**
Shareholder's equity	6		
Share capital		34	**34**
Other legal reserves		650	**650**
Legal reserves from capital contributions		8 057	**8 057**
Other reserves		928	**272**
Retained earnings brought forward		37	**28**
Net income for the financial year		2 091	**1 666**
Total shareholder's equity		11 797	**10 707**
Total liabilities and shareholder's equity		75 919	**78 977**

The accompanying notes are an integral part of Swiss Reinsurance Company Ltd's financial statements.

Notes Swiss Reinsurance Company Ltd

1 Significant accounting principles

Basis of presentation
On 1 January 2013, new Swiss accounting and financial reporting legislation entered into force based on partial revisions of the Swiss Code of Obligations. Based on the transitional provisions, the new provisions have to be implemented for annual accounts from the 2015 financial year onwards, at the latest. The Swiss Reinsurance Company Ltd's financial statements 2014 have still been prepared based on the accounting provisions of the Swiss Code of Obligations in effect until 31 December 2012.

Time period
The 2014 financial year comprises the accounting period from 1 January 2014 to 31 December 2014.

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

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

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

Investments
The following assets are carried at cost, less necessary and legally permissible depreciation:
- Investments in subsidiaries and affiliated companies
- Equity securities
- Fixed income securities (other than zero-coupon bonds)
- Shares in investment funds
- Alternative investments
- Assets in derivative financial instruments

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

Zero-coupon bonds reported under fixed income securities are measured at their amortised cost values.

Assets in derivative financial instruments include reinsurance contracts or features embedded in reinsurance contracts that fulfil the characteristics of derivative financial instruments.

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

Loans to subsidiaries and affiliated companies, mortgages and other loans are carried at nominal value. Value adjustments are recorded where the expected recovery value is lower than the nominal value.

Tangible assets
Other tangible assets are carried at cost, less individually scheduled straight-line depreciation over their useful lives. Items of minor value are not capitalised.

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

Deferred acquisition costs
Deferred acquisition costs consist principally of commissions and are related to the generation of new reinsurance business. Property and casualty deferred acquisition costs are generally amortised in proportion to premiums earned. Life and health deferred acquisition costs will run-off on a prudent basis, typically linearly in a shorter term than the liabilities. The amortisation schedule can also be determined to be in line with the expected profits of the business so no statutory profits are shown until the deferred acquisition costs is fully amortised.

Other assets
Other assets include deferred expenses on retroactive reinsurance policies, which are amortised through earnings over the expected claims-paying period, as well as receivables in connection with securities lending collateral and reverse repurchase transactions, which are carried at nominal value.

Other current assets
Other current assets are carried at nominal value after deduction of known credit risks if applicable.

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

Liabilities for life and health policy benefits are determined on the basis of actuarially calculated present values taking experience into account. For business written directly by the Company, or via a branch of the Company, liabilities are based on gross premium valuation or the cedant-reported information. Reference is made to cedant-reported information given the importance of deposit reserves in Europe. If the data the Company receives is sufficiently granular, however, a prospective gross premium valuation approach can also be adopted using assumptions based on estimates of own experience drawn from internal studies. With respect to the business ceded by the Company's subsidiaries, a prospective gross premium valuation is applied. The method is prospective as it takes into account expected future cash flows inherent in the reinsurance contract from the valuation date until expiry of the contract obligations. The assumptions used in the valuation are based on estimates on experience studies. Cash flows include primarily premiums, claims, commissions and expenses, with margins added for prudence to reflect the uncertainties of the underlying best estimates. The gross premium valuation approach could result in a negative liability provision, which is typically set to zero at the reinsurance treaty level, with the exception of a prudent allowance for deferred acquisition costs on financing treaties.

Modified coinsurance arrangements are treated on a gross basis with the separate recognition of the funds withheld, as well as the liabilities for life and health policy benefits.

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

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

The equalisation provision for property and casualty business is established to achieve a protection of the balance sheet and to break peaks of incurred claims in individual financial years with an exceptionally high claims burden by releasing appropriate amounts from the provision.

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

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

Non-technical provisions

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

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

Debt

Debt is held at redemption value.

Funds held under reinsurance treaties

Funds held under reinsurance treaties mainly contain cash deposits withheld from retrocessionaires, which are stated at redemption value.

Reinsurance balances payable

Reinsurance balances payable are held at redemption value.

Liabilities from derivative financial instruments

Liabilities from derivative financial instruments are generally maintained at the highest commitment amount as per a balance sheet date during the life of the underlying contracts. Premiums received in respect of derivative financial instruments are generally not realised until expiration or settlement of the contract and are deferred respectively.

Included in this position are reinsurance contracts or features embedded in reinsurance contracts that fulfil the characteristics of derivative financial instruments. For such contracts, premiums received may be recognised as income prior to contract expiration or settlement, in cases where the recorded commitment has already reached the maximum liability amount potentially payable under the terms of the respective contracts. Decreases in the liability amounts prior to expiration or settlement are only recognised as income for contracts for which hedging instruments are in place.

Other liabilities

Other liabilities include payables in connection with repurchase agreements and securities lending transactions, which are held at redemption value.

Deposit arrangements

Contracts which do not meet risk transfer requirements, defined as transferring a reasonable probability of a significant loss to the reinsurer, are accounted for as deposit arrangements. Deposit amounts are adjusted for payments received and made, as well as for amortisation or accretion of interest.

Allocated investment return

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

Management expenses

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

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

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

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

2 Reinsurance result

CHF millions	Gross	Retro	2013 Net	Gross	Retro	2014 Net
Premiums written	16 223	–5 195	11 028	**15 608**	**–4 675**	**10 933**
Change in unearned premiums	–756	221	–535	**–288**	**–334**	**–622**
Premiums earned	15 467	–4 974	10 493	**15 320**	**–5 009**	**10 311**
Claims paid and claim adjustment expenses	–10 681	3 069	–7 612	**–10 252**	**2 939**	**–7 313**
Change in unpaid claims	1 994	–684	1 310	**–145**	**–106**	**–251**
Claims and claim adjustment expenses	–8 687	2 385	–6 302	**–10 397**	**2 833**	**–7 564**
Life and health benefits	–1 649	–929	–2 578	**1 200**	**93**	**1 293**
Change in equalisation provision	–400	–	–400	**–400**	**–**	**–400**
Fixed commissions	–2 664	1 219	–1 445	**–3 344**	**1 247**	**–2 097**
Profit commissions	–226	67	–159	**–233**	**48**	**–185**
Acquisition costs	–2 890	1 286	–1 604	**–3 577**	**1 295**	**–2 282**
Other reinsurance income and expenses	192	–95	97	**171**	**–91**	**80**
Result from deposits	819	225	1 044	**694**	**–403**	**291**
Other reinsurance result	1 011	130	1 141	**865**	**–494**	**371**
Operating costs			–919			**–753**
Allocated investment return			426			**387**
Reinsurance result			257			**1 363**

3 Investment result

CHF millions	2013	2014
Income from real estate	107	**0**
Income from subsidiaries and affiliated companies	3 413	**436**
Income from equity securities	30	**36**
Income from fixed income securities, mortgages and other loans	720	**712**
Income from shares in investment funds	30	**4**
Income from derivative financial instruments	1	**4**
Income from short-term investments	61	**43**
Income from alternative investments	133	**172**
Income from investment services	80	**103**
Valuation readjustments on investments	1 566	**424**
Realised gains on sale of investments	1 278	**844**
Investment income	7 419	**2 778**
Expenses from derivative financial instruments	–4	**–5**
Investment management expenses	–226	**–170**
Valuation adjustments on investments	–3 768	**–637**
Realised losses on sale of investments	–357	**–191**
Investment expenses	–4 355	**–1 003**
Allocated investment return	–426	**–387**
Investment result	2 638	**1 388**

4 Assets from reinsurance

			2013			2014
CHF millions	Gross	Retro	Net	Gross	Retro	Net
Premiums and other receivables from reinsurance	5 417	–176	5 241	**6 446**	**401**	**6 847**
Funds held by ceding companies	12 407	–	12 407	**15 022**	**–**	**15 022**
Deferred acquisition costs	1 325	–721	604	**1 547**	**–705**	**842**
Assets from reinsurance	19 149	–897	18 252	**23 015**	**–304**	**22 711**

5 Liabilities from reinsurance

			2013			2014
CHF millions	Gross	Retro	Net	Gross	Retro	Net
Unpaid claims	29 309	–5 054	24 255	**31 592**	**–5 258**	**26 334**
Liabilities for life and health policy benefits	13 268	–1 133	12 135	**13 228**	**–1 253**	**11 975**
Unearned premiums	4 988	–2 529	2 459	**5 621**	**–2 310**	**3 311**
Provisions for profit commissions	215	–47	168	**257**	**–50**	**207**
Equalisation provision	800	–	800	**1 200**	**–**	**1 200**
Funds held under reinsurance treaties	–	4 460	4 460	**–**	**5 634**	**5 634**
Reinsurance balances payable	1 681	1 220	2 901	**1 820**	**1 128**	**2 948**
Liabilities from reinsurance	50 261	–3 083	47 178	**53 718**	**–2 109**	**51 609**

6 Change in shareholder's equity

CHF millions	2013	2014
Shareholder's equity as of 1 January	12 342	**11 797**
Ordinary cash dividend paid for the previous year	–1 831	**–2 756**
Ordinary dividend in-kind paid for the previous year	–805	**–**
Net income for the financial year	2 091	**1 666**
Shareholder's equity on 31 December before proposed dividend payments	11 797	**10 707**
Proposed dividend payments	–2 756	**–3 000**[1]
Shareholder's equity on 31 December after proposed dividend payments	9 041	**7 707**

[1] Details on the proposed dividend payment for the financial year 2014 are disclosed on page 115.

7 Contingent liabilities

Swiss Reinsurance Company Ltd has issued a number of guarantees to several of its subsidiaries in support of their business activities by securing either their overall capital positions or specific transactions. These guarantees are generally not limited by a nominal amount but rather by the exposure of the underlying business.

In addition, as a component of the Swiss Re Group's financing structure, the Company has guaranteed CHF 896 million (2013: CHF 3 027 million) of debt issued by certain subsidiaries and letter of credit facilities benefiting various subsidiaries and affiliated companies of which no amount was utilised as of 31 December 2014 and 2013, respectively.

In the context with the establishment of a new real estate subsidiary of Swiss Reinsurance Company Ltd in 2013 and hence following the Merger Act article 75 the Company remains liable for claims arising before this transaction for a period of three years by a joint-and-several liability with a new subsidiary, unless waived by the counterparties.

8 Unfunded commitments

As a participant in limited investment partnerships, the Company commits itself to making available certain amounts of investment funding, callable by the partnerships in general for periods of up to 10 years. As of 31 December 2014, total commitments remaining uncalled were CHF 1 313 million (2013: CHF 1 360 million).

9 Leasing contracts

Total off-balance-sheet commitments from operating leases for the next five years and thereafter are as follows:

CHF millions	2013	**2014**
2014	24	**–**
2015	19	**25**
2016	16	**23**
2017	13	**19**
2018	12	**15**
After 2019	12	**22**
Total operating leases, net	96	**104**

These commitments pertain to the non-cancellable contract periods and refer primarily to office and apartment space rented by the Company.

As of 31 December 2014, financial lease of IT hardware was recognised on the balance sheet with a value of CHF 4 million (2013: CHF 9 million).

10 Security deposits

To secure the technical provisions at the 2014 balance sheet date, securities with a value of CHF 14 048 million (2013: CHF 16 057 million) were deposited in favour of ceding companies, of which CHF 4 603 million (2013: CHF 5 399 million) referred to affiliated companies.

11 Securities lending and repurchase agreements

To enhance the performance of its investment portfolio, the Company enters into securities lending and repurchase transactions. In the context of such transactions securities are transferred to the counterparty.

Additionally, the Company performs the role of the collateral clearer for the Swiss Re Group, centrally managing collateral for the Swiss Re Group, providing funding diversification, enabling secured cash investment and yield enhancement. As such the Company acts as principal in collateral transactions, borrowing securities from its affiliated companies and entering into lending and borrowing as well as repurchase and reverse repurchase agreements with third parties. As a matter of policy, the Company requires that collateral, consisting of cash or securities, is provided to cover the assumed counterparty risk associated with such transactions.

An overview of the fair value of securities transferred under securities lending and repurchase agreements is provided in the following table as of 31 December:

CHF millions	2013	**2014**
Fair value of securities transferred to third parties	11 461	**15 517**
Fair value of securities transferred to affiliated companies	10 505	**18 112**
Total	21 966	**33 629**

12 Fire insurance value of tangible assets

As of 31 December 2014, the insurance value of tangible assets amounted to CHF 170 million (2013: CHF 169 million).

13 Obligations towards employee pension fund

As of 31 December 2014, other liabilities included CHF 6 million (2013: CHF 127 million) payable to the employee pension fund.

14 Public placed debentures

As of 31 December 2014, the following public placed debentures were outstanding:

Instrument	Issued in	Currency	Nominal in millions	Interest rate	Maturity/ First call in	Book value CHF millions
Senior bond	2014	CHF	250	1.000%	2024	250
Subordinated bond	2013	CHF	175	7.500%	2020	175
Subordinated bond	2013	USD	750	6.375%	2019	745
Subordinated bond	2012	CHF	320	7.250%	2017	320
Subordinated bond	2012	USD	750	8.250%	2018	745
Subordinated bond	2012	EUR	500	6.625%	2022	601
Senior bond	2011	CHF	600	2.125%	2017	600
Senior bond	2010	CHF	500	2.000%	2015	500
Senior bond	2007	GBP	500	6.302%	2019	775
Senior bond	2007	AUD	300	7.635%	2017	244
Senior bond	2007	AUD	450	2.815%	2017	366
Senior bond	2006	EUR	1000	5.252%	2016	1202

15 Investments in subsidiaries

Details on the Company's subsidiaries are disclosed on pages 86 to 87.

16 Share capital

The share capital of the Company amounted to CHF 34 million. It is divided into 344 052 565 registered shares, each with a nominal value of CHF 0.10. The shares were fully paid-in and held directly by Swiss Re Ltd.

17 Deposit arrangements

The following balances were related to deposit accounted reinsurance contracts:

CHF millions	2013	2014
Reinsurance result	77	**42**
Premiums and other receivables from reinsurance	177	**867**
Funds held by ceding companies	652	**728**
Reinsurance balances payable	1 005	**1 759**

18 Claims on and obligations towards affiliated companies

CHF millions	2013	2014
Premiums and other receivables from reinsurance	865	**1 698**
Funds held by ceding companies	6 906	**9 502**
Other receivables	369	**85**
Other assets	164	**188**
Loans	3 418	**4 523**
Funds held under reinsurance treaties	4 279	**5 487**
Reinsurance balances payable	1 253	**1 059**
Other liabilities	4 021	**2 112**

19 Release of undisclosed reserves

In the year under report, no net undisclosed reserves on investments or on provisions were released (2013: CHF 1 147 million).

20 Major shareholders

As of 31 December 2014 and 2013, the Company was a fully owned subsidiary of Swiss Re Ltd.

21 Conditional capital and authorised capital

As of 31 December 2014, the Company had the following conditional capital and authorised capital:

Conditional capital for Equity-Linked Financing Instruments
The share capital of the Company shall be increased by an amount not exceeding CHF 5 000 000 through the issuance of a maximum of 50 000 000 registered shares, payable in full, each with a nominal value of CHF 0.10, through the voluntary or mandatory exercise of conversion and/or option rights granted in connection with bonds or similar instruments including loans or other financial instruments by the Company or Group companies of Swiss Reinsurance Company Ltd (hereinafter collectively the "Equity-Linked Financing Instruments"). Existing shareholders' subscription rights are excluded.

Authorised capital

The Board of Directors is authorised to increase the share capital of the Company at any time up to 25 March 2015 by an amount not exceeding CHF 8 500 000 through the issuance of up to 85 000 000 registered shares, payable in full, each with a nominal value of CHF 0.10. Increases by underwriting as well as partial increases are permitted. The date of issue, the issue price, the type of contribution and any possible acquisition of assets, the date of dividend entitlement as well as the expiry or allocation of non exercised subscription rights will be determined by the Board of Directors.

With respect to a maximum of CHF 5 000 000 through the issuance of up to 50 000 000 registered shares, payable in full, each with a nominal value of CHF 0.10, out of the total amount of authorised capital referred to above, the subscription rights of shareholders may not be excluded.

With respect to a maximum of CHF 3 500 000 through the issuance of up to 35 000 000 registered shares, payable in full, each with a nominal value of CHF 0.10, out of the total amount of authorised capital referred to above, the Board of Directors may exclude or restrict the subscription rights of the existing shareholders for the use of shares in connection with (i) mergers, acquisitions (including take-over) of companies, parts of companies or holdings, equity stakes (participations) or new investments planned by the Company and/or Group companies of Swiss Reinsurance Company Ltd, financing or re-financing of such mergers, acquisitions or new investments, the conversion of loans, securities or equity securities, and/or (ii) improving the regulatory capital position of the Company or Group companies of Swiss Reinsurance Company Ltd in a fast and expeditious manner if the Board of Directors deems it appropriate or prudent to do so (including by way of private placements).

Joint provision for conditional capital for Equity-Linked Financing Instruments and for the above-mentioned authorised capital

The total of registered shares issued from the authorised capital, where the existing shareholders' subscription rights were excluded, and from the shares issued from conditional capital, where the existing shareholders' advance subscription rights on the Equity-Linked Financing Instruments were excluded, may not exceed 74 000 000 registered shares up to 25 March 2015.

22 Personnel information

As of 31 December 2014, Swiss Reinsurance Company Ltd employed a worldwide staff of 4 310 (2013: 4 173). Personnel expenses for the 2014 financial year amounted to CHF 1 027 million (2013: CHF 1 252 million).

23 Management fee contribution

In 2014, management expenses of CHF 775 million (2013: CHF 806 million) were recharged to affiliated companies of the Company and invoiced to third parties. These recharges were reported net under "Operating costs", "Investment expenses" and "Other expenses".

24 Risk assessment

Article 663b sub-para. 12 of the Swiss Code of Obligations requires disclosure of information on the performance of a risk assessment.

The identification, assessment and control of risk exposures of Swiss Reinsurance Company Ltd on a stand-alone basis are integrated in and covered by Swiss Re's Group risk management organisation and processes.

Details are disclosed on page 94.

Proposal for allocation of disposable profit

The Board of Directors proposes to the Annual General Meeting of the Company, to be held on 9 April 2015, to approve the following allocations and payment of an ordinary cash dividend of USD 3 000 million, which must not exceed CHF 3 000 million, translated into CHF at spot rate on the settlement date. The ordinary cash dividend is paid to its sole shareholder Swiss Re Ltd out of other reserves.

In order to comply with the Swiss Code of Obligations, dividends must meet the capital protection requirements in CHF. In addition, it requires also that maximum amounts must be approved by the Annual General Meeting. For 2014, the Board of Directors proposes to set this maximum amount to CHF 3 000 million. This CHF 3 000 million shall be funded by CHF 1 600 million from the retained earnings and by maximum CHF 1 400 million from the legal reserves from capital contributions as in the tables below.

As such the effective reclassification out of the legal reserves from capital contributions and the effective ordinary cash dividend, translated into CHF at spot rate on the settlement date, must not exceed CHF 1 400 million and CHF 3 000 million respectively. In the below tables these thresholds of CHF 1 400 million and CHF 3 000 million, respectively, are presented and reflect the maximum amounts in CHF to be reclassified or paid out. The effective CHF amounts, translated into CHF at spot rate on the settlement date, will not exceed the below stated figures in CHF.

Retained earnings

CHF millions	2013	**2014**
Retained earnings brought forward	37	**28**
Net income for the financial year	2 091	**1 666**
Disposable profit	2 128	**1 694**
Allocation to other reserves	–2 100	**–1 600**
Retained earnings after allocation	28	**94**

Legal reserves from capital contributions

CHF millions	2013	**2014**
Legal reserves from capital contributions brought forward	8 057	**8 057**
Allocation to other reserves	–	**–**
Legal reserves from capital contributions before proposed allocation to other reserves	8 057	**8 057**
Proposed allocation to other reserves in connection with the ordinary cash dividend	–	**–1 400**[1]
Legal reserves from capital contributions after proposed allocation to other reserves	8 057	**6 657**

[1] The Board of Directors proposes to the Annual General Meeting of the Company, to be held on 9 April 2015, to approve an allocation of legal reserves from capital contributions to other reserves of maximal CHF 1 400 million based on the proposed ordinary cash dividend of USD 3 000 million to its sole shareholder Swiss Re Ltd. In order to comply with the Swiss Code of Obligations the proposed ordinary cash dividend, translated into CHF at spot rate on the settlement date, must not exceed CHF 3 000 million which may result in a lower reclassification of legal reserves from capital contributions to other reserves by a respective amount on the settlement date.

Other reserves

CHF millions	2013	**2014**
Other reserves brought forward	1 733	**272**
Allocation from retained earnings	2 100	**1 600**
Effective allocation from legal reserves from capital contributions	–	**–**
Effective ordinary cash dividend paid (translated into CHF at spot rate on settlement date)	–2 756	**–**
Dividend in-kind of Swiss Re Principal Investments Company Ltd	–805[1]	**–**
Other reserves before proposed allocation of legal reserves from capital contributions and ordinary cash dividend	272	**1 872**
Proposed allocation from legal reserves from capital contribution	–	**1 400**[2]
Proposed cash dividend (maximal amount in CHF of the proposed dividend in USD translated into CHF)	–	**–3 000**[2]
Other reserves after proposed allocation of legal reserves from capital contributions and ordinary cash dividend	272	**272**

[1] The dividend in-kind was resolved by the Extraordinary General Meeting on 25 March 2013.
[2] The Board of Directors proposes to the Annual General Meeting of the Company, to be held on 9 April 2015, to approve an allocation of legal reserves from capital contributions to other reserves of maximal CHF 1 400 million and the payment of an ordinary cash dividend of USD 3 000 million to its sole shareholder Swiss Re Ltd out of other reserves on 21 April 2015. In order to comply with the Swiss Code of Obligations the proposed ordinary cash dividend, translated into CHF at spot rate on the settlement date, must not exceed CHF 3 000 million which may result in a lower reclassification of legal reserves from capital contributions to other reserves and a lower ordinary cash dividend by a respective amount on the settlement date.

Zurich, 17 March 2015

Report of the statutory auditor

Report of the statutory auditor
to the General Meeting of
Swiss Reinsurance Company Ltd
Zurich

Report of the statutory auditor on the Financial Statements

As statutory auditor, we have audited the financial statements of Swiss Reinsurance Company Ltd, which comprise the income statement, balance sheet and notes (pages 101 to 114), for the year ended 31 December 2014.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2014 comply with Swiss law and the Company's articles of incorporation.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers Ltd

Alex Finn Bret M. Griffin

Alex Finn Audit expert Auditor in charge	Bret Griffin

Zurich, 17 March 2015

Cautionary note on forward-looking statements

Certain statements and illustrations contained herein are forward-looking. These statements 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 the Group'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. Such factors include, among others:

- instability affecting the global financial system and developments related thereto;
- deterioration in global economic conditions;
- the Group's ability to maintain sufficient liquidity and access to capital markets, including sufficient liquidity to cover potential recapture of reinsurance agreements, early calls of debt or debt-like arrangements and collateral calls due to actual or perceived deterioration of the Group's financial strength or otherwise;
- the effect of market conditions, including the global equity and credit markets, and the level and volatility of equity prices, interest rates, credit spreads, currency values and other market indices, on the Group's investment assets;
- changes in the Group's investment result as a result of changes in 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 the Group'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 the Group's hedging arrangements may not be effective;
- the lowering or loss of financial strength or other ratings of one or more Group companies, and developments adversely affecting the Group'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 the Group's clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- current, pending and future legislation and regulation affecting the Group or its ceding companies;
- 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. The Group operates in a continually changing environment and new risks emerge continually. Readers are cautioned not to place undue reliance on forward-looking statements. The Group undertakes no obligation to publicly revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.

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.

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 Reinsurance Company 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

The Group is regulated in a number of jurisdictions in which it conducts business. 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 Pensions Authority (the "EIOPA"), which has the power to overrule national regulators in certain circumstances. In addition, Swiss Re 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.

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 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

Following the realignment of the corporate structure of Swiss Re Ltd ("SRL") in 2012, the asset base, liquidity position, capital profile and other characteristics of the Group of relevance to its counterparties changed. Swiss Re is a wholly owned subsidiary of SRL and the Group represents only two of the four principal operating segments of the SRL group. Capital, funding, reserve and cost allocations are made at the SRL level across the four operating segments based principally on business plans as measured against U.S. GAAP and Economic Value Management metrics. Decisions at the SRL level in respect of the broader group could have an adverse impact on the Group's financial condition, including its capital and liquidity levels, as well as on its SST ratio. As part of SRL's focus on efficient capital allocation, the Group expects to be paying dividends to SRL. Decisions on dividends payable by each of the operating segments, including the Group, are made at the SRL level based on legal, capital and liquidity considerations.

While further changes to the overall SRL group structure may not have a financial statement impact on an SRL consolidated basis, they would impact the Group to the extent that operations are transferred into or from the Group, or as a result of intra-group transactions to the extent the Group is a counterparty to any such transactions. The process of optimizing the structure as between SRL and its operating segments will continue to evolve over time.

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