Swiss Re

Swiss Reinsurance Company Consolidated

First Quarter 2015 Report

Content

Income statement

For the three months ended 31 March

USD millions	Note	2014	2015
Revenues			
Premiums earned	3	6 523	**6 473**
Fee income from policyholders	3	42	**44**
Net investment income – non-participating business	7	791	**748**
Net realised investment gains/losses – non-participating business (total impairments for the three months ended 31 March were 2 in 2014 and 5 in 2015, of which 2 and 5, respectively, were recognised in earnings)	7	184	**588**
Net investment result – unit-linked and with-profit business	7	–54	**75**
Other revenues		7	**13**
Total revenues		7 493	**7 941**
Expenses			
Claims and claim adjustment expenses	3	–1 936	**–1 962**
Life and health benefits	3	–2 217	**–2 130**
Return credited to policyholders		–41	**–174**
Acquisition costs	3	–1 227	**–1 414**
Other expenses		–591	**–619**
Interest expenses		–191	**–141**
Total expenses		–6 203	**–6 440**
Income before income tax expense		1 290	**1 501**
Income tax expense		–245	**–229**
Net income before attribution of non-controlling interests		1 045	**1 272**
Income/loss attributable to non-controlling interests		–1	
Net income after attribution of non-controlling interests		1 044	**1 272**
Interest on contingent capital instruments		–17	**–17**
Net income attributable to common shareholder		1 027	**1 255**

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

Statement of comprehensive income

For the three months ended 31 March

USD millions	2014	2015
Net income before attribution of non-controlling interests	1 045	**1 272**
Other comprehensive income, net of tax:		
Change in unrealised investment gains/losses	710	**1 012**
Change in other-than-temporary impairment	2	**1**
Change in foreign currency translation	–31	**–853**
Change in adjustment for pension benefits		**26**
Total comprehensive income before attribution of non-controlling interests	1 726	**1 458**
Interest on contingent capital instruments	–17	**–17**
Comprehensive income attributable to non-controlling interests	–1	
Total comprehensive income attributable to common shareholder	1 708	**1 441**

Reclassification out of accumulated other comprehensive income

For the three months ended 31 March

2014 USD millions	Unrealised investment gains/losses[1]	Other-than-temporary impairment[1]	Foreign currency translation[1,2]	Adjustment from pension benefits[3]	Accumulated other comprehensive income
Balance as of 1 January	741	–6	–3 527	–471	–3 263
Change during the period	1 309	3	–60	–3	1 249
Amounts reclassified out of accumulated other comprehensive income	–285			9	–276
Tax	–314	–1	29	–6	–292
Balance as of period end	1 451	–4	–3 558	–471	–2 582

2015 USD millions	Unrealised investment gains/losses[1]	Other-than-temporary impairment[1]	Foreign currency translation[1,2]	Adjustment from pension benefits[3]	**Accumulated other comprehensive income**
Balance as of 1 January	3 462	–3	–4 261	–762	**–1 564**
Change during the period	1 579	2	–740	20	**861**
Amounts reclassified out of accumulated other comprehensive income	–216			15	**–201**
Tax	–351	–1	–113	–9	**–474**
Balance as of period end	**4 474**	**–2**	**–5 114**	**–736**	**–1 378**

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

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

Balance sheet

Assets

USD millions	Note	31.12.2014	31.03.2015
Investments	7, 8, 9		
Fixed income securities:			
Available-for-sale, at fair value (including 12 325 in 2014 and 15 214 in 2015 subject to securities lending and repurchase agreements) (amortised cost: 2014: 60 600; 2015: 62 851)		65 127	**68 553**
Trading (including 645 in 2014 and 18 in 2015 subject to securities lending and repurchase agreements)		2 219	**1 255**
Equity securities:			
Available-for-sale, at fair value (including 190 in 2014 and 482 in 2015 subject to securities lending and repurchase agreements) (cost: 2014: 1 975; 2015: 2 735)		2 396	**3 267**
Trading		65	**71**
Policy loans, mortgages and other loans		3 908	**3 860**
Investment real estate		881	**874**
Short-term investments, at fair value (including 2 025 in 2014 and 1 520 in 2015 subject to securities lending and repurchase agreements)		10 520	**8 641**
Other invested assets		7 353	**6 856**
Investments for unit-linked and with-profit business (including equity securities trading: 894 in 2014 and 923 in 2015)		894	**923**
Total investments		93 363	**94 300**
Cash and cash equivalents (including 45 in 2014 and 37 in 2015 subject to securities lending)		5 855	**7 474**
Accrued investment income		721	**637**
Premiums and other receivables		10 340	**12 434**
Reinsurance recoverable on unpaid claims and policy benefits	3	5 346	**5 055**
Funds held by ceding companies		12 173	**11 732**
Deferred acquisition costs	5	4 480	**4 739**
Acquired present value of future profits	5	1 899	**1 838**
Goodwill		3 916	**3 779**
Income taxes recoverable		109	**118**
Deferred tax assets		5 206	**5 235**
Other assets		2 895	**3 957**
Total assets		146 303	**151 298**

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

Liabilities and equity

USD millions	Note	31.12.2014	31.03.2015
Liabilities			
Unpaid claims and claim adjustment expenses		52 177	**50 205**
Liabilities for life and health policy benefits	8	19 284	**18 513**
Policyholder account balances		6 610	**6 591**
Unearned premiums		7 825	**10 188**
Funds held under reinsurance treaties		3 083	**3 115**
Reinsurance balances payable		1 966	**1 923**
Income taxes payable		802	**413**
Deferred and other non-current tax liabilities		7 490	**8 007**
Short-term debt	10	4 959	**4 703**
Accrued expenses and other liabilities		8 016	**12 430**
Long-term debt	10	11 265	**10 933**
Total liabilities		123 477	**127 021**
Equity			
Contingent capital instruments		1 102	**1 102**
Common shares CHF 0.10 par value			
2014: 344 052 565; 2015: 344 052 565 shares authorised and issued		32	**32**
Additional paid-in capital		8 823	**8 834**
Shares in Swiss Re Ltd, net of tax		–10	**–12**
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax		3 462	**4 474**
Other-than-temporary impairment, net of tax		–3	**–2**
Foreign currency translation, net of tax		–4 261	**–5 114**
Adjustment for pension and other post-retirement benefits, net of tax		–762	**–736**
Total accumulated other comprehensive income		–1 564	**–1 378**
Retained earnings		14 421	**15 676**
Shareholder's equity		22 804	**24 254**
Non-controlling interests		22	**23**
Total equity		22 826	**24 277**
Total liabilities and equity		146 303	**151 298**

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

Statement of shareholder's equity

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

USD millions	2014	2015
Contingent capital instruments		
Balance as of 1 January	1 102	**1 102**
Issued		
Balance as of period end	1 102	**1 102**
Common shares		
Balance as of 1 January	32	**32**
Issue of common shares		
Balance as of period end	32	**32**
Additional paid-in capital		
Balance as of 1 January	8 853	**8 823**
Share-based compensation	–35	**9**
Realised gains/losses on treasury shares	5	**2**
Balance as of period end	8 823	**8 834**
Shares in Swiss Re Ltd, net of tax		
Balance as of 1 January	–148	**–10**
Change of shares in Swiss Re Ltd	138	**–2**
Balance as of period end	–10	**–12**
Net unrealised investment gains/losses, net of tax		
Balance as of 1 January	741	**3 462**
Changes during the period	2 721	**1 012**
Balance as of period end	3 462	**4 474**
Other-than-temporary impairment, net of tax		
Balance as of 1 January	–6	**–3**
Changes during the period	3	**1**
Balance as of period end	–3	**–2**
Foreign currency translation, net of tax		
Balance as of 1 January	–3 527	**–4 261**
Changes during the period	–734	**–853**
Balance as of period end	–4 261	**–5 114**
Adjustment for pension and other post-retirement benefits, net of tax		
Balance as of 1 January	–471	**–762**
Changes during the period	–291	**26**
Balance as of period end	–762	**–736**
Retained earnings		
Balance as of 1 January	14 660	**14 421**
Net income after attribution of non-controlling interests	2 965	**1 272**
Interest on contingent capital instruments, net of tax	–69	**–17**
Dividends on common shares and dividends-in-kind	–3 135	
Balance as of period end	14 421	**15 676**
Shareholder's equity	22 804	**24 254**
Non-controlling interests		
Balance as of 1 January	25	**22**
Change during the period	–4	**1**
Income attributable to non-controlling interests	1	
Balance as of period end	22	**23**
Total equity	22 826	**24 277**

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

Statement of cash flow

For the three months ended 31 March

USD millions	2014	2015
Cash flows from operating activities		
Net income attributable to common shareholder	1 027	**1 255**
Add net income attributable to non-controlling interests	1	
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items	73	**107**
Net realised investment gains/losses	–128	**–660**
Income from equity-accounted investees, net of dividends received	13	**–13**
Change in:		
Technical provisions and other reinsurance assets and liabilities, net	–741	**–166**
Funds held by ceding companies and under reinsurance treaties	502	**132**
Reinsurance recoverable on unpaid claims and policy benefits	282	**185**
Other assets and liabilities, net	–83	**–230**
Income taxes payable/recoverable	15	**–323**
Trading positions, net[1]	309	**139**
Net cash provided/used by operating activities	1 270	**426**
Cash flows from investing activities		
Fixed income securities:		
Sales	14 899	**11 343**
Maturities	728	**925**
Purchases	–16 887	**–14 305**
Net purchases/sales/maturities of short-term investments	707	**1 687**
Equity securities:		
Sales	3 002	**239**
Purchases	–551	**–993**
Securities purchased/sold under agreement to resell/repurchase, net[1]	–1 392	**981**
Net purchases/sales/maturities of other investments[1]	763	**1 725**
Net cash provided/used by investing activities	1 269	**1 602**
Cash flows from financing activities		
Issuance/repayment of long-term debt	–27	**240**
Issuance/repayment of short-term debt	–495	**–430**
Purchase/sale of shares in Swiss Re Ltd		**–2**
Net cash provided/used by financing activities	–522	**–192**
Total net cash provided/used	2 017	**1 836**
Effect of foreign currency translation	22	**–217**
Change in cash and cash equivalents	2 039	**1 619**
Cash and cash equivalents as of 1 January	5 883	**5 855**
Cash and cash equivalents as of 31 March	7 922	**7 474**

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

Interest paid was USD 97 million and USD 66 million for the three months ended 31 March 2014 and 2015, respectively.

Tax paid was USD 218 million and USD 535 million for the three months ended 31 March 2014 and 2015, respectively.

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

Notes to the Group financial statements

1 Organisation and summary of significant accounting policies

Nature of operations

The Swiss 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. The year-end balance sheet data presented was derived from audited financial statements. These interim financial statements do not include all disclosures that US GAAP requires on an annual basis and therefore they should be read in conjunction with the Swiss Reinsurance Company Group's audited financial statements for the year ended 31 December 2014.

In the fourth quarter of 2014, the Group entered into an agreement to sell Aurora National Life Assurance Company (Aurora), a US subsidiary, to Reinsurance Group of America, Incorporated (RGA). The transaction closed in the second quarter of 2015 and, therefore, the subject business was still within the consolidation scope of the Group as of 31 March 2015.

Use of estimates in the preparation of financial statements

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

Valuation of financial assets

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

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

For assets or derivative structures at fair value, the Group uses market prices or inputs derived from market prices. A separate internal price verification process, independent of the trading function, provides an additional control over the market prices or market input used to determine the fair values of such assets. Although management considers that appropriate values have been ascribed to such assets, there is always a level of uncertainty and judgment over these valuations. Subsequent valuations could differ significantly from the results of the process described above. The Group may become aware of counterparty valuations, either directly through the exchange of information or indirectly, for example, through collateral demands. Any implied differences are considered in the independent price verification process and may result in adjustments to initially indicated valuations. As of 31 March 2015, the Group had not provided any collateral on financial instruments in excess of its own market value estimates.

Subsequent events

Subsequent events for the current reporting period have been evaluated up to 29 April 2015. This is the date on which the financial statements are available to be issued.

Recent accounting guidance

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

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

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

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

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

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

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 6.

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 three months ended 31 March

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Revenues					
Premiums earned	3 813	2 659	51		6 523
Fee income from policyholders		13	29		42
Net investment income – non-participating	225	414	146	6	791
Net realised investment gains/losses – non-participating	233	–70	21		184
Net investment result – unit-linked and with-profit		–54			–54
Other revenues	12		1	–6	7
Total revenues	4 283	2 962	248	0	7 493
Expenses					
Claims and claim adjustment expenses	–1 923		–13		–1 936
Life and health benefits		–2 130	–87		–2 217
Return credited to policyholders		46	–87		–41
Acquisition costs	–764	–449	–14		–1 227
Other expenses	–333	–214	–44		–591
Interest expenses	–62	–123	–6		–191
Total expenses	–3 082	–2 870	–251	0	–6 203
Income/loss before income tax expense	1 201	92	–3	0	1 290
Income tax expense	–205	–16	–24		–245
Net income/loss before attribution of non-controlling interests	996	76	–27	0	1 045
Income/loss attributable to non-controlling interests	–1				–1
Net income/loss after attribution of non-controlling interests	995	76	–27	0	1 044
Interest on contingent capital instruments	–5	–12			–17
Net income/loss attributable to common shareholder	990	64	–27	0	1 027
Claims ratio in %	50.4				
Expense ratio in %	28.8				
Combined ratio in %	79.2				
Management expense ratio in %		6.9			
Operating margin in %		10.1			

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

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Revenues					
Premiums earned	3 767	2 677	29		6 473
Fee income from policyholders		15	29		44
Net investment income – non-participating	279	334	135		748
Net realised investment gains – non-participating	197	155	236		588
Net investment result – unit-linked and with-profit		75			75
Other revenues	13	2	–1	–1	13
Total revenues	**4 256**	**3 258**	**428**	**–1**	**7 941**
Expenses					
Claims and claim adjustment expenses	–1 962				–1 962
Life and health benefits		–2 037	–93		–2 130
Return credited to policyholders		–83	–91		–174
Acquisition costs	–917	–489	–8		–1 414
Other expenses	–300	–211	–108		–619
Interest expenses	–60	–77	–5	1	–141
Total expenses	**–3 239**	**–2 897**	**–305**	**1**	**–6 440**
Income before income tax expense	**1 017**	**361**	**123**	**0**	**1 501**
Income tax expense/benefit	–204	–72	47		–229
Net income before attribution of non-controlling interests	**813**	**289**	**170**	**0**	**1 272**
Income/loss attributable to non-controlling interests					0
Net income after attribution of non-controlling interests	**813**	**289**	**170**	**0**	**1 272**
Interest on contingent capital instruments	–5	–12			–17
Net income attributable to common shareholder	**808**	**277**	**170**	**0**	**1 255**
Claims ratio in %	52.1				
Expense ratio in %	32.3				
Combined ratio in %	84.4				
Management expense ratio in %		7.0			
Operating margin in %		9.6			

Business segments – balance sheet

As of 31 December

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

As of 31 March

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Total assets	86 350	57 367	15 736	–8 155	151 298

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b) Property & Casualty Reinsurance business segment – by line of business
For the three months ended 31 March

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

Property & Casualty Reinsurance business segment – by line of business
For the three months ended 31 March

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

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

For the three months ended 31 March

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

[1] Operating margin is calculated as operating 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 three months ended 31 March

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

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

3 Insurance information

Premiums earned and fees assessed against policyholders

For the three months ended 31 March

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Premiums earned, thereof:				
Direct		195	28	223
Reinsurance	4 074	2 768	42	6 884
Intra-group transactions (assumed and ceded)	9		–9	0
Premiums earned before retrocession to external parties	4 083	2 963	61	7 107
Retrocession to external parties	–270	–304	–10	–584
Net premiums earned	3 813	2 659	51	6 523
Fee income from policyholders, thereof:				
Direct			5	5
Reinsurance		13	24	37
Intra-group transactions (assumed and ceded)				0
Gross fee income before retrocession to external parties		13	29	42
Retrocession to external parties				0
Net fee income	0	13	29	42

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

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Premiums earned, thereof:				
Direct		181	1	182
Reinsurance	3 898	2 819	33	6 750
Intra-group transactions (assumed and ceded)				0
Premiums earned before retrocession to external parties	3 898	3 000	34	6 932
Retrocession to external parties	–131	–323	–5	–459
Net premiums earned	**3 767**	**2 677**	**29**	**6 473**
Fee income from policyholders, thereof:				
Direct			5	5
Reinsurance		15	24	39
Intra-group transactions (assumed and ceded)				0
Gross fee income before retrocession to external parties		15	29	44
Retrocession to external parties				0
Net fee income	**0**	**15**	**29**	**44**

Claims and claim adjustment expenses

For the three months ended 31 March

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Claims paid, thereof:				
Gross claims paid to external parties	–2 593	–2 277	–118	–4 988
Intra-group transactions (assumed and ceded)				0
Claims before retrocession to external parties	–2 593	–2 277	–118	–4 988
Retrocession to external parties	302	302	7	611
Net claims paid	–2 291	–1 975	–111	–4 377
Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:				
Gross - with external parties	639	–145	1	495
Intra-group transactions (assumed and ceded)	–8		8	0
Unpaid claims and claim adjustment expenses; life and health benefits before retrocession to external parties	631	–145	9	495
Retrocession to external parties	–263	–10	2	–271
Net unpaid claims and claim adjustment expenses; life and health benefits	368	–155	11	224
Claims and claim adjustment expenses; life and health benefits	–1 923	–2 130	–100	–4 153

Acquisition costs

For the three months ended 31 March

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Acquisition costs, thereof:				
Gross acquisition costs with external parties	–820	–493	–19	–1 332
Intra-group transactions (assumed and ceded)	–3		3	0
Acquisition costs before retrocession to external parties	–823	–493	–16	–1 332
Retrocession to external parties	59	44	2	105
Net acquisition costs	–764	–449	–14	–1 227

Claims and claim adjustment expenses

For the three months ended 31 March

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Claims paid, thereof:				
Gross claims paid to external parties	–2 057	–2 410	9	–4 458
Intra-group transactions (assumed and ceded)				0
Claims before retrocession to external parties	–2 057	–2 410	9	–4 458
Retrocession to external parties	190	323	4	517
Net claims paid	**–1 867**	**–2 087**	**13**	**–3 941**
Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:				
Gross – with external parties	72	60	–106	26
Intra-group transactions (assumed and ceded)				0
Unpaid claims and claim adjustment expenses; life and health benefits before retrocession to external parties	72	60	–106	26
Retrocession to external parties	–167	–10		–177
Net unpaid claims and claim adjustment expenses; life and health benefits	**–95**	**50**	**–106**	**–151**
Claims and claim adjustment expenses; life and health benefits	**–1 962**	**–2 037**	**–93**	**–4 092**

Acquisition costs

For the three months ended 31 March

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Acquisition costs, thereof:				
Gross acquisition costs with external parties	–950	–547	–8	–1 505
Intra-group transactions (assumed and ceded)				0
Acquisition costs before retrocession to external parties	–950	–547	–8	–1 505
Retrocession to external parties	33	58		91
Net acquisition costs	**–917**	**–489**	**–8**	**–1 414**

Reinsurance assets and liabilities

The reinsurance assets and liabilities as of 31 December 2014 and 31 March 2015 were as follows:

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

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Assets					
Reinsurance recoverable on unpaid claims and policy benefits	3 383	1 662	26	–16	5 055
Deferred acquisition costs	2 059	2 679	1		4 739
Liabilities					
Unpaid claims and claim adjustment expenses	39 635	9 665	921	–16	50 205
Liabilities for life and health policy benefits		15 701	2 812		18 513
Policyholder account balances		1 490	5 101		6 591

Reinsurance receivables

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

USD millions	2014	**2015**
Premium receivables invoiced	1031	1 412
Receivables invoiced from ceded re/insurance business	265	455
Assets arising from the application of the deposit method of accounting and meeting the definition of financing receivables	777	684
Recognised allowance	–61	–62

4 Premiums written

For the three months ended 31 March

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Gross premiums written, thereof:					
Direct		385	26		411
Reinsurance	6 714	2 845	40		9 599
Intra-group transactions (assumed)	6			–6	0
Gross premiums written	6 720	3 230	66	–6	10 010
Intra-group transactions (ceded)			–6	6	0
Gross premiums written before retrocession to external parties	6 720	3 230	60		10 010
Retrocession to external parties	–62	–303	–10		–375
Net premiums written	6 658	2 927	50	0	9 635

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Gross premiums written, thereof:					
Direct		376	1		377
Reinsurance	6 205	2 907	33		9 145
Intra-group transactions (assumed)					0
Gross premiums written	6 205	3 283	34		9 522
Intra-group transactions (ceded)					0
Gross premiums written before retrocession to external parties	6 205	3 283	34		9 522
Retrocession to external parties	–77	–322	–5		–404
Net premiums written	**6 128**	**2 961**	**29**	**0**	**9 118**

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

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

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	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

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Opening balance as of 1 January 2015	1 756	2 723	1	4 480
Deferred	1 237	143	9	1 389
Effect of acquisitions/disposals and retrocessions				0
Amortisation	–904	–89	–9	–1 002
Effect of foreign currency translation	–30	–98		–128
Closing balance as of 31 March 2015	**2 059**	**2 679**	**1**	**4 739**

Retroceded DAC may arise on retrocession of reinsurance portfolios, including reinsurance undertaken as part of a securitisation. The associated potential retrocession recoveries are determined by the nature of the retrocession agreements and by the terms of the securitisation.

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

			2014			**2015**
USD millions	Life & Health Reinsurance	Other	Total	Life & Health Reinsurance	Other	Total
Opening balance as of 1 January	1 451	634	2 085	1 294	605	1 899
Amortisation	–156	–33	–189	–33	–4	–37
Interest accrued on unamortised PVFP	44	4	48	12	1	13
Effect of foreign currency translation	–45		–45	–36		–36
Effect of change in unrealised gains/losses			0		–1	–1
Closing balance	1 294	605	1 899	**1 237**	**601**	**1 838**

Retroceded PVFP may arise on retrocession of reinsurance portfolios, including reinsurance undertaken as part of a securitisation. The associated potential retrocession recoveries are determined by the nature of the retrocession agreements and by the terms of the securitisation.

6 Assets held for sale

In the fourth quarter of 2014, the Group entered into an agreement to sell Aurora National Life Assurance Company (Aurora), a US subsidiary, to Reinsurance Group of America, Incorporated (RGA).

The purchase price includes a cash payment of USD 180 million, at closing. A pre-tax loss of USD 243 million (including the impact of net unrealised gains and shadow loss reserve that will be reclassified from equity into the income statement) on the disposition of the net assets is expected, whereof USD 247 million was recognised in the fourth quarter of 2014. The transaction was concluded on 1 April 2015.

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

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

USD millions	2014	**2015**
Assets		
Fixed income securities available-for-sale	3456	3496
Policy loans, mortgages and other loans	157	154
Short-term investments	6	1
Cash and cash equivalents	23	19
Accrued investment income	37	33
Premiums and other receivables	6	9
Reinsurance recoverable on unpaid claims and policy benefits	7	8
Other assets held for sale	1	1
Total assets	3693	**3721**
Liabilities		
Unpaid claims and claim adjustment expenses	15	22
Liabilities for life and health policy benefits	1494	1479
Policyholder account balances	1151	1130
Accrued expenses and other liabilities held for sale	292	315
Total liabilities	2952	**2946**

7 Investments

Investment income

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

USD millions	2014	2015
Fixed income securities	515	499
Equity securities	16	10
Policy loans, mortgages and other loans	46	36
Investment real estate	36	36
Short-term investments	26	20
Other current investments	8	18
Share in earnings of equity-accounted investees	46	44
Cash and cash equivalents	8	10
Net result from deposit-accounted contracts	24	11
Deposits with ceding companies	153	140
Gross investment income	878	**824**
Investment expenses	–85	–75
Interest charged for funds held	–2	–1
Net investment income – non-participating	791	**748**

Dividends received from investments accounted for using the equity method were USD 59 million and USD 31 million for the three months ended 31 March 2014 and 2015, respectively.

Realised gains and losses

Realised gains and losses for fixed income equity securities and other investments (excluding unit-linked and with-profit business) for the three months ended 31 March were as follows:

USD millions	2014	2015
Fixed income securities available-for-sale:		
Gross realised gains	143	276
Gross realised losses	–100	–36
Equity securities available-for-sale:		
Gross realised gains	258	45
Gross realised losses	–26	–12
Other-than-temporary impairments	–2	–5
Net realised investment gains/losses on trading securities	4	39
Change in net unrealised investment gains/losses on trading securities	17	27
Other investments:		
Net realised/unrealised gains/losses	–150	–76
Net realised/unrealised gains/losses on insurance-related activities	31	–4
Foreign exchange gains/losses	9	334
Net realised investment gains/losses – non-participating	**184**	**588**

Investment result – unit-linked and with-profit business

The net investment result on unit-linked and with-profit business credited to policyholders amounted to losses of USD 54 million and to gains of USD 75 million for the three months ended 31 March 2014 and 2015, 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 for the three months ended 31 March was as follows:

USD millions	2014	**2015**
Balance as of 1 January	218	131
Credit losses for which an other-than-temporary impairment was not previously recognised		
Reductions for securities sold during the period	–25	–9
Increase of credit losses for which an other-than-temporary impairment has been recognised previously, when the Group does not intend to sell, or more likely than not will not be required to sell before recovery		4
Impact of increase in cash flows expected to be collected	–9	–2
Impact of foreign exchange movements	1	–4
Balance as of 31 March	185	**120**

Investments available-for-sale

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

2014 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Other-than-temporary impairments recognised in other comprehensive income	Estimated fair value
Debt securities issued by governments and government agencies:					
US Treasury and other US government corporations and agencies	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

2015 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Other-than-temporary impairments recognised in other comprehensive income	Estimated fair value
Debt securities issued by governments and government agencies:					
US Treasury and other US government corporations and agencies	12 481	1 223	–1		13 703
US Agency securitised products	4 000	63	–22		4 041
States of the United States and political subdivisions of the states	832	81	–1		912
United Kingdom	4 751	809	–13		5 547
Canada	2 725	797	–1		3 521
Germany	3 626	452	–52		4 026
France	2 448	378	–38		2 788
Other	6 571	367	–64		6 874
Total	37 434	4 170	–192		41 412
Corporate debt securities	20 707	1 645	–87	–1	22 264
Mortgage- and asset-backed securities	4 710	181	–13	–1	4 877
Fixed income securities available-for-sale	**62 851**	**5 996**	**–292**	**–2**	**68 553**
Equity securities available-for-sale	**2 735**	**581**	**–49**		**3 267**

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

Investments trading

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

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

Investments held for unit-linked and with-profit business

The carrying amounts of investments held for unit-linked business consist of equity securities trading. As of 31 December 2014 and 31 March 2015, these amounted to USD 894 million and USD 923 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 2014 and 31 March 2015, USD 9 781 million and USD 10 347 million, respectively, of fixed income securities available-for-sale were callable.

		2014		2015
USD millions	Amortised cost or cost	Estimated fair value	Amortised cost or cost	Estimated fair value
Due in one year or less	3 221	3 233	2 953	3 003
Due after one year through five years	13 972	14 327	14 611	15 093
Due after five years through ten years	13 843	14 562	14 080	15 068
Due after ten years	24 787	28 081	26 624	30 684
Mortgage- and asset-backed securities with no fixed maturity	4 777	4 924	4 583	4 705
Total fixed income securities available-for-sale	60 600	65 127	**62 851**	**68 553**

Assets pledged

As of 31 March 2015, investments with a carrying value of USD 6 610 million were on deposit with regulatory agencies in accordance with local requirements, and investments with a carrying value of USD 8 329 million were placed on deposit or pledged to secure certain reinsurance liabilities, including pledged investments in subsidiaries.

As of 31 December 2014 and 31 March 2015 securities of USD 15 230 million and USD 17 271 million, respectively, were transferred to third parties under securities lending transactions and repurchase agreements on a fully collateralised basis. Corresponding liabilities of USD 1 951 million and USD 2 743 million, respectively, were recognised in accrued expenses and other liabilities for the obligation to return collateral that the Group has the right to sell or repledge.

As of 31 March 2015, a real estate portfolio with a carrying value of USD 233 million serves as collateral for short-term senior operational debt of USD 257 million.

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

As of 31 December 2014 and 31 March 2015, the fair value of the equity securities, the government and corporate debt securities received as collateral was USD 7 165 million and USD 6 683 million, respectively. Of this, the amount that was sold or repledged as of 31 December 2014 and 31 March 2015 was USD 3 738 million and USD 4 414 million respectively. The sources of the collateral are securities borrowing, reverse repurchase agreements and derivative transactions.

Offsetting of derivatives, financial assets and financial liabilities

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

2014 USD millions	Gross amounts of recognised financial assets	Collateral set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related financial instruments not set off in the balance sheet	Net amount
Derivative financial instruments - assets	4 420	–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

2015 USD millions	Gross amounts of recognised financial assets	Collateral set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related financial instruments not set off in the balance sheet	Net amount
Derivative financial instruments - assets	4 429	–3 667	762	–26	**736**
Reverse repurchase agreements	3 340	–1 860	1 480	–1 480	**0**
Securities borrowing	107		107	–107	**0**
Total	**7 876**	**–5 527**	**2 349**	**–1 613**	**736**

2015 USD millions	Gross amounts of recognised financial liabilities	Collateral set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related financial instruments not set off in the balance sheet	Net amount
Derivative financial instruments - liabilities	–3 576	2 789	–787	185	**–602**
Repurchase agreements	–2 533	1 560	–973	971	**–2**
Securities lending	–2 070	300	–1 770	1 644	**–126**
Total	**–8 179**	**4 649**	**–3 530**	**2 800**	**–730**

Collateral pledged or received between two counterparties with a master netting arrangement in place, but not subject to balance sheet netting is disclosed at fair value. The fair values represent the gross carrying value amounts at the reporting date for each financial instrument received or pledged by the Group. Management believes that master netting agreements provide for legally enforceable set-off in the event of default, which substantially reduces credit exposure. Upon occurrence of an event of default the non-defaulting party may set off the obligation against collateral received regardless if offset on balance sheet prior to the defaulting event. The net amounts of the financial assets and liabilities presented on the balance sheet were recognised in "Other Invested Assets", and "Accrued Expenses and Other Liabilities", respectively.

Unrealised losses on securities available-for-sale

The following table shows the fair value and unrealised losses of the Group's fixed income securities, aggregated by investment category and length of time that individual securities were in a continuous unrealised loss position as of 31 December 2014 and 31 March 2015. As of 31 December 2014 and 31 March 2015, USD 39 million and USD 40 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 12 million and USD 9 million, respectively, to declines in value for more than 12 months.

2014 USD millions	Less than 12 months		12 months or more		Total	
	Fair value	Unrealised losses	Fair value	Unrealised losses	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

2015 USD millions	Less than 12 months		12 months or more		Total	
	Fair value	Unrealised losses	Fair value	Unrealised losses	Fair value	Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	488	1	46		534	1
US Agency securitised products	1 289	16	313	6	1 602	22
States of the United States and political subdivisions of the states	41		7	1	48	1
United Kingdom	479	13			479	13
Canada	12	1			12	1
Germany	745	50	37	2	782	52
France	407	37	14	1	421	38
Other	1 410	44	387	20	1 797	64
Total	4 871	162	804	30	5 675	192
Corporate debt securities	2 084	61	466	27	2 550	88
Mortgage- and asset-backed securities	877	6	190	8	1 067	14
Total	**7 832**	**229**	**1 460**	**65**	**9 292**	**294**

Mortgages, loans and real estate

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

USD millions	2014	**2015**
Policy loans	241	236
Mortgage loans	1 248	1 374
Other loans	2 419	2 250
Investment real estate	881	874

The fair value of the real estate as of 31 December 2014 and 31 March 2015 was USD 2 475 million and USD 2 485 million, respectively. The carrying value of policy loans, mortgages and other loans approximates fair value.

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

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

8 Fair value disclosures

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

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

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

Level 2 inputs are market-based inputs that are directly or indirectly observable, but not considered level 1 quoted prices. Level 2 inputs consist of (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical assets or liabilities in non-active markets (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 the three months ended 31 March 2015, these adjustments were not material. Whenever the underlying assets or liabilities are reported in a specific business segment, the valuation adjustment is allocated accordingly. Valuation adjustments not attributable to any business segment are reported in Other.

In certain situations, the Group uses inputs to measure the fair value of asset or liability positions that fall into different levels of the fair value hierarchy. In these situations, the Group will determine the appropriate level based on the lowest level input that is significant to the determination of the fair value.

Valuation techniques

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

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

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

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

Equity securities held by the Group for proprietary investment purposes are mainly classified in level 1. Securities classified in level 1 are traded on public stock exchanges for which quoted prices are readily available.

The category "Other invested assets" includes the Group's private equity and hedge fund investments which are made directly or via ownership of funds. Substantially all these investments are classified as level 3 due to the lack of observable prices and significant judgment required in valuation. Valuation of direct private equity investments requires significant management judgment due to the absence of quoted market prices and the lack of liquidity. Initial valuation is based on the acquisition cost, and is further refined based on the available market information for the public companies that are considered comparable to the Group's holdings in the private companies being valued, and the private company-specific performance indicators; both historic and projected. Subsequent valuations also reflect business or asset appraisals, as well as market transaction data for private and public benchmark companies and the actual companies being valued, such as financing rounds and mergers and acquisitions activity. The Group's holdings in the private equity and hedge funds are generally valued utilising net asset values (NAV), subject to adjustments, as deemed necessary, for restrictions on redemption (lock-up periods and amount limitations on redemptions).

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

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

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

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

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

Governance around level 3 fair valuation

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

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

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

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

Assets and liabilities measured at fair value on a recurring basis

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

2014 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impact of netting[1]	Total
Assets					
Fixed income securities held for proprietary investment purposes	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 held for proprietary investment purposes	2 457		4		2 461
Equity securities backing unit-linked and with-profit business	894				894
Short-term investments held for proprietary investment purposes	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
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
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.

2015 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impact of netting[1]	Total
Assets					
Fixed income securities held for proprietary investment purposes	13 178	56 251	379		69 808
Debt securities issued by US government and government agencies	13 178	1 453			14 631
US Agency securitised products		4 055			4 055
Debt securities issued by non-US governments and government agencies		23 775			23 775
Corporate debt securities		21 950	366		22 316
Mortgage- and asset-backed securities		5 018	13		5 031
Equity securities held for proprietary investment purposes	3 334		4		3 338
Equity securities backing unit-linked and with-profit business	923				923
Short-term investments held for proprietary investment purposes	3 371	5 270			8 641
Derivative financial instruments	55	3 909	465	–3 667	762
Interest rate contracts	7	2 452			2 459
Foreign exchange contracts		466			466
Equity contracts	48	954	341		1 343
Credit contracts		1	2		3
Other contracts		36	122		158
Other invested assets	1 133	550	1 194		2 877
Total assets at fair value	**21 994**	**65 980**	**2 042**	**–3 667**	**86 349**
Liabilities					
Derivative financial instruments	–14	–2 947	–615	2 789	–787
Interest rate contracts	–6	–1 926			–1 932
Foreign exchange contracts		–398			–398
Equity contracts	–8	–618	–39		–665
Credit contracts			–13		–13
Other contracts		–5	–563		–568
Liabilities for life and health policy benefits			–173		–173
Accrued expenses and other liabilities	–1 831	–1 508	–1 485		–4 824
Total liabilities at fair value	**–1 845**	**–4 455**	**–2 273**	**2 789**	**–5 784**

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

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

As of 31 December 2014 and 31 March 2015, the reconciliation of the fair values of assets and liabilities measured on a recurring basis using significant unobservable inputs were as follows:

2014 USD millions	Fixed income securities	Equity securities	Derivative assets	Other invested assets	Total assets	Derivative liabilities	Liabilities for life and health policy benefits	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.

2015 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	388	4	537	1 289	**2 218**	–717	–187	–1 559	**–2 463**
Realised/unrealised gains/losses:									
Included in net income			–69	24	**–45**	21	14		**35**
Included in other comprehensive income	2			–19	**–17**				**0**
Purchases				9	**9**				**0**
Issuances					**0**	–2			**–2**
Sales	–1		–1	–93	**–95**				**0**
Settlements	–10		–17		**–27**	84			**84**
Transfers into level 3[1]			15		**15**	–1			**–1**
Transfers out of level 3[1]					**0**				**0**
Impact of foreign exchange movements				–16	**–16**			74	**74**
Closing balance as of 31 March	**379**	**4**	**465**	**1 194**	**2 042**	**–615**	**–173**	**–1 485**	**–2 273**

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

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

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

USD millions	2014	2015
Gains/losses included in net income for the period	52	–10
Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date	2	13

Quantitative information about level 3 fair value measurements

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

USD millions	2014 Fair value	**2015** Fair value	Valuation technique	Unobservable input	Range (weighted average)
Assets					
Corporate debt securities	375	**366**			
Private placement corporate debt	304	293	Corporate Spread Matrix	Illiquidity premium	15 bps–186 bps (53 bps)
Private placement credit tenant leases	71	71	Discounted Cash Flow Model	Illiquidity premium	75 bps–175 bps (98 bps)
Derivative equity contracts	396	**341**			
OTC equity option referencing correlated equity indices	396	341	Proprietary Option Model	Correlation	–30%–100% (35%)[1]
Liabilities					
Derivative equity contracts	–130	**–39**			
OTC equity option referencing correlated equity indices	–46	–39	Proprietary Option Model	Correlation	–30%–100% (35%)[1]
Other derivative contracts and liabilities for life and health policy benefits	–764	**–736**			
Variable annuity and fair valued GMDB contracts	–639	–634	Discounted Cash Flow Model	Risk margin	4% (n.a.)
				Volatility	4%–42%
				Lapse	0.5%–33%
				Mortality adjustment	–10%–0%
				Withdrawal rate	0%–90%

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

Sensitivity of recurring level 3 measurements to changes in unobservable inputs

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

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

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

Other invested assets measured at net asset value

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

USD millions	2014 Fair value	**2015** Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Private equity funds	657	622	216	non-redeemable	n.a.
Hedge funds	344	279		redeemable[1]	45-95 days[2]
Private equity direct	33	34		non-redeemable	n.a.
Real estate funds	203	207	72	non-redeemable	n.a.
Total	1 237	**1 142**	**288**		

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

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

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

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

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

Fair value option

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

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

Other invested assets

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

Liabilities for life and health policy benefits

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

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

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

USD millions	2014	2015
Assets		
Other invested assets	7 353	6 856
of which at fair value pursuant to the fair value option	50	52
Liabilities		
Liabilities for life and health policy benefits	–19 284	–18 513
of which at fair value pursuant to the fair value option	–187	–173

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

Gains/losses included in earnings for items measured at fair value pursuant to election of the fair value option including foreign exchange impact for the three months ended 31 March were as follows:

USD millions	2014	2015
Other invested assets	–3	2
Liabilities for life and health policy benefits	–2	13
Total	–5	**15**

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

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

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

2014 USD millions	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets			
Policy loans		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

2015 USD millions	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets			
Policy loans		236	236
Mortgage loans		1 374	1 374
Other loans		2 250	2 250
Investment real estate		2 485	2 485
Total assets	**0**	**6 345**	**6 345**
Liabilities			
Debt	–9 348	–8 375	–17 723
Total liabilities	**–9 348**	**–8 375**	**–17 723**

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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9 Derivative financial instruments

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

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

Fair values and notional amounts of derivative financial instruments

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

2014 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivatives not designated as hedging instruments				
Interest rate contracts	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

2015 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivatives not designated as hedging instruments				
Interest rate contracts	95 660	2 459	–1 932	527
Foreign exchange contracts	13 803	355	–390	–35
Equity contracts	18 672	1 343	–665	678
Credit contracts	289	3	–13	–10
Other contracts	20 243	158	–568	–410
Total	**148 667**	**4 318**	**–3 568**	**750**
Derivatives designated as hedging instruments				
Foreign exchange contracts	2 578	111	–8	103
Total	**2 578**	**111**	**–8**	**103**
Total derivative financial instruments	**151 245**	**4 429**	**–3 576**	**853**
Amount offset				
Where a right of set-off exists		–2 395	2 395	
Due to cash collateral		–1 272	394	
Total net amount of derivative financial instruments		**762**	**–787**	**–25**

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

Non-hedging activities

The Group primarily uses derivative financial instruments for risk management and trading strategies. Gains and losses of derivative financial instruments not designated as hedging instruments are recorded in "Net realised investment gains/losses — non-participating business" in the income statement. For the three months ended 31 March, the gains and losses of derivative financial instruments not designated as hedging instruments were as follows:

USD millions	2014	**2015**
Derivatives not designated as hedging instruments		
Interest rate contracts	–47	–26
Foreign exchange contracts	13	219
Equity contracts	3	–99
Credit contracts	–3	–1
Other contracts	–5	14
Total gain/loss recognised in income	–39	**107**

Hedging activities

The Group designates certain derivative financial instruments as hedging instruments. The designation of derivative financial instruments is primarily used for overall portfolio and risk management strategies. As of 31 March, the following hedging relationships were outstanding:

Fair value hedges

The Group enters into foreign exchange swaps to reduce the exposure to foreign exchange volatility for certain of its issued debt positions and fixed income securities. These derivative instruments are designated as hedging instruments in qualifying fair value hedges. Gains and losses on derivative financial instruments designated as fair value hedging instruments are recorded in "Net realised investment gains/losses — non-participating business" in the income statement. For three months ended 31 March, the gains and losses attributable to the hedged risks were as follows:

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

Hedges of the net investment in foreign operations

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

For the year ended 31 December 2014 and the three months ended 31 March 2015, the Group recorded an accumulated net unrealised foreign currency remeasurement gain of USD 525 million and a gain of USD 886 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 2014 and 31 March 2015 was approximately USD 1 866 million and USD 2 034 million, respectively. The maximum potential loss is based on the positive market replacement cost assuming non-performance of all counterparties, excluding cash collateral.

Credit risk-related contingent features

Certain derivative instruments held by the Group contain provisions that require its debt to maintain an investment-grade credit rating. If the Group's credit rating were downgraded or no longer rated, the counterparties could request immediate payment, guarantee or an ongoing full overnight collateralisation on derivative instruments in net liability positions.

The total fair value of derivative financial instruments containing credit risk-related contingent features amounted to USD 112 million and USD 67 million as of 31 December 2014 and 31 March 2015, respectively. For derivative financial instruments containing credit risk-related contingent features, the Group posted collateral of USD 6 million and USD 10 million as of 31 December 2014 and 31 March 2015, respectively. In the event of a reduction of the Group's credit rating to below investment grade, a fair value of USD 57 million additional collateral would have had to be posted as of 31 March 2015. The total equals the amount needed to settle the instruments immediately as of 31 March 2015.

10 Debt and contingent capital instruments

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

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

USD millions	2014	**2015**
Senior financial debt	3 925	3 940
Senior operational debt	1 034	763
Short-term debt – financial and operational debt	4 959	**4 703**
Senior financial debt	2 659	2 931
Senior operational debt	713	534
Subordinated financial debt	4 990	4 709
Subordinated operational debt	2 903	2 759
Long-term debt – financial and operational debt	11 265	**10 933**
Total carrying value	16 224	**15 636**
Total fair value	18 135	**17 723**

Interest expense on long-term debt and contingent capital instruments

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

USD millions	2014	**2015**
Senior financial debt	30	26
Senior operational debt	4	3
Subordinated financial debt	72	67
Subordinated operational debt	64	34
Total	170	**130**

In addition to the above, interest expense on contingent capital instruments classified as equity was USD 17 million and USD 17 million for the three months ended 31 March 2014 and 2015, respectively.

Long-term debt issued in 2015

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

11 Variable interest entities

The Group enters into arrangements with variable interest entities (VIEs) in the normal course of business. The involvement ranges from being a passive investor to designing, structuring and managing the VIEs. The variable interests held by the Group arise as a result of the Group's involvement in certain insurance-linked and credit-linked securitisations, swaps in trusts, debt financing and other entities which meet the definition of a VIE.

When analysing the status of an entity, the Group mainly assesses if (1) the equity is sufficient to finance the entity's activities without additional subordinated financial support, (2) the equity holders have the right to make significant decisions affecting the entity's operations and (3) the holders of the voting rights substantively participate in the gains and losses of the entity. When one of these criteria is not met, the entity is considered a VIE and needs to be assessed for consolidation under the VIE section of the Consolidation Topic.

The party that has a controlling financial interest is called the primary beneficiary and consolidates the VIE. An enterprise is deemed to have a controlling financial interest if it has both of the following:

- the power to direct the activities of the VIE that most significantly impact the entity's economic performance; and
- the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

The Group assesses for all its variable interests in VIEs whether it has a controlling financial interest in these entities and, thus, is the primary beneficiary. For this, the Group identifies the activities that most significantly impact the entity's performance and determines whether the Group has the power to direct those activities. In conducting the analysis, the Group considers the purpose, the design and the risks that the entity was designed to create and pass through to its variable interest holders. In a second step, the Group assesses if it has the obligation to absorb losses or if it has the right to receive benefits of the VIE that could potentially be significant to the entity. If both criteria are met, the Group has a controlling financial interest in the VIE and consolidates the entity.

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

Insurance-linked and credit-linked securitisations

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

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

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

Life and health funding vehicles

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

Swaps in trusts

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

Debt financing vehicles

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

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

Investment vehicles

Investment vehicles are private equity limited partnerships, in which the Group is invested as part of its investment strategy. Typically, the Group's variable interests arise through limited partner ownership interests in the vehicles. The Group does not own the general partners of the limited partnerships, and does not have any significant kick-out or participating rights. Therefore the Group lacks power over the relevant activities of the vehicles and, consequently, does not qualify as the primary beneficiary. The Group is exposed to losses when the values of the investments held by the vehicles decrease. The maximum exposure to loss equals the carrying amount of the ownership interest.

Other

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

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

Consolidated VIEs

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

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

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

Non-consolidated VIEs

The following table shows the total assets and liabilities in the Group's balance sheet related to VIEs in which the Group held a variable interest but was not the primary beneficiary as of 31 December 2014 and 31 March 2015:

USD millions	2014	2015
Fixed income securities:		
Available-for-sale	69	66
Policy loans mortgages and other loans	84	
Other invested assets	880	960
Total assets	1 033	**1 026**
Accrued expenses and other liabilities	167	55
Total liabilities	167	**55**

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

USD millions	2014 Total assets	2014 Total liabilities	2014 Maximum exposure to loss[1]	2014 Difference between exposure and liabilities	2015 Total assets	2015 Total liabilities	2015 Maximum exposure to loss[1]	2015 Difference between exposure and liabilities
Insurance-linked/ credit-linked securitisations	70		68	68	66		65	65
Life and health funding vehicles			1 683	1 683	2		1 732	1 732
Swaps in trusts	35	82	–[2]	–	157	55	–[2]	–
Investment vehicles	845		845	845	801		801	801
Other	83	85	883	798				
Total	1 033	167	–[2]	–	**1 026**	**55**	**–[2]**	**–**

[1] Maximum exposure to loss is the loss the Group would absorb from a variable interest in a VIE in the event that all of the assets of the VIE are deemed worthless.
[2] The maximum exposure to loss for swaps in trusts cannot be meaningfully quantified due to their derivative character.

The assets and liabilities for the swaps in trusts represent the positive and negative fair values of the derivatives the Group has entered into with the trusts.

12 Benefit plans

Net periodic benefit cost

Pension and post-retirement cost for the three months ended 31 March 2014 and 2015 were USD 28 million and USD 29 million, respectively.

Employer's contributions for 2015

For the three months ended 31 March 2015, the Group contributed USD 51 million to its defined benefit pension plans and USD 4 million to other post-retirement plans, compared to USD 56 million and USD 4 million, respectively, in the same period of 2014.

The expected 2015 contributions to the defined benefit pension plans and to the post-retirement benefit plans, revised as of 31 March 2015 for the latest information, amount to USD 232 million and USD 17 million, respectively.

Cautionary note on forward-looking statements

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

Forward-looking statements typically are identified by words or phrases such as "anticipate", "assume", "believe", "continue", "estimate", "expect", "foresee", "intend", "may increase" and "may fluctuate" and similar expressions or by future or conditional verbs such as "will", "should", "would" and "could". These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause 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 and a possible exit of Greece from the eurozone.

Countries in emerging market regions in Asia and Latin America recently have experienced deceleration in GDP growth. Policy uncertainty and volatile, negative or uncertain economic conditions in developed markets could also adversely impact economies in Asia and Latin America, undermining business confidence. Periods of economic upheaval could also result in sudden government actions such as imposition of capital, price or currency controls, or changes in legal and regulatory requirements.

Political or geopolitical developments, and international responses thereto, also can have an adverse impact on global financial markets and economic conditions.

Further adverse developments or the continuation of adverse trends that in turn have a negative impact on financial markets and economic conditions could limit the ability of Swiss 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 an impact on the financial statements of SRL on a 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 optimising the structure as between SRL and its operating segments will continue to evolve over time.

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