Swiss Re

Swiss Reinsurance Company Consolidated
Second Quarter 2014 Report

Content

Swiss Reinsurance Company Ltd
Swiss Reinsurance Company Ltd ("SRZ"), together with its consolidated subsidiaries (collectively, the "Group"), is a leading and highly diversified global reinsurer and part of the Swiss Re group of companies. The Group operates through offices in more than 20 countries. Founded in Zurich, Switzerland, in 1863, the Group offers financial services products that enable risk-taking essential to enterprise and progress. The Group's traditional reinsurance products and related services for property and casualty, as well as the life and health business are complemented by insurance-based corporate finance solutions and supplementary services for comprehensive risk management. Swiss Reinsurance Company Ltd is rated AA– by Standard & Poor's, Aa3 by Moody's and A+ by A.M. Best.

The structure of the Group was largely reflected in its financial statements beginning with the first quarter of 2012. During 2012, SRZ transferred Swiss Re Corporate Solutions Ltd and Swiss Re Life Capital Ltd, and their respective subsidiaries, to Swiss Re Ltd through dividends-in-kind. During 2013, SRZ transferred the shares of Swiss Re Principal Investments Company Ltd to Swiss Re Ltd. Following these transfers, the results of the respective transferred entities are only reported as part of the Swiss Re group of companies.

Income statement (unaudited)

USD millions	Note	Three months ended 30 June 2013	2014	Six months ended 30 June 2013	2014
Revenues					
Premiums earned	3	5 903	**6 522**	11 783	**13 045**
Fee income from policyholders	3	40	**39**	85	**81**
Net investment income/loss – non-participating business	6	790	**872**	1 533	**1 663**
Net realised investment gains/losses – non-participating business (total impairments for the three months ended 30 June were 6 in 2013 and 7 in 2014, of which 6 and 7, respectively, were recognised in earnings)[1]	6	84	**31**	524	**215**
Net investment result – unit-linked and with-profit business	6	–7	**58**	92	**4**
Other revenues		11	**18**	21	**25**
Total revenues		6 821	**7 540**	14 038	**15 033**
Expenses					
Claims and claim adjustment expenses	3	–2 247	**–2 171**	–3 736	**–4 107**
Life and health benefits	3	–2 264	**–2 491**	–4 086	**–4 708**
Return credited to policyholders		–84	**–153**	–281	**–194**
Acquisition costs	3	–1 100	**–1 318**	–2 073	**–2 545**
Other expenses		–647	**–659**	–1 262	**–1 250**
Interest expenses		–190	**–190**	–385	**–381**
Total expenses		–6 532	**–6 982**	–11 823	**–13 185**
Income before income tax expense		289	**558**	2 215	**1 848**
Income tax expense/benefit		228	**–78**	–267	**–323**
Net income before attribution of non-controlling interests		517	**480**	1 948	**1 525**
Income/loss attributable to non-controlling interests		–1	**0**	–1	**–1**
Net income after attribution of non-controlling interests		516	**480**	1 947	**1 524**
Interest on contingent capital instruments		–14	**–18**	–32	**–35**
Net income attributable to common shareholders		502	**462**	1 915	**1 489**

[1] The impairments for the six months ended 30 June were USD 18 million in 2013 and USD 9 million in 2014, of which USD 18 million and USD 9 million, respectively, were recognized in earnings.

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

Statement of comprehensive income (unaudited)

USD millions	Three months ended 30 June 2013	2014	Six months ended 30 June 2013	2014
Net income before attribution of non-controlling interests	517	**480**	1 948	**1 525**
Other comprehensive income, net of tax:				
Change in unrealised gains/losses	–1 839	**733**	–2 356	**1 443**
Change in other-than-temporary impairment	13	**2**	18	**4**
Change in foreign currency translation	–185	**136**	–487	**105**
Change in adjustment for pension benefits	–6	**3**	39	**3**
Total comprehensive income before attribution of non-controlling interests	–1 500	**1 354**	–838	**3 080**
Interest on contingent capital instruments	–14	**–18**	–32	**–35**
Comprehensive income attributable to non-controlling interests	–1		–1	**–1**
Total comprehensive income attributable to common shareholders	–1 515	**1 336**	–871	**3 044**

Reclassification out of accumulated other comprehensive income
For the three months ended 30 June

2013 USD millions	Unrealised gains/losses[1]	Other-than-temporary impairment[1]	Foreign currency translation[1, 2]	Adjustment from pension benefits[3]	Accumulated other comprehensive income
Balance as of 1 April	2 542	–22	–3 482	–883	–1 845
Change during the period	–2 327	20	–172	–25	–2 504
Amounts reclassified out of accumulated other comprehensive income	–234			16	–218
Tax	722	–7	–13	3	705
Balance as of period end	703	–9	–3 667	–889	–3 862

2014 USD millions	Unrealised gains/losses[1]	Other-than-temporary impairment[1]	Foreign currency translation[1, 2]	Adjustment from pension benefits[3]	**Accumulated other comprehensive income**
Balance as of 1 April	1 451	–4	–3 558	–471	**–2 582**
Change during the period	1 256	3	181	–4	**1 436**
Amounts reclassified out of accumulated other comprehensive income	–265			9	**–256**
Tax	–258	–1	–45	–2	**–306**
Balance as of period end	**2 184**	**–2**	**–3 422**	**–468**	**–1 708**

[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.

For the six months ended 30 June

2013 USD millions	Unrealised gains/losses[1]	Other-than-temporary impairment[1]	Foreign currency translation[1,2]	Adjustment from pension benefits[3]	Accumulated other comprehensive income
Balance as of 1 January	3059	–27	–3180	–928	–1076
Change during the period	–2896	28	–444	19	–3293
Amounts reclassified out of accumulated other comprehensive income	–392			30	–362
Tax	932	–10	–43	–10	869
Balance as of period end	703	–9	–3667	–889	–3862

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

2014 USD millions	Unrealised gains/losses[1]	Other-than-temporary impairment[1]	Foreign currency translation[1,2]	Adjustment from pension benefits[3]	**Accumulated other comprehensive income**
Balance as of 1 January	741	–6	–3527	–471	**–3263**
Change during the period	2565	6	121	–7	**2685**
Amounts reclassified out of accumulated other comprehensive income	–550			18	**–532**
Tax	–572	–2	–16	–8	**–598**
Balance as of period end	**2184**	**–2**	**–3422**	**–468**	**–1708**

[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.

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Balance sheet (unaudited)

Assets

USD millions	Note	31.12.2013	30.06.2014
Investments	6, 7, 8		
Fixed income securities:			
Available-for-sale, at fair value (including 11 155 in 2013 and 14 808 in 2014 subject to securities lending and repurchase agreements) (amortised cost: 2013: 58 774; 2014: 58 522)		59 123	**61 101**
Trading (including 1 in 2013 and 0 in 2014 subject to securities lending and repurchase agreements)		1 522	**2 355**
Equity securities:			
Available-for-sale, at fair value (including 65 in 2013 and 0 in 2014 subject to securities lending and repurchase agreements) (cost: 2013: 4 594; 2014: 2 707)		5 294	**3 187**
Trading		615	**56**
Policy loans, mortgages and other loans		4 340	**3 842**
Investment real estate		820	**901**
Short-term investments at fair value (including 3 194 in 2013 and 3 045 in 2014 subject to securities lending and repurchase agreements)		17 777	**17 403**
Other invested assets		9 233	**9 536**
Investments for unit-linked and with-profit business (including fixed income securities trading: 0 in 2013 and 0 in 2014, equity securities trading: 988 in 2013 and 978 in 2014)		988	**978**
Total investments		99 712	**99 359**
Cash and cash equivalents (including 4 in 2013 and 415 in 2014 subject to securities lending)		5 883	**7 451**
Accrued investment income		690	**670**
Premiums and other receivables		10 806	**12 971**
Reinsurance recoverable on unpaid claims and policy benefits		6 654	**6 190**
Funds held by ceding companies		13 451	**13 043**
Deferred acquisition costs	5	4 424	**4 874**
Acquired present value of future profits	5	2 085	**2 026**
Goodwill		4 091	**4 105**
Income taxes recoverable		425	**98**
Deferred tax assets		5 023	**4 802**
Other assets		2 973	**3 800**
Total assets		156 217	**159 389**

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

Liabilities and equity

USD millions	Note	31.12.2013	30.06.2014
Liabilities			
Unpaid claims and claim adjustment expenses		56 338	**55 571**
Liabilities for life and health policy benefits	7	20 324	**20 472**
Policyholder account balances		6 690	**6 723**
Unearned premiums		8 127	**10 834**
Funds held under reinsurance treaties		3 218	**3 205**
Reinsurance balances payable		2 488	**2 474**
Income taxes payable		593	**420**
Deferred and other non-current taxes		6 913	**7 170**
Short-term debt	9	5 992	**5 864**
Accrued expenses and other liabilities		9 551	**11 327**
Long-term debt	9	14 722	**14 084**
Total liabilities		134 956	**138 144**
Equity			
Contingent capital instruments		1 102	**1 102**
Common shares CHF 0.10 par value			
2013: 344 052 565; 2014: 344 052 565 shares authorised and issued		32	**32**
Additional paid-in capital		8 853	**8 803**
Shares in Swiss Re Ltd, net of tax		–148	**–16**
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax		741	**2 184**
Other-than-temporary impairment, net of tax		–6	**–2**
Cumulative translation adjustments, net of tax		–3 527	**–3 422**
Accumulated adjustment for pension and post-retirement benefits, net of tax		–471	**–468**
Total accumulated other comprehensive income		–3 263	**–1 708**
Retained earnings		14 660	**13 005**
Shareholder's equity		21 236	**21 218**
Non-controlling interests		25	**27**
Total equity		21 261	**21 245**
Total liabilities and equity		156 217	**159 389**

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

Statement of equity (unaudited)

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

USD millions	2013	2014
Contingent capital instruments		
Balance as of 1 January	1 102	**1 102**
Issued		
Balance as of period end	1 102	**1 102**
Common shares		
Balance as of 1 January	32	**32**
Issue of common shares		
Balance as of period end	32	**32**
Additional paid-in capital		
Balance as of 1 January	8 875	**8 853**
Share-based compensation	13	**–60**
Realised gains/losses on treasury shares	–35	**10**
Balance as of period end	8 853	**8 803**
Shares in Swiss Re Ltd, net of tax		
Balance as of 1 January	–144	**–148**
Change of shares in Swiss Re Ltd	–4	**132**
Balance as of period end	–148	**–16**
Net unrealised gains/losses, net of tax		
Balance as of 1 January	3 059	**741**
Changes during the period[1]	–2 318	**1 443**
Balance as of period end	741	**2 184**
Other-than-temporary impairment, net of tax		
Balance as of 1 January	–27	**–6**
Changes during the period	21	**4**
Balance as of period end	–6	**–2**
Foreign currency translation, net of tax		
Balance as of 1 January	–3 180	**–3 527**
Changes during the period[1]	–347	**105**
Balance as of period end	–3 527	**–3 422**
Adjustment for pension and other post-retirement benefits, net of tax		
Balance as of 1 January	–928	**–471**
Changes during the period	457	**3**
Balance as of period end	–471	**–468**
Retained earnings		
Balance as of 1 January	14 129	**14 660**
Net income after attribution of non-controlling interests	3 470	**1 524**
Interest on contingent capital instruments, net of tax	–67	**–35**
Dividends on common shares and dividends-in-kind[1]	–2 973	**–3 144**
Effect of new reinsurance agreements[2]	101	
Balance as of period end	14 660	**13 005**
Shareholder's equity	21 236	**21 218**
Non-controlling interests		
Balance as of 1 January	24	**25**
Change during the period	–1	**1**
Income attributable to non-controlling interests	2	**1**
Balance as of period end	25	**27**
Total equity	21 261	**21 245**

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

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

Statement of cash flow (unaudited)

For the six months ended 30 June

USD millions	2013	2014
Cash flows from operating activities		
Net income attributable to common shareholder	1 915	**1 489**
Add net income attributable to non-controlling interests	1	**1**
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items[1]	223	**138**
Net realised investment gains/losses	–610	**–212**
Change in:		
Technical provisions and other reinsurance assets and liabilities, net[1]	–1 495	**–629**
Funds held by ceding companies and under reinsurance treaties[1]	886	**398**
Reinsurance recoverable on unpaid claims and policy benefits	476	**517**
Other assets and liabilities, net[1]	122	**–498**
Income taxes payable/recoverable	–48	**52**
Income from equity-accounted investees, net of dividends received	–15	**–32**
Trading positions, net	–354	**272**
Securities purchased/sold under agreement to resell/repurchase, net	–158	**–256**
Net cash provided/used by operating activities	943	**1 240**
Cash flows from investing activities		
Fixed income securities:		
Sales	46 561	**28 389**
Maturities	1 413	**1 727**
Purchases	–43 423	**–30 262**
Net purchase/sale/maturities of short-term investments	–502	**1 016**
Equity securities:		
Sales	657	**4 292**
Purchases	–2 648	**–1 491**
Net purchases/sales/maturities of other investments	–29	**675**
Net cash provided/used by investing activities	2 029	**4 346**
Cash flows from financing activities		
Issuance/repayment of long-term debt	664	**–143**
Issuance/repayment of short-term debt	–1 138	**–861**
Purchase/sale of shares in Swiss Re Ltd	–222	
Dividends paid to parent	–1 873	**–3 120**
Net cash provided/used by financing activities	–2 569	**–4 124**
Total net cash provided/used	403	**1 462**
Effect of foreign currency translation	–301	**106**
Change in cash and cash equivalents	102	**1 568**
Cash and cash equivalents as of 1 January	8 662	**5 883**
Cash and cash equivalents as of 30 June	8 764	**7 451**

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

Interest paid was USD 458 million and USD 365 million for the six months ended 30 June 2013 and 2014, respectively.

Tax paid was USD 270 million and USD 257 million for the six months ended 30 June 2013 and 2014, respectively.

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

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Notes to the Group financial statements (unaudited)

1 Organisation and summary of significant accounting policies

Nature of operations
The Swiss Reinsurance Company Group, which is headquartered in Zurich, Switzerland, comprises Swiss Reinsurance Company Ltd (the parent company, referred to as "SRZ") and its subsidiaries (collectively, the "Swiss Reinsurance Company Group" or the "Group"). The Swiss Reinsurance Company Group is a wholesale provider of reinsurance, insurance and other insurance-based forms of risk transfer. Dealing direct and working through brokers, its global client base consists of insurance companies, mid-to-large-sized corporations 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 three separate business units: the Swiss Reinsurance Company Group, Swiss Re Corporate Solutions Ltd ("Swiss Re Corporate Solutions") and its subsidiaries (collectively, the "Corporate Solutions Business Unit"), Swiss Re Life Capital Ltd ("Swiss Re Life Capital") and its subsidiaries (collectively, the "Admin Re® Business Unit") as well as other strategic investments.

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 2013.

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

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

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

For assets or derivative structures at fair value, the Group uses market prices or inputs derived from market prices. A separate internal price verification process, independent of the trading function, provides an additional control over the market prices or market input used to determine the fair values of such assets. Although management considers that appropriate values have been ascribed to such assets, there is always a level of uncertainty and judgment over these valuations. Subsequent valuations could differ significantly from the results of the process described above. The Group may become aware of counterparty valuations, either directly through the exchange of information or indirectly, for example, through collateral demands. Any implied differences are considered in the independent price verification process and may result in adjustments to initially indicated valuations. As of 30 June 2014, 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 5 August 2014. This is the date on which the financial statements are available to be issued.

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

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

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

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

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. For purposes of the combined Reinsurance segment's published effective tax rate, Property & Casualty Reinsurance and Life & Health Reinsurance are viewed as one segment and share the same effective tax rate which is computed on a year-to-date basis.

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 to the Group's annual consolidated financial statements).

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 sub-segments.

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.

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 30 June

2013 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Revenues					
Premiums earned	3 170	2 483	250		5 903
Fee income from policyholders		16	24		40
Net investment income – non-participating	281	367	135	7	790
Net realised investment gains/losses – non-participating	90	60	–66		84
Net investment result – unit-linked and with-profit		–7			–7
Other revenues	16		2	–7	11
Total revenues	3 557	2 919	345	0	6 821
Expenses					
Claims and claim adjustment expenses	–2 241		–6		–2 247
Life and health benefits		–1 967	–297		–2 264
Return credited to policyholders		4	–88		–84
Acquisition costs	–636	–461	–3		–1 100
Other expenses	–329	–213	–105		–647
Interest expenses	–38	–145	–7		–190
Total expenses	–3 244	–2 782	–506	0	–6 532
Income/loss before income tax expense	313	137	–161	0	289
Income tax benefit	147	27	54		228
Net income/loss before attribution of non-controlling interests	460	164	–107	0	517
Income/loss attributable to non-controlling interests	–1				–1
Net income/loss after attribution of non-controlling interests	459	164	–107	0	516
Interest on contingent capital instruments	–4	–10			–14
Net income/loss attributable to common shareholder	455	154	–107	0	502
Claims ratio in %					
Expense ratio in %	70.7				
Combined ratio in %	30.4				
Management expense ratio in %	101.1	7.4			
Operating margin in %		5.3			

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

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Revenues					
Premiums earned	3 560	2 882	80		6 522
Fee income from policyholders		13	26		39
Net investment income – non-participating	313	415	141	3	872
Net realised investment gains/losses – non-participating	161	–41	–89		31
Net investment result – unit-linked and with-profit		58			58
Other revenues	11	1	9	–3	18
Total revenues	**4 045**	**3 328**	**167**	**0**	**7 540**
Expenses					
Claims and claim adjustment expenses	–2 148		–23		–2 171
Life and health benefits		–2 371	–120		–2 491
Return credited to policyholders		–64	–89		–153
Acquisition costs	–841	–470	–7		–1 318
Other expenses	–340	–231	–88		–659
Interest expenses	–64	–120	–6		–190
Total expenses	**–3 393**	**–3 256**	**–333**	**0**	**–6 982**
Income/loss before income tax expense	**652**	**72**	**–166**	**0**	**558**
Income tax expense/benefit	–94	–11	27		–78
Net income/loss before attribution of non-controlling interests	**558**	**61**	**–139**	**0**	**480**
Income/loss attributable to non-controlling interests					0
Net income/loss after attribution of non-controlling interests	**558**	**61**	**–139**	**0**	**480**
Interest on contingent capital instruments	–5	–13			–18
Net income/loss attributable to common shareholder	**553**	**48**	**–139**	**0**	**462**
Claims ratio in %	60.3				
Expense ratio in %	33.2				
Combined ratio in %	93.5				
Management expense ratio in %		7.0			
Operating margin in %		7.1			

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

2013 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Revenues					
Premiums earned	6 704	4 782	297		11 783
Fee income from policyholders		30	55		85
Net investment income – non-participating	554	697	270	12	1 533
Net realised investment gains/losses – non-participating	157	166	201		524
Net investment result – unit-linked and with-profit		92			92
Other revenues	31		2	–12	21
Total revenues	7 446	5 767	825	0	14 038
Expenses					
Claims and claim adjustment expenses	–3 722		–14		–3 736
Life and health benefits		–3 701	–385		–4 086
Return credited to policyholders		–107	–174		–281
Acquisition costs	–1 298	–776	1		–2 073
Other expenses	–663	–417	–182		–1 262
Interest expenses	–78	–296	–11		–385
Total expenses	–5 761	–5 297	–765	0	–11 823
Income/loss before income tax expense	1 685	470	60	0	2 215
Income tax expense/benefit	–220	–62	15		–267
Net income before attribution of non-controlling interests	1 465	408	75	0	1 948
Income/loss attributable to non-controlling interests	–1				–1
Net income after attribution of non-controlling interests	1 464	408	75	0	1 947
Interest on contingent capital instruments	–9	–23			–32
Net income attributable to common shareholder	1 455	385	75	0	1 915
Claims ratio in %	55.5				
Expense ratio in %	29.3				
Combined ratio in %	84.8				
Management expense ratio in %		7.6			
Operating margin in %		9.6			

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

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Revenues					
Premiums earned	7 373	5 541	131		13 045
Fee income from policyholders		26	55		81
Net investment income – non-participating	538	829	287	9	1 663
Net realised investment gains/losses – non-participating	394	–111	–68		215
Net investment result – unit-linked and with-profit		4			4
Other revenues	23	1	10	–9	25
Total revenues	**8 328**	**6 290**	**415**	**0**	**15 033**
Expenses					
Claims and claim adjustment expenses	–4 071		–36		–4 107
Life and health benefits		–4 501	–207		–4 708
Return credited to policyholders		–18	–176		–194
Acquisition costs	–1 605	–919	–21		–2 545
Other expenses	–673	–445	–132		–1 250
Interest expenses	–126	–243	–12		–381
Total expenses	**–6 475**	**–6 126**	**–584**	**0**	**–13 185**
Income/loss before income tax expense	**1 853**	**164**	**–169**	**0**	**1 848**
Income tax expense/benefit	–299	–27	3		–323
Net income/loss before attribution of non-controlling interests	**1 554**	**137**	**–166**	**0**	**1 525**
Income/loss attributable to non-controlling interests	–1				–1
Net income/loss after attribution of non-controlling interests	**1 553**	**137**	**–166**	**0**	**1 524**
Interest on contingent capital instruments	–10	–25			–35
Net income/loss attributable to common shareholder	**1 543**	**112**	**–166**	**0**	**1 489**
Claims ratio in %	55.2				
Expense ratio in %	30.9				
Combined ratio in %	86.1				
Management expense ratio in %		7.0			
Operating margin in %		8.6			

Business segments – balance sheet
As of 31 December

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

Business segments – balance sheet
As of 30 June

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Total assets	**88 621**	**62 986**	**16 377**	**–8 595**	**159 389**

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

2013 USD millions	Property	Casualty	Specialty	Total
Premiums earned	1 395	1 247	528	3 170
Expenses				
Claims and claim adjustment expenses	–1 153	–856	–232	–2 241
Acquisition costs	–219	–301	–116	–636
Other expenses	–167	–106	–56	–329
Total expenses before interest expenses	–1 539	–1 263	–404	–3 206
Underwriting result	–144	–16	124	–36
Net investment income				281
Net realised investment gains/losses				90
Other revenues				16
Interest expenses				–38
Income before income tax expenses				313
Claims ratio in %	82.7	68.7	43.9	70.7
Expense ratio in %	27.6	32.6	32.6	30.4
Combined ratio in %	110.3	101.3	76.5	101.1

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

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

2013 USD millions	Property	Casualty	Specialty	Total
Premiums earned	3053	2571	1080	6704
Expenses				
Claims and claim adjustment expenses	–1770	–1539	–413	–3722
Acquisition costs	–368	–696	–234	–1298
Other expenses	–341	–223	–99	–663
Total expenses before interest expenses	–2479	–2458	–746	–5683
Underwriting result	574	113	334	1021
Net investment income				554
Net realised investment gains/losses				157
Other revenues				31
Interest expenses				–78
Income before income tax expenses				1685
Claims ratio in %	58.0	59.9	38.2	55.5
Expense ratio in %	23.2	35.7	30.9	29.3
Combined ratio in %	81.2	95.6	69.1	84.8

2014 USD millions	Property	Casualty	Specialty	Total
Premiums earned	**3131**	**3083**	**1159**	**7373**
Expenses				
Claims and claim adjustment expenses	–1399	–2261	–411	–4071
Acquisition costs	–497	–851	–257	–1605
Other expenses	–352	–232	–89	–673
Total expenses before interest expenses	**–2248**	**–3344**	**–757**	**–6349**
Underwriting result	**883**	**–261**	**402**	**1024**
Net investment income				538
Net realised investment gains/losses				394
Other revenues				23
Interest expenses				–126
Income before income tax expenses				**1853**
Claims ratio in %	44.7	73.4	35.4	55.2
Expense ratio in %	27.1	35.1	29.9	30.9
Combined ratio in %	71.8	108.5	65.3	86.1

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

2013 USD millions	Life	Health	Total
Revenues			
Premiums earned	1 681	802	2 483
Fee income from policyholders	16		16
Net investment income – non-participating	232	135	367
Net investment income – unit-linked and with-profit	4		4
Net realised investment gains/losses – unit-linked and with-profit	–11		–11
Net realised investment gains/losses – insurance-related derivatives	–74	1	–73
Other revenues			0
Total revenues before non-participating realised gains/losses	1 848	938	2 786
Expenses			
Life and health benefits	–1 358	–609	–1 967
Return credited to policyholders	4		4
Acquisition costs	–354	–107	–461
Other expenses	–162	–51	–213
Total expenses before interest expenses	–1 870	–767	–2 637
Operating income	–22	171	149
Net realised investment gains/losses – non-participating and excluding insurance-related derivatives			133
Interest expenses			–145
Income before income tax expenses			137
Management expense ratio in %	8.4	5.4	7.4
Operating margin[1] in %	–1.2	18.2	5.3

[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 30 June

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

[1] Operating margin is calculated as operating 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 six months ended 30 June

2013 USD millions	Life	Health	Total
Revenues			
Premiums earned	3 221	1 561	4 782
Fee income from policyholders	30		30
Net investment income – non-participating	443	254	697
Net investment income – unit-linked and with-profit	6		6
Net realised investment gains/losses – unit-linked and with-profit	86		86
Net realised investment gains/losses – insurance-related derivatives	–81	3	–78
Other revenues			0
Total revenues before non-participating realised gains/losses	3 705	1 818	5 523
Expenses			
Life and health benefits	–2 483	–1 218	–3 701
Return credited to policyholders	–107		–107
Acquisition costs	–565	–211	–776
Other expenses	–310	–107	–417
Total expenses before interest expenses	–3 465	–1 536	–5 001
Operating income	240	282	522
Net realised investment gains/losses – non-participating and excluding insurance-related derivatives			244
Interest expenses			–296
Income before income tax expenses			470
Management expense ratio in %	8.4	5.9	7.6
Operating margin[1] in %	6.6	15.5	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.

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

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

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

3 Insurance information

For the three months ended 30 June

Premiums earned and fees assessed against policyholders

2013 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Premiums earned, thereof:				
Direct		167	224	391
Reinsurance	3 699	2 643	49	6 391
Intra-group transactions (assumed and ceded)	5		–5	0
Premiums earned before retrocession to external parties	3 704	2 810	268	6 782
Reinsurance ceded to external parties	–534	–327	–18	–879
Net premiums earned	3 170	2 483	250	5 903
Fee income from policyholders, thereof:				
Direct			6	6
Reinsurance		16	18	34
Intra-group transactions (assumed and ceded)				0
Gross fee income before retrocession to external parties		16	24	40
Fee income ceded to external parties				0
Net fee income	0	16	24	40

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Premiums earned, thereof:				
Direct		190	60	250
Reinsurance	3 739	3 009	42	6 790
Intra-group transactions (assumed and ceded)	9		–9	0
Premiums earned before retrocession to external parties	3 748	3 199	93	7 040
Reinsurance ceded to external parties	–188	–317	–13	–518
Net premiums earned	**3 560**	**2 882**	**80**	**6 522**
Fee income from policyholders, thereof:				
Direct			5	5
Reinsurance		13	21	34
Intra-group transactions (assumed and ceded)				0
Gross fee income before retrocession to external parties		13	26	39
Fee income ceded to external parties				0
Net fee income	**0**	**13**	**26**	**39**

For the six months ended 30 June

Premiums earned and fees assessed against policyholders

2013 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Premiums earned, thereof:				
Direct		302	251	553
Reinsurance	7 938	5 227	93	13 258
Intra-group transactions (assumed and ceded)	13		–13	0
Premiums earned before retrocession to external parties	7 951	5 529	331	13 811
Reinsurance ceded to external parties	–1 247	–747	–34	–2 028
Net premiums earned	6 704	4 782	297	11 783
Fee income from policyholders, thereof:				
Direct			11	11
Reinsurance		30	44	74
Intra-group transactions (assumed and ceded)				0
Gross fee income before retrocession to external parties		30	55	85
Fee income ceded to external parties				0
Net fee income	0	30	55	85

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Premiums earned, thereof:				
Direct		385	88	473
Reinsurance	7 813	5 777	84	13 674
Intra-group transactions (assumed and ceded)	18		–18	0
Premiums earned before retrocession to external parties	7 831	6 162	154	14 147
Reinsurance ceded to external parties	–458	–621	–23	–1 102
Net premiums earned	**7 373**	**5 541**	**131**	**13 045**
Fee income from policyholders, thereof:				
Direct			10	10
Reinsurance		26	45	71
Intra-group transactions (assumed and ceded)				0
Gross fee income before retrocession to external parties		26	55	81
Fee income ceded to external parties				0
Net fee income	**0**	**26**	**55**	**81**

For the three months ended 30 June

Claims and claim adjustment expenses

2013 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Claims paid, thereof:				
Gross claims paid to external parties	–3 032	–2 279	–200	–5 511
Intra-group transactions (assumed and ceded)	–2	–2	4	0
Claims before receivables from retrocession to external parties	–3 034	–2 281	–196	–5 511
Receivables from retrocession to external parties	490	292	8	790
Net claims paid	–2 544	–1 989	–188	–4 721
Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:				
Gross - with external parties	522	36	–108	450
Intra-group transactions (assumed and ceded)	3	1	–4	0
Unpaid claims and claim adjustment expenses; life and health benefits before impact of retrocession to external parties	525	37	–112	450
Reinsurance ceded to external parties	–222	–15	–3	–240
Net unpaid claims and claim adjustment expenses; life and health benefits	303	22	–115	210
Claims and claim adjustment expenses; life and health benefits	–2 241	–1 967	–303	–4 511

Acquisition costs

2013 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Acquisition costs, thereof:				
Gross acquisition costs with external parties	–807	–483	–7	–1 297
Intra-group transactions (assumed and ceded)	–1		1	0
Acquisition costs before impact of retrocession to external parties	–808	–483	–6	–1 297
Retrocession to external parties	172	22	3	197
Net acquisition costs	–636	–461	–3	–1 100

For the three months ended 30 June

Claims and claim adjustment expenses

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Claims paid, thereof:				
Gross claims paid to external parties	–3074	–2439	–129	–5642
Intra-group transactions (assumed and ceded)	–2		2	0
Claims before receivables from retrocession to external parties	–3076	–2439	–127	–5642
Receivables from retrocession to external parties	377	281	6	664
Net claims paid	**–2699**	**–2158**	**–121**	**–4978**
Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:				
Gross – with external parties	809	–239	–24	546
Intra-group transactions (assumed and ceded)	1		–1	0
Unpaid claims and claim adjustment expenses; life and health benefits before impact of retrocession to external parties	810	–239	–25	546
Reinsurance ceded to external parties	–259	26	3	–230
Net unpaid claims and claim adjustment expenses; life and health benefits	**551**	**–213**	**–22**	**316**
Claims and claim adjustment expenses; life and health benefits	**–2148**	**–2371**	**–143**	**–4662**

Acquisition costs

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Acquisition costs, thereof:				
Gross acquisition costs with external parties	–879	–522	–12	–1413
Intra-group transactions (assumed and ceded)	–3		3	0
Acquisition costs before impact of retrocession to external parties	–882	–522	–9	–1413
Retrocession to external parties	41	52	2	95
Net acquisition costs	**–841**	**–470**	**–7**	**–1318**

For the six months ended 30 June

Claims and claim adjustment expenses

2013 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Claims paid, thereof:				
Gross claims paid to external parties	−5 647	−4 458	−286	−10 391
Intra-group transactions (assumed and ceded)		−3	3	0
Claims before receivables from retrocession to external parties	−5 647	−4 461	−283	−10 391
Receivables from retrocession to external parties	971	700	14	1 685
Net claims paid	−4 676	−3 761	−269	−8 706
Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:				
Gross - with external parties	1 400	100	−155	1 345
Intra-group transactions (assumed and ceded)	−5	3	2	0
Unpaid claims and claim adjustment expenses; life and health benefits before impact of retrocession to external parties	1 395	103	−153	1 345
Reinsurance ceded to external parties	−441	−43	23	−461
Net unpaid claims and claim adjustment expenses; life and health benefits	954	60	−130	884
Claims and claim adjustment expenses; life and health benefits	−3 722	−3 701	−399	−7 822

Acquisition costs

2013 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Acquisition costs, thereof:				
Gross acquisition costs with external parties	−1 698	−1 003	−8	−2 709
Intra-group transactions (assumed and ceded)	−3		3	0
Acquisition costs before impact of retrocession to external parties	−1 701	−1 003	−5	−2 709
Retrocession to external parties	403	227	6	636
Net acquisition costs	−1 298	−776	1	−2 073

For the six months ended 30 June

Claims and claim adjustment expenses

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Claims paid, thereof:				
Gross claims paid to external parties	–5 667	–4 716	–247	–10 630
Intra-group transactions (assumed and ceded)	–2		2	0
Claims before receivables from retrocession to external parties	–5 669	–4 716	–245	–10 630
Receivables from retrocession to external parties	679	583	13	1 275
Net claims paid	**–4 990**	**–4 133**	**–232**	**–9 355**
Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:				
Gross – with external parties	1 448	–384	–23	1 041
Intra-group transactions (assumed and ceded)	–7		7	0
Unpaid claims and claim adjustment expenses; life and health benefits before impact of retrocession to external parties	1 441	–384	–16	1 041
Reinsurance ceded to external parties	–522	16	5	–501
Net unpaid claims and claim adjustment expenses; life and health benefits	**919**	**–368**	**–11**	**540**
Claims and claim adjustment expenses; life and health benefits	**–4 071**	**–4 501**	**–243**	**–8 815**

Acquisition costs

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Acquisition costs, thereof:				
Gross acquisition costs with external parties	–1 699	–1 015	–31	–2 745
Intra-group transactions (assumed and ceded)	–6		6	0
Acquisition costs before impact of retrocession to external parties	–1 705	–1 015	–25	–2 745
Retrocession to external parties	100	96	4	200
Net acquisition costs	**–1 605**	**–919**	**–21**	**–2 545**

Reinsurance assets and liabilities

The reinsurance assets and liabilities as of 31 December 2013 and 30 June 2014 were as follows:

2013 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Assets					
Reinsurance recoverable on unpaid claims and policy benefits	4752	1756	193	–47	6654
Deferred acquisition costs	1591	2845	–12		4424
Liabilities					
Unpaid claims and claim adjustment expenses	45578	9869	941	–50	56338
Liabilities for life and health policy benefits		17392	2932		20324
Policyholder account balances		1595	5095		6690

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Assets					
Reinsurance recoverable on unpaid claims and policy benefits	4248	1779	218	–55	6190
Deferred acquisition costs	1964	2918	–8		4874
Liabilities					
Unpaid claims and claim adjustment expenses	44230	10400	997	–56	55571
Liabilities for life and health policy benefits		17557	2915		20472
Policyholder account balances		1580	5143		6723

Reinsurance receivables

Reinsurance receivables as of 31 December 2013 and 30 June 2014 were as follows:

USD millions	2013	**2014**
Premium receivables invoiced	1143	1563
Receivables invoiced from ceded re/insurance business	361	612
Assets arising from the application of the deposit method of accounting and meeting the definition of financing receivables	1270	803
Recognised allowance	–70	–75

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4 Premiums written

For the three months ended 30 June

2013 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Gross premiums written, thereof:					
Direct		124	222		346
Reinsurance	3 577	2 613	48		6 238
Intra-group transactions (assumed)	6		–8	2	0
Gross premiums written	3 583	2 737	262	2	6 584
Intra-group transactions (ceded)	8		–6	–2	0
Gross premiums written before retrocession to external parties	3 591	2 737	256		6 584
Reinsurance ceded to external parties	–534	–325	–8		–867
Net premiums written	3 057	2 412	248	0	5 717

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Gross premiums written, thereof:					
Direct		80	58		138
Reinsurance	3 607	3 034	39		6 680
Intra-group transactions (assumed)	7			–7	0
Gross premiums written	3 614	3 114	97	–7	6 818
Intra-group transactions (ceded)			–7	7	0
Gross premiums written before retrocession to external parties	3 614	3 114	90		6 818
Reinsurance ceded to external parties	–234	–316	–13		–563
Net premiums written	**3 380**	**2 798**	**77**	**0**	**6 255**

For the six months ended 30 June

2013 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Gross premiums written, thereof:					
Direct		365	258		623
Reinsurance	10 378	5 255	88		15 721
Intra-group transactions (assumed)	10		–8	–2	0
Gross premiums written	10 388	5 620	338	–2	16 344
Intra-group transactions (ceded)	8		–10	2	0
Gross premiums written before retrocession to external parties	10 396	5 620	328		16 344
Reinsurance ceded to external parties	–757	–742	–30		–1 529
Net premiums written	9 639	4 878	298	0	14 815

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Gross premiums written, thereof:					
Direct		465	84		549
Reinsurance	10 321	5 879	79		16 279
Intra-group transactions (assumed)	13			–13	0
Gross premiums written	10 334	6 344	163	–13	16 828
Intra-group transactions (ceded)			–13	13	0
Gross premiums written before retrocession to external parties	10 334	6 344	150		16 828
Reinsurance ceded to external parties	–296	–619	–23		–938
Net premiums written	**10 038**	**5 725**	**127**	**0**	**15 890**

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

As of 31 December 2013 and 30 June 2014, the DAC were as follows:

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

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Opening balance as of 1 January 2014	1 591	2 845	–12	4 424
Deferred	1 957	276	22	2 255
Effect of acquisitions/disposals and retrocessions				0
Amortisation	–1 581	–246	–20	–1 847
Effect of foreign currency translation	–3	43	2	42
Closing balance as of 30 June 2014	**1 964**	**2 918**	**–8**	**4 874**

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 2013 and 30 June 2014, the PVFP was as follows:

			2013			**2014**
USD millions	Life & Health Reinsurance	Other	Total	Life & Health Reinsurance	Other	Total
Opening balance	1 358	628	1 986	1 451	634	2 085
Effect of acquisitions/disposals and retrocessions	206	–30	176			0
Amortisation	–151	10	–141	–78	–15	–93
Interest accrued on unamortised PVFP	35	4	39	20	2	22
Effect of foreign currency translation	3		3	22	–1	21
Effect of change in unrealised gains/losses		22	22		–9	–9
Closing balance	1 451	634	2 085	**1 415**	**611**	**2 026**

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

6 Investments

Investment income

Net investment income by source (excluding unit-linked and with-profit business) for the periods ended 30 June was as follows:

USD millions	Three months ended 30 June 2013	Three months ended 30 June 2014	Six months ended 30 June 2013	Six months ended 30 June 2014
Fixed income securities	480	534	961	1 049
Equity securities	37	31	49	47
Policy loans, mortgages and other loans	24	38	46	84
Investment real estate	34	36	70	72
Short-term investments	27	27	54	53
Other current investments	22	16	44	24
Share in earnings of equity-accounted investees	45	75	74	121
Cash and cash equivalents	16	10	25	18
Net result from deposit-accounted contracts	33	28	69	52
Deposits with ceding companies	161	159	310	312
Gross investment income	879	**954**	1 702	**1 832**
Investment expenses	–86	–81	–165	–166
Interest charged for funds held	–3	–1	–4	–3
Net investment income – non-participating	790	**872**	1 533	**1 663**

Dividends received from investments accounted for using the equity method were USD 30 million and USD 30 million for the three months ended 30 June 2013 and 2014, respectively, as well as USD 59 million and USD 89 million for the six months ended 30 June 2013 and 2014, respectively.

Realised gains and losses

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

USD millions	Three months ended 30 June 2013	Three months ended 30 June 2014	Six months ended 30 June 2013	Six months ended 30 June 2014
Fixed income securities available-for-sale:				
Gross realised gains	364	178	669	321
Gross realised losses	–236	–67	–366	–167
Equity securities available-for-sale:				
Gross realised gains	69	129	104	387
Gross realised losses	–7	–8	–9	–34
Other-than-temporary impairments	–6	–7	–18	–9
Net realised investment gains/losses on trading securities	–13	9	–17	13
Change in net unrealised investment gains/losses on trading securities	–30	24	–29	41
Other investments:				
Net realised/unrealised gains/losses	44	–40	45	–190
Net realised/unrealised gains/losses on insurance-related derivatives	–50	–11	–80	20
Foreign exchange gains/losses	–51	–176	225	–167
Net realised investment gains/losses – non-participating	84	**31**	524	**215**

Investment result – unit-linked and with-profit business
The net investment result on unit-linked and with-profit business credited to policyholders amounted to a loss of USD 7 million and gain of USD 58 million for the three months ended 30 June 2013 and 2014, and gains of USD 92 million and USD 4 million for the six months ended 30 June 2013 and 2014, respectively, mainly originating from gains/losses on equity securities.

Impairment on fixed income securities related to credit losses
Other-than-temporary impairments for debt securities are bifurcated between credit and non-credit components, with the credit component recognised through earnings and the non-credit component recognised in other comprehensive income. The credit component of other-than-temporary impairments is defined as the difference between a security's amortised cost basis and 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 forecast 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 net 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 impairment related to credit losses recognised in earnings for the six months ended 30 June was as follows:

USD millions	2013	**2014**
Balance as of 1 January[1]	295	218
Credit losses for which an other-than-temporary impairment was not previously recognised		
Reductions for securities sold during the period	–38	–55
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	7	
Impact of increase in cash flows expected to be collected	–16	–12
Impact of foreign exchange movements	13	–1
Balance as of 30 June	261	**150**

[1] During 2013 the Group revised the other-than-temporary impairment on fixed income securities related to credit losses. The revision had no impact on net income and shareholders' equity of the Group.

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 2013 and 30 June 2014 were as follows:

2013 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Other-than-temporary impairments recognised in other comprehensive income	Estimated fair value
Debt securities issued by governments and government agencies:					
US Treasury and other US government corporations and agencies	4717	102	−152		4667
US Agency securitised products	3554	35	−74		3515
States of the United States and political subdivisions of the states	731	6	−37		700
United Kingdom	7659	83	−324		7418
Canada	2797	309	−64		3042
Germany	4047	86	−37		4096
France	2434	99	−11		2522
Other	6359	135	−269		6225
Total	32298	855	−968		32185
Corporate debt securities	21032	739	−441	−3	21327
Mortgage-and asset-backed securities	5444	232	−60	−5	5611
Fixed income securities available-for-sale	58774	1826	−1469	−8	59123
Equity securities available-for-sale	4594	761	−61		5294

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	3650	229	−41		3838
US Agency securitised products	3304	51	−31		3324
States of the United States and political subdivisions of the states	765	42	−4		803
United Kingdom	7452	208	−70		7590
Canada	2578	449	−21		3006
Germany	4290	214	−9		4495
France	2763	222	−7		2978
Other	7111	213	−125		7199
Total	31913	1628	−308		33233
Corporate debt securities	21442	1183	−122		22503
Mortgage-and asset-backed securities	5167	222	−23	−1	5365
Fixed income securities available-for-sale	**58522**	**3033**	**−453**	**−1**	**61101**
Equity securities available-for-sale	**2707**	**515**	**−35**		**3187**

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 presented in the "Other-than-temporary impairments recognised in other comprehensive income" column.

Investments trading
Fixed income securities and equity securities classified as trading (excluding unit-linked and with-profit business) as of 31 December 2013 and 30 June 2014 were as follows:

USD millions	2013	2014
Debt securities issued by governments and government agencies	1 202	2 118
Corporate debt securities	132	62
Mortgage- and asset-backed securities	188	175
Fixed income securities trading – non-participating	1 522	**2 355**
Equity securities trading – non-participating	615	**56**

Investments held for unit-linked and with-profit business
Investments held for unit-linked business consist of equity securities trading. As of 31 December 2013 and 30 June 2014, these amounted to USD 988 million and USD 978 million, respectively.

Maturity of fixed income securities available-for-sale
The amortised cost or cost and estimated fair values of investments in fixed income securities available-for-sale by remaining maturity are shown below. Fixed maturity investments are assumed not to be called for redemption prior to the stated maturity date. As of 31 December 2013 and 30 June 2014, USD 9 792 million and USD 10 020 million, respectively, of fixed income securities available-for-sale were callable.

		2013		2014
USD millions	Amortised cost or cost	Estimated fair value	Amortised cost or cost	Estimated fair value
Due in one year or less	2 373	2 358	3 061	3 050
Due after one year through five years	15 358	15 569	11 064	11 314
Due after five years through ten years	10 829	10 951	12 866	13 441
Due after ten years	24 967	24 832	26 525	28 092
Mortgage- and asset-backed securities with no fixed maturity	5 247	5 413	5 006	5 204
Total fixed income securities available-for-sale	58 774	59 123	**58 522**	**61 101**

Assets pledged
As of 30 June 2014, investments with a carrying value of USD 7 322 million were on deposit with regulatory agencies in accordance with local requirements, and investments with a carrying value of USD 10 539 million were placed on deposit or pledged to secure certain reinsurance liabilities, including pledged investments in subsidiaries.

As of 31 December 2013 and 30 June 2014, securities of USD 14 419 million and USD 18 268 million, respectively, were pledged as collateral in securities lending transactions and repurchase agreements. The associated liabilities of USD 1 991 million and USD 2 551 million, respectively, were recognised in accrued expenses and other liabilities.

As of 30 June 2014, a real estate portfolio with a carrying value of USD 258 million serves as collateral for short-term senior operational debt of USD 733 million.

Collateral accepted which the Group has the right to sell or repledge
As of 31 December 2013 and 30 June 2014, the fair value the equity securities and of the government and corporate bond securities received as collateral was USD 7 816 million and USD 8 427 million, respectively. Of this, the amount that was sold or repledged as of 31 December 2013 and 30 June 2014 was USD 4 921 million and USD 5 295 million respectively. The sources of the collateral are 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 2013 and 30 June 2014 were as follows:

2013 USD millions	Gross amounts of recognised financial assets	Collateral set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related financial instruments not set off in the balance sheet	Net amount
Derivative financial instruments – assets	4133	–2877	1256	–380	876
Reverse repurchase agreements	3953	–1811	2142	–2142	0
Securities borrowing			0		0
Total	8086	–4688	3398	–2522	876

2013 USD millions	Gross amounts of recognised financial assets	Collateral set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related financial instruments not set off in the balance sheet	Net amount
Derivative financial instruments – liabilities	–4108	2656	–1452	157	–1295
Repurchase agreements	–2009	1811	–198	198	0
Securities lending	–1792		–1792	1655	–137
Total	–7909	4467	–3442	2010	–1432

2014 USD million	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	4018	–3182	836	–140	**696**
Reverse repurchase agreements	4457	–1438	3019	–3019	**0**
Securities borrowing	37		37	–37	**0**
Total	**8512**	**–4620**	**3892**	**–3196**	**696**

2014 USD million	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 – liabilities	–4082	2931	–1151	114	**–1037**
Repurchase agreements	–2189	1438	–751	751	**0**
Securities lending	–1800		–1800	1699	**–101**
Total	**–8071**	**4369**	**–3702**	**2564**	**–1138**

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 setoff in the event of default, which substantially reduces credit exposure. Upon occurrence of an event of default the non-defaulting party may set off the obligation against collateral received regardless if offset on balance sheet prior to the defaulting event. The net amounts of the financial assets and liabilities presented on the balance sheet were recognised in "Other Invested Assets", and "Accrued Expenses and Other Liabilities", respectively.

Unrealised losses on securities available-for-sale

The following table shows the fair value and unrealised losses of the Group's fixed income securities, aggregated by investment category and length of time that individual securities were in a continuous unrealised loss position as of 31 December 2013 and 30 June 2014. As of 31 December 2013 and 30 June 2014, USD 58 million and USD 34 million, respectively, of the gross unrealised loss on equity securities available-for-sale relates to declines in value for less than 12 months and USD 3 million and USD 1 million, respectively, to declines in value for more than 12 months.

2013 USD millions	Less than 12 months Fair value	Less than 12 months Unrealised losses	12 months or more Fair value	12 months or more Unrealised losses	Total Fair value	Total Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	2 342	152			2 342	152
US Agency securitised products	2 105	69	49	5	2 154	74
States of the United States and political subdivisions of the states	522	37	2		524	37
United Kingdom	5 838	324			5 838	324
Canada	801	62	11	2	812	64
Germany	1 630	33	199	4	1 829	37
France	492	9	47	2	539	11
Other	3 137	193	643	76	3 780	269
Total	16 867	879	951	89	17 818	968
Corporate debt securities	9 264	400	344	44	9 608	444
Residential mortgage-backed securities	1 549	40	542	25	2 091	65
Total	27 680	1 319	1 837	158	29 517	1 477

2014 USD millions	Less than 12 months Fair value	Less than 12 months Unrealised losses	12 months or more Fair value	12 months or more Unrealised losses	Total Fair value	Total Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	186	2	586	39	772	41
US Agency securitised products	304	15	805	16	1 109	31
States of the United States and political subdivisions of the states	31		134	4	165	4
United Kingdom	1 835	40	689	30	2 524	70
Canada	341	7	263	14	604	21
Germany	78	1	254	8	332	9
France	85	4	56	3	141	7
Other	880	50	1 527	75	2 407	125
Total	3 740	119	4 314	189	8 054	308
Corporate debt securities	2 019	27	2 455	95	4 474	122
Mortgage-and asset-backed securities	760	9	510	15	1 270	24
Total	**6 519**	**155**	**7 279**	**299**	**13 798**	**454**

Mortgages, loans and real estate
As of 31 December 2013 and 30 June 2014, the carrying values of investments in mortgages, policy and other loans, and real estate (excluding unit-linked and with-profit business) were as follows:

USD millions	2013	2014
Policy loans	257	251
Mortgage loans	1 069	1 214
Other loans	3 014	2 377
Investment real estate	820	901

The fair value of the real estate as of 31 December 2013 and 30 June 2014 was USD 2 546 million and USD 2 639 million, respectively. The carrying value of policy loans, mortgages and other loans approximates fair value.

Depreciation expense related to income-producing properties was USD 12 million and USD 14 million for the six months ended 30 June 2013 and 2014, respectively. Accumulated depreciation on investment real estate totalled USD 577 million and USD 590 million as of 31 December 2013 and 30 June 2014, respectively.

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

7 Fair value disclosures

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

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

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

Level 2 inputs are market-based inputs that are directly or indirectly observable, but not considered level 1 quoted prices. Level 2 inputs consist of (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical assets or liabilities in non-active markets (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 six months ended 30 June 2014, these adjustments were not material. Whenever the underlying assets or liabilities are reported in a specific business segment, the valuation adjustment is allocated accordingly. Valuation adjustments not attributable to any business segment are reported in Group items.

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

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

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

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

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

Equity securities held by the Group for proprietary investment purposes are mainly classified in levels 1 and 2. Securities classified in level 1 are traded on public stock exchanges for which quoted prices are readily available. Level 2 equities include equity investments fair valued pursuant to the fair value option election and certain hedge fund positions; all valued based on primarily observable inputs.

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

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

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

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

The Group's investments in equity derivatives primarily include OTC equity option contracts on single or baskets of market indices and equity options on individual or baskets of equity securities, which are valued using internally developed models (such as the Black-Scholes 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 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 Group's Group Risk & Capital Committee, chaired by the Group Chief Risk Officer, has a primary responsibility for governing and overseeing all of the Group's valuation policies and operating parameters (including level 3 measurements). The Group Risk & Capital Committee ultimately delegates the responsibility for implementation and oversight of consistent application of the Group's pricing and valuation policies to the Pricing and Valuation Committee, which is a management control committee. 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 IPV 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 2013 and 30 June 2014, the fair values of assets and liabilities measured on a recurring basis by level of input were as follows:

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

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

2014 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impact of netting[1]	Total
Assets					
Fixed income securities held for proprietary investment purposes	3 886	58 956	614		63 456
Debt securities issued by US government and government agencies	3 886	1 303			5 189
US Agency securitised products		3 335			3 335
Debt securities issued by non-US governments and government agencies		26 827			26 827
Corporate debt securities		21 963	602		22 565
Mortgage and asset-backed securities		5 528	12		5 540
Equity securities	4 196	16	9		4 221
Equity securities backing unit-linked and with-profit life and health policies	978				978
Equity securities held for proprietary investment purposes	3 218	16	9		3 243
Short-term investments held for proprietary investment purposes[2]	8 476	8 927			17 403
Derivative financial instruments	25	3 427	566	–3 182	836
Interest rate contracts	2	2 557			2 559
Foreign exchange contracts		85			85
Derivative equity contracts	23	731	424		1 178
Credit contracts		1	15		16
Other contracts		53	127		180
Other assets	1 586		1 612		3 198
Total assets at fair value	**18 169**	**71 326**	**2 801**	**–3 182**	**89 114**
Liabilities					
Derivative financial instruments	–7	–3 247	–828	2 931	–1 151
Interest rate contracts		–2 255			–2 255
Foreign exchange contracts		–422			–422
Derivative equity contracts	–7	–523	–145		–675
Credit contracts		–32	–10		–42
Other contracts		–15	–673		–688
Liabilities for life and health policy benefits			–143		–143
Accrued expenses and other liabilities	–1 985	–1 165	–1 710		–4 860
Total liabilities at fair value	**–1 992**	**–4 412**	**–2 681**	**2 931**	**–6 154**

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

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

Transfers between level 1 and level 2
There were no material transfers between level 1 and level 2 for the six months ended 30 June 2013 and 2014.

Assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (level 3)
As of 31 December 2013 and 30 June 2014, the reconciliation of the fair values of assets and liabilities measured on a recurring basis using significant unobservable inputs were as follows:

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

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

2014 USD millions	Fixed income securities	Equity securities	Derivative assets	Other invested assets	**Total assets**	Derivative liabilities	Liabilities for life and health policy benefits	Accrued expenses and other liabilities	**Total liabilities**
Assets and liabilities									
Balance as of 1 January	619	11	505	1 791	**2 926**	–994	–145	–1 656	**–2 795**
Realised/unrealised gains/losses:									
Included in net income	1	1	–6	39	**35**	236	1		**237**
Included in other comprehensive income	7	–2		26	**31**				**0**
Purchases	12		30	39	**81**	–1			**–1**
Issuances			28		**28**	–83			**–83**
Sales	–19	–1	–20	–147	**–187**	39			**39**
Settlements	–6		–13	–2	**–21**	–25			**–25**
Transfers into level 3[1]			42		**42**				**0**
Transfers out of level 3[1]				–131	**–131**				**0**
Impact of foreign exchange movements				–3	**–3**		1	–54	**–53**
Closing balance as of 30 June	**614**	**9**	**566**	**1 612**	**2 801**	**–828**	**–143**	**–1 710**	**–2 681**

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

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

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

USD millions	2013	**2014**
Gains/losses included in net income for the period	955	272
Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date	808	150

Quantitative information about level 3 fair value measurements

Unobservable inputs for major level 3 assets and liabilities as of 31 December 2013 and 30 June 2014 were as follows:

USD millions	2013 Fair value	2014 **Fair value**	Valuation technique	Unobservable input	Range (weighted average)
Assets					
Corporate debt securities	607	**602**			
Surplus notes with a mortality underlying	195	202	Discounted Cash Flow Model	Illiquidity premium	75 bps (na)
Private placement corporate debt	341	328	Corporate Spread Matrix	Illiquidity premium	15 bps–186 bps (67 bps)
Private placement credit tenant leases	68	69	Discounted Cash Flow Model	Illiquidity premium	75 bps–200 bps (129 bps)
Derivative equity contracts	401	**424**			
OTC equity option referencing correlated equity indices	401	424	Proprietary Option Model	Correlation	–10 %–100 % (45 %)[1]
Liabilities					
Derivative equity contracts	–190	**–145**			
OTC equity option referencing correlated equity indices	–49	–49	Proprietary Option Model	Correlation	–10 %–100 % (45 %)[1]
Option contract referencing a private equity underlying	–137	–96	Option Model	Volatility	100%
				Growth Rate	6.75 % (n.a.)
Other derivative contracts and liabilities for life and health policy benefits	–911	**–816**			
Variable annuity and fair valued GMDB contracts	–677	–616	Discounted Cash Flow Model	Risk Margin	4 % (n.a.)
				Volatility	4 %–42 %
				Lapse	0.5 %–33 %
				Mortality adjustment	–10 %–0 %
				Withdrawal rate	0 %–90 %
Embedded derivatives in Mod-Co and Coinsurance with Funds Withheld treaties	–125	–110	Discounted Cash Flow Model	Lapse	3 %–10 %
				Mortality adjustment	80% (n.a.)

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

Sensitivity of recurring level 3 measurements to changes in unobservable inputs

The significant unobservable input used in the fair value measurement of the Group's surplus notes, 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 higher (lower) 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 option referencing private equity underlying are: volatility and growth rate. Where the Group is long vega, a significant increase (decrease) in volatility in isolation would result in a significantly higher (lower) fair value measurement. Where the Group is short vega, a significant increase (decrease) in volatility in isolation would result in a significantly lower (higher) fair value measurement. Where the Group is long delta, a significant increase (decrease) in the growth rate in isolation would result in a significantly higher (lower) fair value measurement. Where the Group is short delta, a significant increase (decrease) in the growth rate in isolation would result in a significantly lower (higher) fair value measurement.

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

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

Other invested assets measured at net asset value

Other invested assets measured at net asset value as of 31 December 2013 and 30 June 2014, respectively, were as follows:

USD millions	2013 Fair value	**2014** Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Private equity funds	687	689	258	non redeemable	na
Hedge funds	749	626		redeemable[1]	90-180days[2]
Private equity direct	68	30		non redeemable	na
Real estate funds	231	222	85	non redeemable	na
Total	1 735	**1 567**	**343**		

[1] The redemption frequency varies from monthly to up to three years.
[2] Cash distribution can be delayed for up to three years depending on the sale of the underlyings.

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

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

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

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

Fair value option

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

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

Equity securities trading

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

Other invested assets

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

Liabilities for life and health policy benefits

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

Assets and liabilities measured at fair value pursuant to election of the fair value option
Pursuant to the election of the fair value option for the items described, the balances as of 31 December 2013 and 30 June 2014 were as follows:

USD millions	2013	2014
Assets		
Equity securities trading	615	56
of which at fair value pursuant to the fair value option	544	0
Other invested assets	9 233	9 536
of which at fair value pursuant to the fair value option	57	46
Liabilities		
Liabilities for life and health policy benefits	–20 324	–20 472
of which at fair value pursuant to the fair value option	–145	–143

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

USD millions	2013	2014
Equity securities trading	5	2
Other invested assets		–2
Liabilities for life and health policy benefits	85	2
Total	90	**2**

Fair value changes from equity securities trading are reported in "Net realised investment gains/losses – non-participating business". Fair value changes from other invested assets are reported in "Net investment income – non-participating business". Fair value changes from the GMDB reserves are shown in "Life and health benefits".

Assets and liabilities not measured at fair value but for which the fair value is disclosed
Assets and liabilities not measured at fair value but for which the fair value is disclosed as of 31 December 2013 and 30 June 2014, were as follows:

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

2014 USD millions	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets			
Policy loans		251	251
Mortgage loans		1 228	1 228
Other loans		2 382	2 382
Investment real estate		2 639	2 639
Total assets	0	**6 500**	**6 500**
Liabilities			
Debt	9 617	10 686	20 303
Total liabilities	**9 617**	**10 686**	**20 303**

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

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

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

8 Derivative financial instruments

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

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

Fair values and notional amounts of derivative financial instruments
As of 31 December 2013 and 30 June 2014, the fair values and notional amounts of the derivatives outstanding were as follows:

2013 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivatives not designated as hedging instruments				
Interest rate contracts	83 250	2 385	–2 127	258
Foreign exchange contracts	15 580	252	–417	–165
Equity contracts	20 111	1 266	–731	535
Credit contracts	2 676	46	–49	–3
Other contracts	23 176	169	–773	–604
Total	144 793	4 118	–4 097	21
Derivatives designated as hedging instruments				
Foreign exchange contracts	1 472	15	–11	4
Total	1 472	15	–11	4
Total derivative financial instruments	146 265	4 133	–4 108	25
Amount offset				
Where a right of setoff exists		–2 353	2 353	
Due to cash collateral		–524	303	
Total net amount of derivative financial instruments		1 256	–1 452	–196

2014 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivatives not designated as hedging instruments				
Interest rate contracts	93 793	2 559	–2 255	304
Foreign exchange contracts	16 120	80	–419	–339
Equity contracts	19 601	1 178	–675	503
Credit contracts	1 575	16	–42	–26
Other contracts	31 179	180	–688	–508
Total	**162 268**	**4 013**	**–4 079**	**–66**
Derivatives designated as hedging instruments				
Foreign exchange contracts	1 203	5	–3	2
Total	**1 203**	**5**	**–3**	**2**
Total derivative financial instruments	**163 471**	**4 018**	**–4 082**	**–64**
Amount offset				
Where a right of setoff exists		–2 385	2 385	
Due to cash collateral		–797	546	
Total net amount of derivative financial instruments		**836**	**–1 151**	**–315**

The notional amounts of derivative financial instruments give an indication of the Group's volume of derivative activity. The fair value assets are included in "Other invested assets" and the fair value liabilities are included in "Accrued expenses and other liabilities". The fair value amounts that were not offset were nil as of 31 December 2013 and 30 June 2014.

Non-hedging activities

The Group primarily uses derivative financial instruments for risk management and trading strategies. Gains and losses of derivative financial instruments not designated as hedging instruments are recorded in "Net realised investment gains/losses" in the income statement. Gains and losses of derivative financial instruments not designated as hedging instruments were as follows:

USD millions	For the three months ended 30 June 2013	For the three months ended 30 June 2014	For the six months ended 30 June 2013	For the six months ended 30 June 2014
Derivatives not designated as hedging instruments				
Interest rate contracts	–99	–36	–170	–83
Foreign exchange contracts	–245	–128	–384	–115
Equity contracts	–78	–115	–520	–112
Credit contracts	–121	1	–112	–2
Other contracts	425	108	1 175	103
Total gain/loss recognised in income	–118	**–170**	–11	**–209**

Hedging activities

The Group designates certain derivative financial instruments as hedging instruments. The designation of derivative financial instruments is primarily used for overall portfolio and risk management strategies. As of 30 June, the following hedging relationships were outstanding:

Fair value hedges

The Group enters into interest rate and foreign exchange swaps to reduce the exposure to interest rate and foreign exchange volatility for certain of its issued debt positions. 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" in the income statement. Gains and losses attributable to the hedged risks were as follows:

2013 USD millions	For the three months ended 30 June Gains/losses on derivatives	For the three months ended 30 June Gains/losses on hedged items	For the six months ended 30 June Gains/losses on derivatives	For the six months ended 30 June Gains/losses on hedged items
Fair value hedging relationships				
Interest rate contracts	–162	177	–224	241
Foreign exchange contracts	–3	2	–2	1
Total gain/loss recognised in income	–165	179	–226	242

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

Hedges of the net investment in foreign operations

The Group designates 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 2013 and the six months ended 30 June 2014, the Group recorded an accumulated net unrealised foreign currency remeasurement loss of USD 57 million and a loss of USD 59 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 setoff and the qualifying master netting arrangements with various counterparties, the maximum potential loss as of 31 December 2013 and 30 June 2014 was approximately USD 1 780 million and USD 1 633 million, respectively. The maximum potential loss is based on the positive market replacement cost assuming non-performance of all counterparties, excluding cash collateral.

Credit risk-related contingent features[1]
Certain derivative instruments held by the Group contain provisions that require its debt to maintain an investment-grade credit rating. If the Group's credit rating were downgraded or no longer rated, the counterparties could request immediate payment, guarantee or an ongoing full overnight collateralisation on derivative instruments in net liability positions.

The total fair value of derivative financial instruments containing credit risk-related contingent features amounted to USD 305 million and USD 256 million as of 31 December 2013 and 30 June 2014, respectively. For derivative financial instruments containing credit risk-related contingent features, the Group posted collateral of USD 2 million and USD 4 million as of 31 December 2013 and 30 June 2014, respectively. In the event of a reduction of the Group's credit rating to below investment grade, a fair value of USD 252 million additional collateral would have had to be posted as of 30 June 2014. The total equals the amount needed to settle the instruments immediately as of 30 June 2014.

Credit derivatives written/sold
In 2013, the Group has substantially completed the unwinding and de-risking activities and reduced its exposure in credit derivatives written/sold which decreased the related notional amount and fair values materially. As of 30 June 2014 the Group had no significant exposure in credit derivatives written/sold. The maximum potential payout, which is based on notional values, as of 31 December 2013 and 30 June 2014 was USD 640 million and USD 400 million, respectively.

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

9 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 2013 and 30 June 2014 was as follows:

USD millions	2013	**2014**
Senior financial debt	2 896	4 505
Senior operational debt	3 096	1 359
Short-term debt – financial and operational debt	5 992	**5 864**
Senior financial debt	3 233	2 493
Senior operational debt	708	711
Subordinated financial debt	5 367	5 432
Subordinated operational debt	5 414	5 448
Long-term debt – financial and operational debt	14 722	**14 084**
Total carrying value	20 714	**19 948**
Total fair value	20 701	**20 303**

Interest expense on long-term debt and contingent capital instruments

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

	Three months ended 30 June		Six months ended 30 June	
USD millions	2013	**2014**	2013	**2014**
Senior financial debt	43	20	86	50
Senior operational debt	16	4	39	8
Subordinated financial debt	72	75	139	147
Subordinated operational debt	60	64	121	128
Total	191	**163**	385	**333**

Interest expenses on contingent capital instruments were USD 14 million and USD 18 million for the three months ended 30 June 2013 and 2014, respectively, and USD 32 million and USD 35 million for the six months ended 30 June 2013 and 2014, respectively.

Long-term debt issued in 2014

The Group did not issue any long-term debt in the six months ended 30 June 2014.

10 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 through insurance or derivative contracts. In credit-linked securitisations, the securitisation vehicle assumes the credit risk 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, or through protection provided under a total return swap for the principal of the collateral held by the securitisation vehicle.

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. Typically, the Group is considered the primary beneficiary of a securitisation vehicle when the Group acts as a sponsor of risk passed to the VIE and enters at the same time into a total return swap with the VIE to protect the VIE's assets from market risk. Under the total return swap, the Group would incur losses if some or all of the securities held as collateral in the securitisation vehicle decline in value or default. Therefore, the Group's maximum exposure to loss equals the principal amount of the collateral protected under the total return swap.

As of 30 June 2014, the total assets of the insurance-linked and credit-linked securitisation vehicles in which the Group holds variable interests but is not the primary beneficiary were USD 1 855 million.

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, Swiss Re 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 of investment-grade securities, structured products, hedge fund units, derivatives and others.

The Group consolidates certain debt financing vehicles as it has power over the investment management in the vehicles, 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.

As of 30 June 2014, the total assets of the vehicles in which the Group is the primary beneficiary were USD 6 942 million.

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.

As of 30 June 2014, the total assets of investment vehicles in which the Group holds variable interests but is not the primary beneficiary were USD 2 509 million. The total assets of the vehicles in which the Group is the primary beneficiary were USD 12 million.

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.

As of 30 June 2014, the total assets of other VIEs in which the Group holds variable interests but is not the primary beneficiary were USD 5 360 million. The total assets of the vehicles in which the Group is the primary beneficiary were USD 17 million.

The Group did not provide financial or other support to any VIEs during 2014 that it was not previously contractually required to provide.

Consolidated VIEs

The following table shows the total assets and liabilities on the Group's balance sheet relating to VIEs of which the Group is the primary beneficiary as of 31 December 2013 and 30 June 2014:

USD millions	2013 Carrying value	2013 Whereof restricted:	2014 Carrying value	2014 Whereof restricted:
Fixed income securities available-for-sale	6490	6490	6719	6719
Short-term investments	61	61	38	38
Other invested assets	8		12	
Cash and cash equivalents	162	162	19	19
Accrued investment income	60	60	62	62
Other assets	17		121	104
Total assets	6798	6773	**6971**	**6942**
	Carrying value	**Whereof limited recourse:**	**Carrying value**	**Whereof limited recourse:**
Deferred and other non-current tax liabilities			46	46
Short-term debt	62	62		
Accrued expenses and other liabilities	20	20	103	103
Long-term debt	5414	5414	5448	5448
Total liabilities	5496	5496	**5597**	**5597**

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 2013 and 30 June 2014:

USD millions	2013	2014
Fixed income securities:		
Available-for-sale	71	59
Trading	15	15
Policy loans mortgages and other loans		96
Other invested assets	966	907
Total assets	1052	**1077**
Short-term debt	417	
Accrued expenses and other liabilities	422	337
Total liabilities	839	**337**

The following table shows the Group's assets, liabilities and maximum exposure to loss related to VIEs in which the Group held a variable interest but was not the primary beneficiary as of 31 December 2013 and 30 June 2014:

USD millions	Total assets	Total liabilities	Maximum exposure to loss	2013 Difference between exposure and liabilities	Total assets	Total liabilities	Maximum exposure to loss	2014 Difference between exposure and liabilities
Insurance-linked/credit-linked securitisations	72		90	90	63		58	58
Swaps in trusts	96	284	–[1]	–	41	240	–[1]	–
Investment vehicles	853		853	853	861		861	861
Other	31	555	1 702	1 147	112	97	2 800	2 703
Total	1 052	839	–[1]	–	**1 077**	**337**	**–[1]**	**–**

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

The assets and liabilities for the swaps in trusts represent the positive and negative fair values of the derivatives the Group has entered into with the trusts. Liabilities are recognised for certain debt financing VIEs when losses occur. To date, the respective debt financing VIEs have not incurred any losses. Liabilities of USD 97 million recognised for the "Other" category relate mainly to a guarantee granted.

11 Benefit plans

Net periodic benefit cost
Pension and post-retirement cost for the six months ended 30 June 2013 and 2014 were USD 83 million and USD 60 million, respectively.

Employer's contributions for 2014
For the six months ended 30 June 2014, the Group contributed USD 105 million to its defined benefit pension plans and USD 9 million to other post-retirement plans, compared to USD 139 million and USD 8 million, respectively, in the same period of 2013.

The expected 2014 contributions to the defined benefit pension plans and to the post-retirement benefit plans, revised as of 30 June 2014 for latest information, amount to USD 169 million and USD 18 million, respectively.

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Note on risk factors

General impact of adverse market conditions
The continued volatility in global financial markets and recent pessimistic global growth forecasts by the Organisation of Economic Cooperation and Development and the International Monetary Fund, among others, highlight the continued uncertainties around the post-crisis recovery and the risks that the world economy continues to face. In the European Union, it remains unclear whether the recently announced single resolution mechanism and other components of a banking union, as well as actions of the European Central Bank will create the conditions necessary for increased bank lending and greater economic growth. The volatility in the financial and credit markets could increase the severity and duration of economic recession, cause more economic turmoil in the near term, cause further disruptions in the global financial markets and impact foreign currency exchange rates. These uncertainties could be exacerbated by the uncertainty over the pace and extent of future economic growth in emerging markets. Moreover, political or geopolitical crises, and international responses to such crises, as highlighted by the recent events involving Ukraine and the Middle East, could have an adverse impact on global financial markets and economic conditions. These developments in turn could have an adverse impact on the investment results of Swiss Reinsurance Company Ltd ("Swiss Re") and its direct or indirect subsidiaries (collectively, the "Group"), the Group's ability to access the capital markets and the bank funding market, the ability of counterparties to meet their obligations to the Group and the short-term outlook for the life insurance industry, particularly in North America and Europe, with a corresponding negative impact on the Group's Life & Health business.

The foregoing developments could have material adverse effects on the Group's industry and on the Group.

Regulatory changes
Swiss Re and its subsidiaries are subject to Group supervision, and some of its subsidiaries are regulated in a number of jurisdictions in which they conduct 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 include changes as to which governmental bodies regulate financial institutions, changes in the way financial institutions generally are regulated, 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.

Legislative initiatives directly impacting the Group's industry include the establishment of a pan-European regulator for insurance companies, the European Insurance and Occupational Pension Authority (the "EIOPA"), which has the power to overrule national regulators in certain circumstances. In addition, Swiss Re as a Group is subject to the Swiss Solvency Test, and will be subject to Solvency II, which is expected to 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 and, more recently, as a result of the Solvency Modernization Initiative of the National Association of Insurance Commissioners, the Group is experiencing greater US scrutiny of its global operations and more extensive reporting obligations. 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 the MiFID, in respect of derivatives could have a significant impact on the Group.

Other changes remain 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 our 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. 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 a framework for supervision of internationally active insurance groups (IAIGs). Initial designation of insurers as G-SIIs took place in July 2013, and initial designation of reinsurers as G-SIIs is expected towards the end of 2014. The Group believes that there is a reasonable likelihood that it will be designated as a G-SII when the initial reinsurer designations are issued and that 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 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 or will 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. 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 in place 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 to deteriorate and asset classes were to be impacted, the Group could experience losses. Changes in the market value of the underlying securities and other factors impacting their price could give rise to market value losses. If the credit markets were to deteriorate, the Group could face write-downs in areas of its portfolio, including structured instruments, and the Group and its counterparties could face difficulties in valuing credit-related instruments. Differences in opinion with respect to valuations of credit-related instruments could result in legal disputes among the Group and its counterparties as to their respective obligations, the outcomes of which are difficult to predict and could be material.

Liquidity risks
The Group's business requires, and its clients expect, that it has sufficient capital and sufficient liquidity to meet its reinsurance obligations, and that this would continue to be the case following the occurrence of any foreseeable event or series of events, including extreme catastrophes, that would trigger insurance or reinsurance coverage obligations. The Group's uses of funds include obligations arising in its reinsurance business (including claims and other payments as well as insurance provision repayments due to portfolio transfers, securitisations and commutations), which may include large and unpredictable claims (including catastrophe claims), funding of capital requirements and operating costs, payment of principal and interest on outstanding indebtedness and funding of acquisitions. The Group also has unfunded capital commitments in its private equity and hedge fund investments, which could result in funding obligations at a time when it is subject to liquidity constraints. In addition, the Group has potential collateral requirements in connection with a number of reinsurance arrangements, the amounts of which may be material and the meeting of which could require the Group to liquidate cash

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

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

Counterparty risks
The Group is exposed to the risk of defaults, or concerns about defaults, by its counterparties. 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 also 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. A decline in ratings could also 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. Any rating downgrades could also have a material adverse impact on the Group's costs of borrowing and limit its access to the capital markets. Further negative ratings action could also impact reinsurance contracts.

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, such as market abuse regulations, anti-bribery legislation, anti-money laundering legislation and trade sanctions legislation. 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 interests 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 of 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; 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 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 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, and such actual data could deviate from the Group's 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 in 2012, the asset base, liquidity position, capital profile and/or other characteristics of the Group of relevance to its counterparties have changed. Most importantly, the Group is now a wholly owned subsidiary of Swiss Re Ltd. Furthermore, the Group represents only two of the four principal operating segments of the Swiss Re Ltd group. With a changed legal entity profile, the Reinsurance business unit and its constituent subsidiaries are impacted differently than under the Group's historical structure, including, without limitation, in respect of legal and regulatory requirements (including as to capital and liquidity), ratings considerations, and lender and other counterparty considerations.

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

- instability affecting the global financial system and developments related thereto;
- deterioration in global economic conditions;
- 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 one of the financial strength or other ratings of one or more Swiss Re companies, and developments adversely affecting Swiss Re's ability to achieve improved ratings;
- the cyclicality of the reinsurance industry;
- uncertainties in estimating reserves;
- uncertainties in estimating future claims for purposes of financial reporting, particularly with respect to large natural catastrophes, as significant uncertainties may be involved in estimating losses from such events and preliminary estimates may be subject to change as new information becomes available;
- the frequency, severity and development of insured claim events;
- acts of terrorism and acts of war;
- mortality, morbidity and longevity experience;
- policy renewal and lapse rates;
- extraordinary events affecting 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 and the interpretation of legislation or regulations;
- 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.

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

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