Swiss Re

Swiss Reinsurance Company Consolidated

Second Quarter 2015 Report

Content

Income statement

USD millions	Note	Three months ended 30 June 2014	Three months ended 30 June 2015	Six months ended 30 June 2014	Six months ended 30 June 2015
Revenues					
Premiums earned	3	6 522	**6 154**	13 045	**12 627**
Fee income from policyholders	3	39	**34**	81	**78**
Net investment income – non-participating business	6	872	**656**	1 663	**1 404**
Net realised investment gains/losses – non-participating business (total impairments for the three months ended 30 June were 7 in 2014 and 6 in 2015, of which 7 and 6, respectively, were recognised in earnings)[1]	6	31	**–34**	215	**554**
Net investment result – unit-linked and with-profit business	6	58	**–34**	4	**41**
Other revenues		18	**26**	25	**39**
Total revenues		7 540	**6 802**	15 033	**14 743**
Expenses					
Claims and claim adjustment expenses	3	–2 171	**–1 935**	–4 107	**–3 897**
Life and health benefits	3	–2 491	**–2 007**	–4 708	**–4 137**
Return credited to policyholders		–153	**–48**	–194	**–222**
Acquisition costs	3	–1 318	**–1 537**	–2 545	**–2 951**
Other expenses		–659	**–639**	–1 250	**–1 258**
Interest expenses		–190	**–144**	–381	**–285**
Total expenses		–6 982	**–6 310**	–13 185	**–12 750**
Income before income tax expense		558	**492**	1 848	**1 993**
Income tax expense		–78	**–203**	–323	**–432**
Net income before attribution of non-controlling interests		480	**289**	1 525	**1 561**
Income/loss attributable to non-controlling interests		0	**–1**	–1	**–1**
Net income after attribution of non-controlling interests		480	**288**	1 524	**1 560**
Interest on contingent capital instruments		–18	**–17**	–35	**–34**
Net income attributable to common shareholder		462	**271**	1 489	**1 526**

[1] Total impairments for the six months ended 30 June were USD 9 million in 2014 and USD 11 million in 2015, of which USD 9 million and USD 11 million, respectively, were recognised in earnings.

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

Statement of comprehensive income

USD millions	Three months ended 30 June 2014	2015	Six months ended 30 June 2014	2015
Net income before attribution of non-controlling interests	480	**289**	1 525	**1 561**
Other comprehensive income, net of tax:				
Change in unrealised investment gains/losses	733	**–2 345**	1 443	**–1 333**
Change in other-than-temporary impairment	2		4	**1**
Change in foreign currency translation	136	**252**	105	**–601**
Change in adjustment for pension benefits	3	**9**	3	**35**
Total comprehensive income before attribution of non-controlling interests	1 354	**–1 795**	3 080	**–337**
Interest on contingent capital instruments	–18	**–17**	–35	**–34**
Comprehensive income attributable to non-controlling interests		**–1**	–1	**–1**
Total comprehensive income attributable to common shareholder	1 336	**–1 813**	3 044	**–372**

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

2014 USD millions	Unrealised investment gains/losses[1]	Other-than-temporary impairment[1]	Foreign currency translation[1,2]	Adjustment from pension benefits[3]	Accumulated other comprehensive income
Balance as of 1 April	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

2015 USD millions	Unrealised investment gains/losses[1]	Other-than-temporary impairment[1]	Foreign currency translation[1,2]	Adjustment from pension benefits[3]	**Accumulated other comprehensive income**
Balance as of 1 April	4 474	–2	–5 114	–736	**–1 378**
Change during the period	–2 428		223	–9	**–2 214**
Amounts reclassified out of accumulated other comprehensive income	–807			20	**–787**
Tax	890		29	–2	**917**
Balance as of period end	**2 129**	**–2**	**–4 862**	**–727**	**–3 462**

[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

2014 USD millions	Unrealised investment gains/losses[1]	Other-than-temporary impairment[1]	Foreign currency translation[1,2]	Adjustment from pension benefits[3]	Accumulated other comprehensive income
Balance as of 1 January	741	–6	–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

2015 USD millions	Unrealised investment gains/losses[1]	Other-than-temporary impairment[1]	Foreign currency translation[1,2]	Adjustment from pension benefits[3]	**Accumulated other comprehensive income**
Balance as of 1 January	3462	–3	–4261	–762	**–1564**
Change during the period	–849	2	–517	11	**–1353**
Amounts reclassified out of accumulated other comprehensive income	–1023			35	**–988**
Tax	539	–1	–84	–11	**443**
Balance as of period end	**2129**	**–2**	**–4862**	**–727**	**–3462**

[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

Assets

USD millions	Note	31.12.2014	30.06.2015
Investments	6, 7, 8,		
Fixed income securities:			
Available-for-sale, at fair value (including 12 325 in 2014 and 14 629 in 2015 subject to securities lending and repurchase agreements) (amortised cost: 2014: 60 600; 2015: 60 956)		65 127	**63 494**
Trading (including 645 in 2014 and 849 in 2015 subject to securities lending and repurchase agreements)		2 219	**1 992**
Equity securities:			
Available-for-sale, at fair value (including 190 in 2014 and 586 in 2015 subject to securities lending and repurchase agreements) (cost: 2014: 1 975; 2015: 2 752)		2 396	**3 105**
Trading		65	**70**
Policy loans, mortgages and other loans		3 908	**4 012**
Investment real estate		881	**1 139**
Short-term investments, at fair value (including 2 025 in 2014 and 1 203 in 2015 subject to securities lending and repurchase agreements)		10 520	**6 394**
Other invested assets		7 353	**6 942**
Investments for unit-linked and with-profit business (including equity securities trading: 894 in 2014 and 920 in 2015)		894	**920**
Total investments		93 363	**88 068**
Cash and cash equivalents (including 45 in 2014 and 32 in 2015 subject to securities lending)		5 855	**5 199**
Accrued investment income		721	**676**
Premiums and other receivables		10 340	**11 429**
Reinsurance recoverable on unpaid claims and policy benefits	3	5 346	**4 895**
Funds held by ceding companies		12 173	**11 096**
Deferred acquisition costs	5	4 480	**4 785**
Acquired present value of future profits	5	1 899	**1 840**
Goodwill		3 916	**3 835**
Income taxes recoverable		109	**152**
Deferred tax assets		5 206	**5 371**
Other assets		2 895	**2 814**
Total assets		146 303	**140 160**

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

Liabilities and equity

USD millions	Note	31.12.2014	30.06.2015
Liabilities			
Unpaid claims and claim adjustment expenses		52 177	**49 962**
Liabilities for life and health policy benefits	7	19 284	**17 301**
Policyholder account balances		6 610	**5 445**
Unearned premiums		7 825	**10 056**
Funds held under reinsurance treaties		3 083	**2 507**
Reinsurance balances payable		1 966	**1 849**
Income taxes payable		802	**444**
Deferred and other non-current tax liabilities		7 490	**7 207**
Short-term debt	10	4 959	**5 551**
Accrued expenses and other liabilities		8 016	**10 296**
Long-term debt	10	11 265	**10 167**
Total liabilities		123 477	**120 785**
Equity			
Contingent capital instruments		1 102	**1 102**
Common shares CHF 0.10 par value			
2014: 344 052 565; 2015: 344 052 565 shares authorised and issued		32	**32**
Additional paid-in capital		8 823	**8 705**
Shares in Swiss Re Ltd, net of tax		–10	**–17**
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax		3 462	**2 129**
Other-than-temporary impairment, net of tax		–3	**–2**
Foreign currency translation, net of tax		–4 261	**–4 862**
Adjustment for pension and other post-retirement benefits, net of tax		–762	**–727**
Total accumulated other comprehensive income		–1 564	**–3 462**
Retained earnings		14 421	**12 992**
Shareholder's equity		22 804	**19 352**
Non-controlling interests		22	**23**
Total equity		22 826	**19 375**
Total liabilities and equity		146 303	**140 160**

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

Statement of shareholder's equity

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

USD millions	2014	2015
Contingent capital instruments		
Balance as of 1 January	1 102	**1 102**
Issued		
Balance as of period end	1 102	**1 102**
Common shares		
Balance as of 1 January	32	**32**
Issue of common shares		
Balance as of period end	32	**32**
Additional paid-in capital		
Balance as of 1 January	8 853	**8 823**
Share-based compensation	–35	**–12**
Realised gains/losses on treasury shares	5	**–106**
Balance as of period end	8 823	**8 705**
Shares in Swiss Re Ltd, net of tax		
Balance as of 1 January	–148	**–10**
Change of shares in Swiss Re Ltd	138	**–7**
Balance as of period end	–10	**–17**
Net unrealised investment gains/losses, net of tax		
Balance as of 1 January	741	**3 462**
Changes during the period	2 721	**–1 333**
Balance as of period end	3 462	**2 129**
Other-than-temporary impairment, net of tax		
Balance as of 1 January	–6	**–3**
Changes during the period	3	**1**
Balance as of period end	–3	**–2**
Foreign currency translation, net of tax		
Balance as of 1 January	–3 527	**–4 261**
Changes during the period	–734	**–601**
Balance as of period end	–4 261	**–4 862**
Adjustment for pension and other post-retirement benefits, net of tax		
Balance as of 1 January	–471	**–762**
Changes during the period	–291	**35**
Balance as of period end	–762	**–727**
Retained earnings		
Balance as of 1 January	14 660	**14 421**
Net income after attribution of non-controlling interests	2 965	**1 560**
Interest on contingent capital instruments, net of tax	–69	**–34**
Dividends on common shares and dividends-in-kind	–3 135	**–2 955**
Balance as of period end	14 421	**12 992**
Shareholder's equity	22 804	**19 352**
Non-controlling interests		
Balance as of 1 January	25	**22**
Change during the period	–4	
Income attributable to non-controlling interests	1	**1**
Balance as of period end	22	**23**
Total equity	22 826	**19 375**

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

Statement of cash flow

For the six months ended 30 June

USD millions	2014	2015
Cash flows from operating activities		
Net income attributable to common shareholder	1 489	**1 526**
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	138	**201**
Net realised investment gains/losses	–212	**–587**
Income from equity-accounted investees, net of dividends received	–32	**–3**
Change in:		
Technical provisions and other reinsurance assets and liabilities, net	–629	**–462**
Funds held by ceding companies and under reinsurance treaties	398	**240**
Reinsurance recoverable on unpaid claims and policy benefits	517	**414**
Other assets and liabilities, net	–498	**–320**
Income taxes payable/recoverable	52	**–264**
Trading positions, net[1]	24	**5**
Net cash provided/used by operating activities	1 248	**751**
Cash flows from investing activities		
Fixed income securities:		
Sales	28 389	**19 482**
Maturities	1 727	**2 229**
Purchases	–30 262	**–25 628**
Net purchases/sales/maturities of short-term investments	1 016	**3 720**
Equity securities:		
Sales	4 292	**681**
Purchases	–1 491	**–1 337**
Securities purchased/sold under agreement to resell/repurchase, net[1]	–256	**703**
Cash paid/received for acquisitions/disposal and reinsurance transactions, net		**177**
Net purchases/sales/maturities of other investments[1]	923	**2 179**
Net cash provided/used by investing activities	4 338	**2 206**
Cash flows from financing activities		
Issuance/repayment of long-term debt	–143	**235**
Issuance/repayment of short-term debt	–861	**–714**
Dividends paid to parent	–3 120	**–2 961**
Net cash provided/used by financing activities	–4 124	**–3 440**
Total net cash provided/used	1 462	**–483**
Effect of foreign currency translation	106	**–173**
Change in cash and cash equivalents	1 568	**–656**
Cash and cash equivalents as of 1 January	5 883	**5 855**
Cash and cash equivalents as of 30 June	7 451	**5 199**

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

Interest paid was USD 365 million and USD 236 million for the six months ended 30 June 2014 and 2015, respectively.

Tax paid was USD 257 million and USD 672 million for the six months ended 30 June 2014 and 2015, respectively.

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

Notes to the Group financial statements

1 Organisation and summary of significant accounting policies

Nature of operations

The Swiss Reinsurance Company Ltd ("SRZ") and its subsidiaries (collectively, the "Group") is a wholesale provider of reinsurance, insurance and other insurance-based forms of risk transfer. Working through brokers and a network of offices around the globe, the Group serves a client base made up of insurance companies and public sector clients.

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

Basis of presentation

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

Use of estimates in the preparation of financial statements

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

Valuation of financial assets

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

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

For assets or derivative structures at fair value, the Group uses market prices or inputs derived from market prices. A separate internal price verification process, independent of the trading function, provides an additional control over the market prices or market input used to determine the fair values of such assets. Although management considers that appropriate values have been ascribed to such assets, there is always a level of uncertainty and judgment over these valuations. Subsequent valuations could differ significantly from the results of the process described above. The Group may become aware of counterparty valuations, either directly through the exchange of information or indirectly, for example, through collateral demands. Any implied differences are considered in the independent price verification process and may result in adjustments to initially indicated valuations. As of 30 June 2015, the Group had not provided any collateral on financial instruments in excess of its own market value estimates.

Subsequent events

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

Recent accounting guidance

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

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

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

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

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

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

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

2 Information on business segments

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

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

Accounting policies applied by the business segments are in line with those described in the summary of significant accounting policies (please refer to Note 1).

The Group operating segments are outlined below.

Property & Casualty Reinsurance and Life & Health Reinsurance

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

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

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

Other

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

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

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

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 three months ended 30 June

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Revenues					
Premiums earned	3 503	2 616	35		6 154
Fee income from policyholders		12	22		34
Net investment income – non-participating	272	351	33		656
Net realised investment gains/losses – non-participating	133	59	–226		–34
Net investment result – unit-linked and with-profit		–34			–34
Other revenues	27	–2	2	–1	26
Total revenues	**3 935**	**3 002**	**–134**	**–1**	**6 802**
Expenses					
Claims and claim adjustment expenses	–1 934		–1		–1 935
Life and health benefits		–1 955	–52		–2 007
Return credited to policyholders		30	–78		–48
Acquisition costs	–1 030	–496	–11		–1 537
Other expenses	–304	–217	–118		–639
Interest expenses	–73	–67	–5	1	–144
Total expenses	**–3 341**	**–2 705**	**–265**	**1**	**–6 310**
Income/loss before income tax expense	**594**	**297**	**–399**	**0**	**492**
Income tax expense	–136	–67			–203
Net income/loss before attribution of non-controlling interests	**458**	**230**	**–399**	**0**	**289**
Income/loss attributable to non-controlling interests			–1		–1
Net income/loss after attribution of non-controlling interests	**458**	**230**	**–400**	**0**	**288**
Interest on contingent capital instruments	–5	–12			–17
Net income/loss attributable to common shareholder	**453**	**218**	**–400**	**0**	**271**
Claims ratio in %	55.2				
Expense ratio in %	38.1				
Combined ratio in %	93.3				
Management expense ratio in %		7.3			
Operating margin in %		11.0			

Business segments – income statement

For the six months ended 30 June

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	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 – income statement

For the six months ended 30 of June

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Revenues					
Premiums earned	7 270	5 293	64		12 627
Fee income from policyholders		27	51		78
Net investment income – non-participating	551	685	168		1 404
Net realised investment gains – non-participating	330	214	10		554
Net investment result – unit-linked and with-profit		41			41
Other revenues	40		1	–2	39
Total revenues	**8 191**	**6 260**	**294**	**–2**	**14 743**
Expenses					
Claims and claim adjustment expenses	–3 896		–1		–3 897
Life and health benefits		–3 992	–145		–4 137
Return credited to policyholders		–53	–169		–222
Acquisition costs	–1 947	–985	–19		–2 951
Other expenses	–604	–428	–226		–1 258
Interest expenses	–133	–144	–10	2	–285
Total expenses	**–6 580**	**–5 602**	**–570**	**2**	**–12 750**
Income/loss before income tax expense	**1 611**	**658**	**–276**	**0**	**1 993**
Income tax expense/benefit	–340	–139	47		–432
Net income/loss before attribution of non-controlling interests	**1 271**	**519**	**–229**	**0**	**1 561**
Income/loss attributable to non-controlling interests			–1		–1
Net income/loss after attribution of non-controlling interests	**1 271**	**519**	**–230**	**0**	**1 560**
Interest on contingent capital instruments	–10	–24			–34
Net income/loss attributable to common shareholder	**1 261**	**495**	**–230**	**0**	**1 526**
Claims ratio in %	53.6				
Expense ratio in %	35.1				
Combined ratio in %	88.7				
Management expense ratio in %		7.1			
Operating margin in %		10.3			

Business segments – balance sheet
As of 31 December

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

As of 30 June

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Total assets	81 358	57 023	11 876	–10 097	140 160

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

For the three months ended 30 June

2014 USD millions	Property	Casualty	Specialty	Total
Premiums earned	1 393	1 572	595	3 560
Expenses				
Claims and claim adjustment expenses	–824	–1 083	–241	–2 148
Acquisition costs	–249	–445	–147	–841
Other expenses	–193	–118	–29	–340
Total expenses before interest expenses	–1 266	–1 646	–417	–3 329
Underwriting result	127	–74	178	231
Net investment income				313
Net realised investment gains/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

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

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

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

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

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

For the three months ended 30 June

2014 USD millions	Life	Health	Total
Revenues			
Premiums earned	1 804	1 078	2 882
Fee income from policyholders	13		13
Net investment income – non-participating	256	159	415
Net investment income – unit-linked and with-profit	5		5
Net realised investment gains/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 result divided by total operating revenues. Total operating revenues are total revenues excluding unit-linked and with-profit revenues.

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

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

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

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

2014 USD millions	Life	Health	Total
Revenues			
Premiums earned	3 537	2 004	5 541
Fee income from policyholders	26		26
Net investment income – non-participating	504	325	829
Net investment income – unit-linked and with-profit	7		7
Net realised investment 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 result divided by total operating revenues. Total operating revenues are total revenues excluding unit-linked and with-profit revenues.

Life & Health Reinsurance business segment – by line of business

For the six months ended 30 June

2015 USD millions	Life	Health	Total
Revenues			
Premiums earned	3 452	1 841	5 293
Fee income from policyholders	27		27
Net investment income – non-participating	446	239	685
Net investment income – unit-linked and with-profit	8		8
Net realised investment gains/losses – unit-linked and with-profit	33		33
Net realised investment gains/losses – insurance-related derivatives	33	1	34
Other revenues			0
Total revenues before non-participating realised gains/losses	**3 999**	**2 081**	**6 080**
Expenses			
Life and health benefits	–2 716	–1 276	–3 992
Return credited to policyholders	–53		–53
Acquisition costs	–608	–377	–985
Other expenses	–306	–122	–428
Total expenses before interest expenses	**–3 683**	**–1 775**	**–5 458**
Operating income	**316**	**306**	**622**
Net realised investment gains/losses – non-participating and excluding insurance-related derivatives			180
Interest expenses			–144
Income before income tax expenses			**658**
Management expense ratio in %	7.8	5.9	7.1
Operating margin[1] in %	8.0	14.7	10.3

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

3 Insurance information

Premiums earned and fees assessed against policyholders

For the three months ended 30 June

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	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
Retrocession 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
Retrocession to external parties				0
Net fee income	0	13	26	39

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Premiums earned, thereof:				
Direct		184		184
Reinsurance	3 594	2 806	35	6 435
Intra-group transactions (assumed and ceded)				0
Premiums earned before retrocession to external parties	3 594	2 990	35	6 619
Retrocession to external parties	–91	–374		–465
Net premiums earned	**3 503**	**2 616**	**35**	**6 154**
Fee income from policyholders, thereof:				
Direct				0
Reinsurance		12	22	34
Intra-group transactions (assumed and ceded)				0
Gross fee income before retrocession to external parties		12	22	34
Retrocession to external parties				0
Net fee income	**0**	**12**	**22**	**34**

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

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
Retrocession 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
Retrocession to external parties				0
Net fee income	0	26	55	81

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Premiums earned, thereof:				
Direct		365	1	366
Reinsurance	7 492	5 625	68	13 185
Intra-group transactions (assumed and ceded)				0
Premiums earned before retrocession to external parties	7 492	5 990	69	13 551
Retrocession to external parties	–222	–697	–5	–924
Net premiums earned	**7 270**	**5 293**	**64**	**12 627**
Fee income from policyholders, thereof:				
Direct			5	5
Reinsurance		27	46	73
Intra-group transactions (assumed and ceded)				0
Gross fee income before retrocession to external parties		27	51	78
Retrocession to external parties				0
Net fee income	**0**	**27**	**51**	**78**

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

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Claims paid, thereof:				
Gross claims paid to external parties	–3 074	–2 439	–129	–5 642
Intra-group transactions (assumed and ceded)	–2		2	0
Claims before receivables from retrocession to external parties	–3 076	–2 439	–127	–5 642
Retrocession to external parties	377	281	6	664
Net claims paid	–2 699	–2 158	–121	–4 978
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 retrocession to external parties	810	–239	–25	546
Retrocession 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	–2 148	–2 371	–143	–4 662

Acquisition costs
For the three months ended 30 June

2014 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Acquisition costs, thereof:				
Gross acquisition costs with external parties	–879	–522	–12	–1 413
Intra-group transactions (assumed and ceded)	–3		3	0
Acquisition costs before retrocession to external parties	–882	–522	–9	–1 413
Retrocession to external parties	41	52	2	95
Net acquisition costs	–841	–470	–7	–1 318

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

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Claims paid, thereof:				
Gross claims paid to external parties	–2 648	–2 483	–229	–5 360
Intra-group transactions (assumed and ceded)				0
Claims before retrocession to external parties	–2 648	–2 483	–229	–5 360
Retrocession to external parties	284	262	1	547
Net claims paid	**–2 364**	**–2 221**	**–228**	**–4 813**
Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:				
Gross – with external parties	665	253	175	1 093
Intra-group transactions (assumed and ceded)				0
Unpaid claims and claim adjustment expenses; life and health benefits before retrocession to external parties	665	253	175	1 093
Retrocession to external parties	–235	13		–222
Net unpaid claims and claim adjustment expenses; life and health benefits	**430**	**266**	**175**	**871**
Claims and claim adjustment expenses; life and health benefits	**–1 934**	**–1 955**	**–53**	**–3 942**

Acquisition costs
For the three months ended 30 June

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Acquisition costs, thereof:				
Gross acquisition costs with external parties	–1 056	–559	–11	–1 626
Intra-group transactions (assumed and ceded)	3	–3		0
Acquisition costs before retrocession to external parties	–1 053	–562	–11	–1 626
Retrocession to external parties	23	66		89
Net acquisition costs	**–1 030**	**–496**	**–11**	**–1 537**

Claims and claim adjustment expenses

For the six months ended 30 June

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
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 retrocession to external parties	1 441	–384	–16	1 041
Retrocession 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

For the six months ended 30 June

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 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

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

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Claims paid, thereof:				
Gross claims paid to external parties	–4 705	–4 893	–220	–9 818
Intra-group transactions (assumed and ceded)				0
Claims before retrocession to external parties	–4 705	–4 893	–220	–9 818
Retrocession to external parties	474	585	5	1 064
Net claims paid	**–4 231**	**–4 308**	**–215**	**–8 754**
Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:				
Gross – with external parties	737	313	69	1 119
Intra-group transactions (assumed and ceded)				0
Unpaid claims and claim adjustment expenses; life and health benefits before retrocession to external parties	737	313	69	1 119
Retrocession to external parties	–402	3		–399
Net unpaid claims and claim adjustment expenses; life and health benefits	**335**	**316**	**69**	**720**
Claims and claim adjustment expenses; life and health benefits	**–3 896**	**–3 992**	**–146**	**–8 034**

Acquisition costs
For the six months ended 30 June

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Acquisition costs, thereof:				
Gross acquisition costs with external parties	–2 006	–1 106	–19	–3 131
Intra-group transactions (assumed and ceded)	3	–3		0
Acquisition costs before retrocession to external parties	–2 003	–1 109	–19	–3 131
Retrocession to external parties	56	124		180
Net acquisition costs	**–1 947**	**–985**	**–19**	**–2 951**

Reinsurance assets and liabilities

The reinsurance assets and liabilities as of 31 December 2014 and 30 June 2015 were as follows:

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

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Assets					
Reinsurance recoverable on unpaid claims and policy benefits	3 189	1 704	17	–15	4 895
Deferred acquisition costs	2 038	2 747			4 785
Liabilities					
Unpaid claims and claim adjustment expenses	39 507	9 730	741	–16	49 962
Liabilities for life and health policy benefits		15 986	1 315		17 301
Policyholder account balances		1 487	3 958		5 445

Reinsurance receivables

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

USD millions	2014	**2015**
Premium receivables invoiced	1031	1 052
Receivables invoiced from ceded re/insurance business	265	415
Assets arising from the application of the deposit method of accounting and meeting the definition of financing receivables	777	140
Recognised allowance	–61	–89

4 Premiums written

For the three months ended 30 June

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	0	6 818
Retrocession to external parties	–234	–316	–13		–563
Net premiums written	3 380	2 798	77	0	6 255

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Gross premiums written, thereof:					
Direct		95			95
Reinsurance	3 453	2 780	33		6 266
Intra-group transactions (assumed)					0
Gross premiums written	3 453	2 875	33		6 361
Intra-group transactions (ceded)					0
Gross premiums written before retrocession to external parties	3 453	2 875	33		6 361
Retrocession to external parties	–164	–373			–537
Net premiums written	**3 289**	**2 502**	**33**	**0**	**5 824**

For the six months ended 30 June

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	0	16 828
Retrocession to external parties	–296	–619	–23		–938
Net premiums written	10 038	5 725	127	0	15 890

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Gross premiums written, thereof:					
Direct		471	1		472
Reinsurance	9 658	5 687	66		15 411
Intra-group transactions (assumed)					0
Gross premiums written	9 658	6 158	67		15 883
Intra-group transactions (ceded)					0
Gross premiums written before retrocession to external parties	9 658	6 158	67		15 883
Retrocession to external parties	–241	–695	–5		–941
Net premiums written	**9 417**	**5 463**	**62**	**0**	**14 942**

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

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

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

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Opening balance as of 1 January 2015	1 756	2 723	1	4 480
Deferred	2 218	245	19	2 482
Effect of acquisitions/disposals and retrocessions	7	3		10
Amortisation	–1 924	–188	–20	–2 132
Effect of foreign currency translation	–19	–36		–55
Closing balance as of 30 June 2015	**2 038**	**2 747**	**0**	**4 785**

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

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

			2014			2015
USD millions	Life & Health Reinsurance	Other	Total	Life & Health Reinsurance	Other	Total
Opening balance as of 1 January	1 451	634	2 085	1 294	605	1 899
Amortisation	–156	–33	–189	–67	–11	–78
Interest accrued on unamortised PVFP	44	4	48	19		19
Effect of foreign currency translation	–45		–45	–2		–2
Effect of change in unrealised gains/losses			0		2	2
Closing balance	1 294	605	1 899	**1 244**	**596**	**1 840**

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

6 Investments

Investment income

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

USD millions	Three months ended 30 June 2014	Three months ended 30 June **2015**	Six months ended 30 June 2014	Six months ended 30 June **2015**
Fixed income securities	534	462	1 049	961
Equity securities	31	26	47	36
Policy loans, mortgages and other loans	38	36	84	72
Investment real estate	36	37	72	73
Short-term investments	27	20	53	40
Other current investments	16	7	24	25
Share in earnings of equity-accounted investees	75	36	121	80
Cash and cash equivalents	10	8	18	18
Net result from deposit-accounted contracts	28	18	52	29
Deposits with ceding companies	159	82	312	222
Gross investment income	954	**732**	1 832	**1 556**
Investment expenses	–81	–74	–166	–149
Interest charged for funds held	–1	–2	–3	–3
Net investment income – non-participating	872	**656**	1 663	**1 404**

Dividends received from investments accounted for using the equity method were USD 30 million and USD 46 million for the three months ended 30 June 2014 and 2015, respectively, as well as USD 89 million and USD 77 million for the six months ended 30 June 2014 and 2015, respectively.

Realised gains and losses

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

USD millions	Three months ended 30 June 2014	Three months ended 30 June **2015**	Six months ended 30 June 2014	Six months ended 30 June **2015**
Fixed income securities available-for-sale:				
Gross realised gains	178	70	321	346
Gross realised losses	–67	–115	–167	–151
Equity securities available-for-sale:				
Gross realised gains	129	123	387	168
Gross realised losses	–8	–6	–34	–18
Other-than-temporary impairments	–7	–6	–9	–11
Net realised investment gains/losses on trading securities	9	1	13	40
Change in net unrealised investment gains/losses on trading securities	24	–17	41	10
Net realised/unrealised gains/losses on other investments	–40	218	–190	142
Net realised/unrealised gains/losses on insurance-related activities	–11	31	20	27
Foreign exchange gains/losses	–176	–333	–167	1
Net realised investment gains/losses – non-participating	**31**	**–34**	**215**	**554**

Investment result – unit-linked and with-profit business

The net investment result on unit-linked and with-profit business credited to policyholders amounted to gains of USD 58 million and to losses of USD 34 million for the three months ended 30 June 2014 and 2015 and gains of USD 4 million and USD 41 million for the six months ended 30 June 2014 and 2015, respectively, mainly originating from gains/losses on equity securities.

Impairment on fixed income securities related to credit losses

Other-than-temporary impairments for debt securities are bifurcated between credit and non-credit components, with the credit component recognised through earnings and the non-credit component recognised in other comprehensive income. The credit component of other-than-temporary impairments is defined as the difference between a security's amortised cost basis and the present value of expected cash flows. Methodologies for measuring the credit component of impairment are aligned to market observer forecasts of credit performance drivers. Management believes that these forecasts are representative of median market expectations.

For securitised products, cash flow projection analysis is conducted by integrating forward-looking evaluation of collateral performance drivers, including default rates, prepayment rates and loss severities, and deal-level features, such as credit enhancement and prioritisation among tranches for payments of principal and interest. Analytics are differentiated by asset class, product type and security-level differences in historical and expected performance. For corporate bonds and hybrid debt instruments, an expected loss approach based on default probabilities and loss severities expected in the current and forecasted economic environment is used for securities identified as credit-impaired to project probability-weighted cash flows. Expected cash flows resulting from these analyses are discounted, and the present value is compared to the amortised cost basis to determine the credit component of other-than-temporary impairments.

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

USD millions	2014	**2015**
Balance as of 1 January	218	131
Reductions for securities sold during the period	–55	–15
Increase of credit losses for which an other-than-temporary impairment has been recognised previously, when the Group does not intend to sell, or more likely than not will not be required to sell before recovery		4
Impact of increase in cash flows expected to be collected	–12	–4
Impact of foreign exchange movements	–1	–2
Balance as of 30 June	150	**114**

Investments available-for-sale

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

2014 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Other-than-temporary impairments recognised in other comprehensive income	Estimated fair value
Debt securities issued by governments and government agencies:					
US Treasury and other US government corporations and agencies	9 994	904	–4		10 894
US Agency securitised products	2 989	46	–23		3 012
States of the United States and political subdivisions of the states	825	68	–2		891
United Kingdom	4 750	743	–1		5 492
Canada	2 619	621	–1		3 239
Germany	4 314	358	–29		4 643
France	2 654	311	–18		2 947
Other	7 014	320	–108		7 226
Total	35 159	3 371	–186		38 344
Corporate debt securities	20 489	1 335	–139	–2	21 683
Mortgage- and asset-backed securities	4 952	170	–20	–2	5 100
Fixed income securities available-for-sale	60 600	4 876	–345	–4	65 127
Equity securities available-for-sale	1 975	472	–51		2 396

2015 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Other-than-temporary impairments recognised in other comprehensive income	Estimated fair value
Debt securities issued by governments and government agencies:					
US Treasury and other US government corporations and agencies	12 612	476	–172		12 916
US Agency securitised products	2 856	33	–31		2 858
States of the United States and political subdivisions of the states	861	35	–15		881
United Kingdom	4 667	569	–6		5 230
Canada	3 281	590	–17		3 854
Germany	3 462	261	–56		3 667
France	2 243	220	–33		2 430
Other	6 897	199	–107		6 989
Total	36 879	2 383	–437		38 825
Corporate debt securities	19 445	732	–258		19 919
Mortgage- and asset-backed securities	4 632	141	–22	–1	4 750
Fixed income securities available-for-sale	**60 956**	**3 256**	**–717**	**–1**	**63 494**
Equity securities available-for-sale	**2 752**	**446**	**–93**		**3 105**

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

Investments trading

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

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

Investments held for unit-linked and with-profit business

The carrying amounts of investments held for unit-linked business consist of equity securities trading. As of 31 December 2014 and 30 June 2015, these amounted to USD 894 million and USD 920 million, respectively.

Maturity of fixed income securities available-for-sale

The amortised cost or cost and estimated fair values of investments in fixed income securities available-for-sale by remaining maturity are shown below. Fixed maturity investments are assumed not to be called for redemption prior to the stated maturity date. As of 31 December 2014 and 30 June 2015, USD 9 781 million and USD 10 109 million, respectively, of fixed income securities available-for-sale were callable.

USD millions	Amortised cost or cost	2014 Estimated fair value	Amortised cost or cost	2015 Estimated fair value
Due in one year or less	3 221	3 233	2 451	2 481
Due after one year through five years	13 972	14 327	15 480	15 779
Due after five years through ten years	13 843	14 562	13 807	14 296
Due after ten years	24 787	28 081	24 818	26 416
Mortgage- and asset-backed securities with no fixed maturity	4 777	4 924	4 400	4 522
Total fixed income securities available-for-sale	60 600	65 127	**60 956**	**63 494**

Assets pledged

As of 30 June 2015, investments with a carrying value of USD 6 511 million were on deposit with regulatory agencies in accordance with local requirements, and investments with a carrying value of USD 8 112 million were placed on deposit or pledged to secure certain reinsurance liabilities, including pledged investments in subsidiaries.

As of 31 December 2014 and 30 June 2015 securities of USD 15 230 million and USD 17 299 million, respectively, were transferred to third parties under securities lending transactions and repurchase agreements on a fully collateralised basis. Corresponding liabilities of USD 1 951 million and USD 2 468 million, respectively, were recognised in accrued expenses and other liabilities for the obligation to return collateral that the Group has the right to sell or repledge.

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

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

As of 31 December 2014 and 30 June 2015, the fair value of the equity securities, government debt securities and corporate debt received as collateral was USD 7 165 million and USD 8 894 million, respectively. Of this, the amount that was sold or repledged as of 31 December 2014 and 30 June 2015 was USD 3 738 million and USD 5 675 million, respectively. The sources of the collateral are securities borrowing, reverse repurchase agreements and derivative transactions.

Offsetting of derivatives, financial assets and financial liabilities

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

2014 USD millions	Gross amounts of recognised financial assets	Collateral set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related financial instruments not set off in the balance sheet	Net amount
Derivative financial instruments – assets	4 420	–3 530	890	–188	702
Reverse repurchase agreements	3 254	–1 303	1 951	–1 951	0
Securities borrowing	87		87	–87	0
Total	7 761	–4 833	2 928	–2 226	702

2014 USD millions	Gross amounts of recognised financial liabilities	Collateral set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related financial instruments not set off in the balance sheet	Net amount
Derivative financial instruments – liabilities	–3 840	2 969	–871	141	–730
Repurchase agreements	–1 353	1 003	–350	350	0
Securities lending	–1 901	300	–1 601	1 475	–126
Total	–7 094	4 272	–2 822	1 966	–856

2015 USD millions	Gross amounts of recognised financial assets	Collateral set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related financial instruments not set off in the balance sheet	Net amount
Derivative financial instruments – assets	3 583	–2 829	754	–80	**674**
Reverse repurchase agreements	4 943	–2 949	1 994	–1 988	**6**
Securities borrowing	48		48	–48	**0**
Total	**8 574**	**–5 778**	**2 796**	**–2 116**	**680**

2015 USD millions	Gross amounts of recognised financial liabilities	Collateral set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related financial instruments not set off in the balance sheet	Net amount
Derivative financial instruments – liabilities	–2 861	2 278	–583	149	**–434**
Repurchase agreements	–3 443	2 453	–990	977	**–13**
Securities lending	–1 974	496	–1 478	1 354	**–124**
Total	**–8 278**	**5 227**	**–3 051**	**2 480**	**–571**

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

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

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

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

Unrealised losses on securities available-for-sale

The following table shows the fair value and unrealised losses of the Group's fixed income securities, aggregated by investment category and length of time that individual securities were in a continuous unrealised loss position as of 31 December 2014 and 30 June 2015. As of 31 December 2014 and 30 June 2015, USD 39 million and USD 85 million, respectively, of the gross unrealised loss on equity securities available-for-sale relates to declines in value for less than 12 months and USD 12 million and USD 8 million, respectively, to declines in value for more than 12 months.

2014 USD millions	Less than 12 months Fair value	 Unrealised losses	12 months or more Fair value	 Unrealised losses	Total Fair value	 Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	1 501	3	63	1	1 564	4
US Agency securitised products	965	12	462	11	1 427	23
States of the United States and political subdivisions of the states	66	1	16	1	82	2
United Kingdom	53	1			53	1
Canada	254	1	2		256	1
Germany	816	26	67	3	883	29
France	308	17	15	1	323	18
Other	1 263	71	826	37	2 089	108
Total	5 226	132	1 451	54	6 677	186
Corporate debt securities	3 273	88	985	53	4 258	141
Mortgage- and asset-backed securities	1 356	11	276	11	1 632	22
Total	9 855	231	2 712	118	12 567	349

2015 USD millions	Less than 12 months Fair value	 Unrealised losses	12 months or more Fair value	 Unrealised losses	Total Fair value	 Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	3 820	172	6		3 826	172
US Agency securitised products	1 410	25	368	6	1 778	31
States of the United States and political subdivisions of the states	346	14	4	1	350	15
United Kingdom	354	6			354	6
Canada	370	17			370	17
Germany	1 079	56			1 079	56
France	402	32	8	1	410	33
Other	2 220	90	133	17	2 353	107
Total	10 001	412	519	25	10 520	437
Corporate debt securities	7 165	228	326	30	7 491	258
Mortgage- and asset-backed securities	1 241	17	193	6	1 434	23
Total	**18 407**	**657**	**1 038**	**61**	**19 445**	**718**

Mortgages, loans and real estate

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

USD millions	2014	**2015**
Policy loans	241	83
Mortgage loans	1 248	1 440
Other loans	2 419	2 489
Investment real estate	881	1 139

The fair value of the real estate as of 31 December 2014 and 30 June 2015 was USD 2 475 million and USD 2 823 million, respectively. The carrying value of policy loans, mortgages and other loans approximates fair value.

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

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

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 2015, these adjustments were not material. Whenever the underlying assets or liabilities are reported in a specific business segment, the valuation adjustment is allocated accordingly. Valuation adjustments not attributable to any business segment are reported in Other.

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

Valuation techniques

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

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

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

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

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

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

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

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

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

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

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

Governance around level 3 fair valuation

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

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

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

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

Assets and liabilities measured at fair value on a recurring basis

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

2014 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impact of netting[1]	Total
Assets					
Fixed income securities held for proprietary investment purposes	10 974	55 984	388		67 346
Debt securities issued by US government and government agencies	10 974	1 419			12 393
US Agency securitised products		3 028			3 028
Debt securities issued by non-US governments and government agencies		24 920			24 920
Corporate debt securities		21 368	375		21 743
Mortgage- and asset-backed securities		5 249	13		5 262
Equity securities held for proprietary investment purposes	2 457		4		2 461
Equity securities backing unit-linked and with-profit business	894				894
Short-term investments held for proprietary investment purposes	4 484	6 036			10 520
Derivative financial instruments	40	3 843	537	–3 530	890
Interest rate contracts		2 625			2 625
Foreign exchange contracts		272			272
Equity contracts	40	889	396		1 325
Credit contracts		1			1
Other contracts		56	141		197
Other invested assets	907	562	1 289		2 758
Total assets at fair value	19 756	66 425	2 218	–3 530	84 869
Liabilities					
Derivative financial instruments	–13	–3 110	–717	2 969	–871
Interest rate contracts	–5	–2 117			–2 122
Foreign exchange contracts		–407			–407
Equity contracts	–8	–561	–130		–699
Credit contracts		–2	–10		–12
Other contracts		–23	–577		–600
Liabilities for life and health policy benefits			–187		–187
Accrued expenses and other liabilities	–1 035	–864	–1 559		–3 458
Total liabilities at fair value	–1 048	–3 974	–2 463	2 969	–4 516

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

2015 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impact of netting[1]	Total
Assets					
Fixed income securities held for proprietary investment purposes	12 509	52 632	345		65 486
Debt securities issued by US government and government agencies	12 509	1 317			13 826
US Agency securitised products		2 873			2 873
Debt securities issued by non-US governments and government agencies		23 914			23 914
Corporate debt securities		19 633	333		19 966
Mortgage- and asset-backed securities		4 895	12		4 907
Equity securities held for proprietary investment purposes	3 163		12		3 175
Equity securities backing unit-linked and with-profit business	920				920
Short-term investments held for proprietary investment purposes	2 356	4 038			6 394
Derivative financial instruments	8	3 133	442	–2 829	754
Interest rate contracts	5	1 930			1 935
Foreign exchange contracts		337			337
Equity contracts	3	839	322		1 164
Credit contracts		1	2		3
Other contracts		26	118		144
Other invested assets	1 034	228	1 218		2 480
Total assets at fair value	**19 990**	**60 031**	**2 017**	**–2 829**	**79 209**
Liabilities					
Derivative financial instruments	–9	–2 383	–469	2 278	–583
Interest rate contracts	–3	–1 512			–1 515
Foreign exchange contracts		–220			–220
Equity contracts	–6	–647	–37		–690
Credit contracts			–18		–18
Other contracts		–4	–414		–418
Liabilities for life and health policy benefits			–158		–158
Accrued expenses and other liabilities	–1 426	–1 846	–1 573		–4 845
Total liabilities at fair value	**–1 435**	**–4 229**	**–2 200**	**2 278**	**–5 586**

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

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

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

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

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

2015 USD millions	Fixed income securities	Equity securities	Derivative assets	Other invested assets	**Total assets**	Derivative liabilities	Liabilities for life and health policy benefits	Accrued expenses and other liabilities	**Total liabilities**
Assets and liabilities									
Balance as of 1 January	388	4	537	1 289	**2 218**	–717	–187	–1 559	**–2 463**
Realised/unrealised gains/losses:									
Included in net income	4		–87	55	**–28**	176	29		**205**
Included in other comprehensive income	–8			–12	**–20**				**0**
Purchases			4	115	**119**				**0**
Issuances					**0**	–5			**–5**
Sales	–30		–3	–288	**–321**	1			**1**
Settlements	–9		–24		**–33**	77			**77**
Transfers into level 3[1]		8	15	70	**93**	–1			**–1**
Transfers out of level 3[1]					**0**				**0**
Impact of foreign exchange movements				–11	**–11**			–14	**–14**
Closing balance as of 30 June	**345**	**12**	**442**	**1 218**	**2 017**	**–469**	**–158**	**–1 573**	**–2 200**

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

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

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

USD millions	2014	**2015**
Gains/losses included in net income for the period	272	177
Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date	150	66

Quantitative information about level 3 fair value measurements

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

USD millions	2014 Fair value	2015 Fair value	Valuation technique	Unobservable input	Range (weighted average)
Assets					
Corporate debt securities	375	**333**			
Private placement corporate debt	304	280	Corporate Spread Matrix	Illiquidity premium	15 bps–186 bps (50 bps)
Private placement credit tenant leases	71	51	Discounted Cash Flow Model	Illiquidity premium	75 bps–175 bps (131 bps)
Derivative equity contracts	396	**322**			
OTC equity option referencing correlated equity indices	396	322	Proprietary Option Model	Correlation	–30%–100% (35%)[1]
Liabilities					
Derivative equity contracts	–130	**–37**			
OTC equity option referencing correlated equity indices	–46	–37	Proprietary Option Model	Correlation	–30%–100% (35%)[1]
Other derivative contracts and liabilities for life and health policy benefits	–764	**–572**			
Variable annuity and fair valued GMDB contracts	–639	–496	Discounted Cash Flow Model	Risk margin	4% (n.a.)
				Volatility	4%–42%
				Lapse	0.5%–33%
				Mortality adjustment	–10%–0%
				Withdrawal rate	0%–90%

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

Sensitivity of recurring level 3 measurements to changes in unobservable inputs

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

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

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

Other invested assets measured at net asset value

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

USD millions	2014 Fair value	2015 Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Private equity funds	657	626	118	non-redeemable	n.a.
Hedge funds	344	205		redeemable[1]	45–95 days[2]
Private equity direct	33	35		non-redeemable	n.a.
Real estate funds	203	208	63	non-redeemable	n.a.
Total	1 237	**1 074**	**181**		

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

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

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

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

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

Fair value option

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

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

Other invested assets

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

Liabilities for life and health policy benefits

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

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

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

USD millions	2014	2015
Assets		
Other invested assets	7 353	6 942
of which at fair value pursuant to the fair value option	50	143
Liabilities		
Liabilities for life and health policy benefits	–19 284	–17 301
of which at fair value pursuant to the fair value option	–187	–158

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

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

USD millions	2014	2015
Other invested assets	–2	12
Liabilities for life and health policy benefits	2	28
Total	0	**40**

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

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

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

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

2015 USD millions	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets			
Policy loans		83	83
Mortgage loans		1 440	1 440
Other loans		2 489	2 489
Investment real estate		2 823	2 823
Total assets	**0**	**6 835**	**6 835**
Liabilities			
Debt	–8 518	–8 755	–17 273
Total liabilities	**–8 518**	**–8 755**	**–17 273**

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

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

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

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8 Derivative financial instruments

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

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

Fair values and notional amounts of derivative financial instruments

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

2014 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivatives not designated as hedging instruments				
Interest rate contracts	83 942	2 625	–2 122	503
Foreign exchange contracts	12 924	223	–400	–177
Equity contracts	20 173	1 325	–699	626
Credit contracts	450	1	–12	–11
Other contracts	21 491	197	–600	–403
Total	138 980	4 371	–3 833	538
Derivatives designated as hedging instruments				
Foreign exchange contracts	2 770	49	–7	42
Total	2 770	49	–7	42
Total derivative financial instruments	141 750	4 420	–3 840	580
Amount offset				
Where a right of set-off exists		–2 554	2 554	
Due to cash collateral		–976	415	
Total net amount of derivative financial instruments		890	–871	19

2015 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivatives not designated as hedging instruments				
Interest rate contracts	103 874	1 935	–1 515	420
Foreign exchange contracts	13 910	337	–181	156
Equity contracts	18 541	1 164	–690	474
Credit contracts	252	3	–18	–15
Other contracts	18 512	144	–418	–274
Total	**155 089**	**3 583**	**–2 822**	**761**
Derivatives designated as hedging instruments				
Foreign exchange contracts	2 843		–39	–39
Total	**2 843**	**0**	**–39**	**–39**
Total derivative financial instruments	**157 932**	**3 583**	**–2 861**	**722**
Amount offset				
Where a right of set-off exists		–1 920	1 920	
Due to cash collateral		–909	358	
Total net amount of derivative financial instruments		**754**	**–583**	**171**

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

Non-hedging activities

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

	For the three months ended 30 June		For the six months ended 30 June	
USD millions	2014	**2015**	2014	**2015**
Derivatives not designated as hedging instruments				
Interest rate contracts	–36	37	–83	11
Foreign exchange contracts	–128	22	–115	241
Equity contracts	–115	–53	–112	–152
Credit contracts	1	–2	–2	–3
Other contracts	108	150	103	164
Total gain/loss recognised in income	–170	**154**	–209	**261**

Hedging activities

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

Fair value hedges

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

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

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

Hedges of the net investment in foreign operations

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

For the year ended 31 December 2014 and the six months ended 30 June 2015, the Group recorded an accumulated net unrealised foreign currency remeasurement gain of USD 525 million and a gain of USD 791 million, respectively, in shareholder's equity. These offset translation gains and losses on the hedged net investment.

Maximum potential loss
In consideration of the rights of set-off and the qualifying master netting arrangements with various counterparties, the maximum potential loss as of 31 December 2014 and 30 June 2015 was approximately USD 1 866 million and USD 1 663 million, respectively. The maximum potential loss is based on the positive market replacement cost assuming non-performance of all counterparties, excluding cash collateral.

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

The total fair value of derivative financial instruments containing credit risk-related contingent features amounted to USD 112 million and USD 43 million as of 31 December 2014 and 30 June 2015, respectively. For derivative financial instruments containing credit risk-related contingent features, the Group posted collateral of USD 6 million and USD 3 million as of 31 December 2014 and 30 June 2015, respectively. In the event of a reduction of the Group's credit rating to below investment grade, a fair value of USD 40 million additional collateral would have had to be posted as of 30 June 2015. The total equals the amount needed to settle the instruments immediately as of 30 June 2015.

9 Disposals

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

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

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

10 Debt and contingent capital instruments

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

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

USD millions	2014	**2015**
Senior financial debt	3 925	3 671
Senior operational debt	1 034	803
Subordinated financial debt		1 077
Short-term debt – financial and operational debt	4 959	**5 551**
Senior financial debt	2 659	2 970
Senior operational debt	713	534
Subordinated financial debt	4 990	3 744
Subordinated operational debt	2 903	2 919
Long-term debt – financial and operational debt	11 265	**10 167**
Total carrying value	16 224	**15 718**
Total fair value	18 135	**17 273**

Interest expense on long-term debt and contingent capital instruments

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

	Three months ended 30 June		Six months ended 30 June	
USD millions	2014	**2015**	2014	**2015**
Senior financial debt	20	26	50	52
Senior operational debt	4	3	8	6
Subordinated financial debt	75	61	147	128
Subordinated operational debt	64	34	128	68
Total	163	**124**	333	**254**

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

Long-term debt issued in 2015

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

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

11 Variable interest entities

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

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

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

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

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

Insurance-linked and credit-linked securitisations

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

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

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

Life and health funding vehicles

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

Swaps in trusts

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

Debt financing vehicles

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

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

Investment vehicles

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

Other

The VIEs in this category were created for various purposes. Generally, the Group is exposed to the asset risk of the VIEs by holding an equity stake in the VIE or by guaranteeing a part or the entire asset value to third-party investors.

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

Consolidated VIEs

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

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

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

Non-consolidated VIEs

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

USD millions	2014	2015
Fixed income securities available-for-sale	69	69
Policy loans, mortgages and other loans	84	
Other invested assets	880	939
Total assets	1 033	**1 008**
Accrued expenses and other liabilities	167	35
Total liabilities	167	**35**

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

				2014				**2015**
USD millions	Total assets	Total liabilities	Maximum exposure to loss[1]	Difference between exposure and liabilities	Total assets	Total liabilities	Maximum exposure to loss[1]	Difference between exposure and liabilities
Insurance-linked/Credit-linked securitisations	70		68	68	69		69	69
Life and health funding vehicles			1 683	1 683	3		1 735	1 735
Swaps in trusts	35	82	–[2]	–	120	35	–[2]	–
Investment vehicles	845		845	845	816		817	817
Other	83	85	883	798				
Total	1 033	167	–[2]	–	**1 008**	**35**	**–[2]**	**–**

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

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

12 Benefit plans

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

Employer's contributions for 2015
For the six months ended 30 June 2015, the Group contributed USD 98 million to its defined benefit pension plans and USD 8 million to other post-retirement plans, compared to USD 105 million and USD 9 million, respectively, in the same period of 2014.

The expected 2015 contributions to the defined benefit pension plans and to the post-retirement benefit plans, revised as of 30 June 2015 for the latest information, amount to USD 231 million and USD 17 million, respectively.

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Cautionary note on forward-looking statements

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

Forward-looking statements typically are identified by words or phrases such as "anticipate", "assume", "believe", "continue", "estimate", "expect", "foresee", "intend", "may increase" and "may fluctuate" and similar expressions or by future or conditional verbs such as "will", "should", "would" and "could". These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group's actual results of operations, financial condition, solvency ratios, liquidity position or prospects to be materially different from any future results of operations, financial condition, solvency ratios, liquidity position or prospects expressed or implied by such statements. Such factors include, among others:

- instability affecting the global financial system and developments related thereto;
- deterioration in global economic conditions;
- the Group's ability to maintain sufficient liquidity and access to capital markets, including sufficient liquidity to cover potential recapture of reinsurance agreements, early calls of debt or debt-like arrangements and collateral calls due to actual or perceived deterioration of the Group's financial strength or otherwise;
- the effect of market conditions, including the global equity and credit markets, and the level and volatility of equity prices, interest rates, credit spreads, currency values and other market indices, on the Group's investment assets;
- changes in the Group's investment result as a result of changes in its investment policy or the changed composition of its investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
- uncertainties in valuing credit default swaps and other credit-related instruments;
- possible inability to realise amounts on sales of securities on the Group's balance sheet equivalent to their mark-to-market values recorded for accounting purposes;
- the outcome of tax audits, the ability to realise tax loss carryforwards and the ability to realise deferred tax assets (including by reason of the mix of earnings in a jurisdiction or deemed change of control), which could negatively impact future earnings;
- the possibility that the Group's hedging arrangements may not be effective;
- the lowering or loss of financial strength or other ratings of one or more Group companies, and developments adversely affecting the Group's ability to achieve improved ratings;
- the cyclicality of the reinsurance industry;
- uncertainties in estimating reserves;

- uncertainties in estimating future claims for purposes of financial reporting, particularly with respect to large natural catastrophes, as significant uncertainties may be involved in estimating losses from such events and preliminary estimates may be subject to change as new information becomes available;
- the frequency, severity and development of insured claim events;
- acts of terrorism and acts of war;
- mortality, morbidity and longevity experience;
- policy renewal and lapse rates;
- extraordinary events affecting the Group's clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- current, pending and future legislation and regulation affecting the Group or its ceding companies;
- legal actions or regulatory investigations or actions, including those in respect of industry requirements or business conduct rules of general applicability;
- changes in accounting standards;
- significant investments, acquisitions or dispositions, and any delays, unexpected costs or other issues experienced in connection with any such transactions;
- changing levels of competition; and
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks.

These factors are not exhaustive. The Group operates in a continually changing environment and new risks emerge continually. Readers are cautioned not to place undue reliance on forward-looking statements. The Group undertakes no obligation to publicly revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.

Note on risk factors

General impact of adverse market conditions

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

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

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

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

Regulatory changes

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

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

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

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

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

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

Market risk

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

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

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

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

Liquidity risks
The Group's business requires, and its clients expect, that it has sufficient capital and sufficient liquidity to meet its re/insurance obligations, and that this would continue to be the case following the occurrence of any foreseeable event or series of events, including extreme catastrophes, that would trigger insurance or reinsurance coverage obligations. The Group's uses of funds include obligations arising in its reinsurance business (including claims and other payments as well as insurance provision repayments due to portfolio transfers, securitisations and commutations), which may include large and unpredictable claims (including catastrophe claims), funding of capital requirements and operating costs, payment of principal and interest on outstanding indebtedness and funding of acquisitions. The Group has potential collateral requirements in connection with a number of reinsurance arrangements, the amounts of which may be material and the meeting of which could require the Group to liquidate cash equivalents or other securities. The Group manages liquidity and funding risks by focusing on the liquidity stress that is likely to result from extreme capital markets scenarios or from extreme loss events or combinations of the two. Generally, the ability to meet liquidity needs could be adversely impacted by factors that the Group cannot control, such as market dislocations or interruptions, adverse economic conditions, severe disruption in the financial and worldwide credit markets and the related increased constraints on the availability of credit; changes in interest rates, foreign exchange rates and credit spreads; or by perceptions among market participants of the extent of the Group's liquidity needs.

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

Counterparty risks

The Group is exposed to the risk of defaults, or concerns about defaults, by its counterparties. Securities trading counterparties, counterparties under swaps and other derivative contracts, and financial intermediaries may default on their obligations due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons, which could have a material adverse effect on the Group.

The Group could also be adversely affected by the insolvency of, or other credit constraints affecting, counterparties in its reinsurance operations. Moreover, the Group could be adversely affected by liquidity issues at ceding companies or at third parties to whom the Group has retroceded risk, and such risk could be exacerbated to the extent any such exposures are concentrated.

Risks relating to credit rating downgrades

Ratings are an important factor in establishing the competitive position of reinsurance companies, and market conditions could increase the risk of downgrade. Third-party rating agencies assess and rate the financial strength of reinsurers and insurers. These ratings are intended to measure a company's ability to repay its obligations and are based upon criteria established by the rating agencies.

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

As claims paying and financial strength ratings are key factors in establishing the competitive position of reinsurers, a decline in ratings alone could make reinsurance provided by the Group less attractive to clients relative to reinsurance from competitors with similar or stronger ratings. A decline in ratings could also cause the loss of clients who are required by either policy or regulation to purchase reinsurance only from reinsurers with certain ratings. Certain larger reinsurance contracts contain terms that would allow the ceding companies to cancel the contract if the Group's ratings or those of its subsidiaries are downgraded beyond a certain threshold. Moreover, a decline in ratings could impact the availability and terms of unsecured financing and obligate the Group to provide collateral or other guarantees in the course of its reinsurance business or trigger early termination of funding arrangements potentially resulting in a need for additional liquidity. As a ratings decline could also have a material adverse impact on the Group's costs of borrowing or ability to access the capital markets, the adverse implications of a downgrade could be more severe.

Legal and regulatory risks

In the ordinary course of business, the Group is involved in lawsuits, arbitrations and other formal and informal dispute resolution procedures, the outcomes of which determine rights and obligations under insurance, reinsurance and other contractual agreements. From time to time, the Group may institute, or be named as a defendant in, legal proceedings, and the Group may be a claimant or respondent in arbitration proceedings. These proceedings could involve coverage or other disputes with ceding companies, disputes with parties to which the Group transfers risk under reinsurance arrangements, disputes with other counterparties or other matters. The Group cannot predict the outcome of any of the foregoing, which could be material for the Group.

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

Insurance, operational and other risks

As part of the Group's ordinary course operations, the Group is subject to a variety of risks, including risks that reserves may not adequately cover future claims and benefits; risks that catastrophic events (including hurricanes, windstorms, floods, earthquakes, acts of terrorism, man-made disasters such as industrial accidents, explosions, and fires, and pandemics) may expose the Group to unexpected large losses (and related uncertainties in estimating future claims in respect of such events); changes in the insurance industry that affect ceding companies, particularly those that further increase their sensitivity to counterparty risk; competitive conditions (including as a result of consolidation and the availability of alternative capacity); cyclicality of the industry; risks related to emerging claims and coverage issues (including, for example, trends to establish stricter building standards, which can lead to higher industry losses for earthquake cover based on higher replacement values); risks arising from the Group's dependence on policies, procedures and expertise of ceding companies; risks related to investments in emerging markets; and risks related to the failure of, or attacks directed at, the Group's operational systems and infrastructure. In addition, the occurrence of future risks that the Group's risk management procedures fail to identify or anticipate could have a material adverse effect on the Group. Any of the foregoing, as well as other concerns in respect of the Group's business, could also give rise to reputational risk.

Use of models; accounting matters

The Group is subject to risks relating to the preparation of estimates and assumptions that management uses, for example, as part of its risk models as well as those that affect the reported amounts of assets, liabilities, revenues and expenses in the Group's financial statements, including assumed and ceded business. For example, the Group estimates premiums pending receipt of actual data from ceding companies, which actual data could deviate from the estimates. In addition, particularly with respect to large natural catastrophes, it may be difficult to estimate losses, and preliminary estimates may be subject to a high degree of uncertainty and change as new information becomes available. Deterioration in market conditions could have an adverse impact on assumptions used for financial reporting purposes, which could affect possible impairment of present value of future profits, fair value of assets and liabilities, deferred acquisition costs or goodwill. To the extent that management's estimates or assumptions prove to be incorrect, it could have a material impact on underwriting results (in the case of risk models) or on reported financial condition or results of operations, and such impact could be material.

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

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

Risks related to the Swiss Re corporate structure

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

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

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