Swiss Re

Swiss Reinsurance Company Consolidated First Quarter 2012 Report

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Swiss Reinsurance Company Ltd
Swiss Reinsurance Company Ltd is a leading and highly diversified global reinsurer and part of the Swiss Re group of companies. The company operates through offices in more than 20 countries. Founded in Zurich, Switzerland, in 1863, Swiss Re offers financial services products that enable risk-taking essential to enterprise and progress. The company's traditional reinsurance products and related services for property and casualty, as well as the life and health business are complemented by insurance-based corporate finance solutions and supplementary services for comprehensive risk management. Swiss Reinsurance Company Ltd is rated "AA–" by Standard & Poor's, "A1" by Moody's and "A+" by A.M. Best.

Income statement (unaudited)

For the three months ended 31 March

USD millions	Note	2011	2012
Revenues			
Premiums earned	7	4 882	**5 231**
Fee income from policyholders	7	221	**20**
Net investment income/loss – non-participating	2	1 167	**775**
Net realised investment gains/losses – non-participating (total impairments for the three months ended 31 March were 128 in 2011 and 93 in 2012, of which 87 and 68, respectively, were recognised in earnings)	2	170	**53**
Net investment result – unit-linked and with-profit	2	222	**126**
Other revenues		11	**20**
Total revenues		6 673	**6 225**
Expenses			
Claims and claim adjustment expenses	7	–3 520	**–1 732**
Life and health benefits	7	–2 028	**–1 537**
Return credited to policyholders		–363	**–144**
Acquisition costs	7	–886	**–994**
Other expenses		–575	**–499**
Interest expenses		–219	**–194**
Total expenses		–7 591	**–5 100**
Income/loss before income tax expense		–918	**1 125**
Income tax expense/benefit		274	**–328**
Net income/loss before attribution of non-controlling interests		–644	**797**
Income attributable to non-controlling interests		–21	**–23**
Net income/loss after attribution of non-controlling interests		–665	**774**
Interest on contingent capital instruments		0	**–3**
Net income/loss attributable to common shareholder		–665	**771**

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

Statement of comprehensive income (unaudited)

For the three months ended 31 March

USD millions	2011	**2012**
Net income before attribution of non-controlling interests	–644	**797**
Other comprehensive income, net of tax:		
Change in unrealised gains/losses (tax: 181 in 2011 and 165 in 2012)	–445	**–461**
Change in other-than-temporary impairment (tax: 3 in 2011 and –25 in 2012)	–5	**50**
Change in foreign currency translation (tax: 139 in 2011 and 94 in 2012)	231	**602**
Change in adjustment for pension benefits (tax: –1 in 2011 and 1 in 2012)	6	**1**
Total comprehensive income before attribution of non-controlling interests	–857	**989**
Comprehensive income attributable to non-controlling interests	–21	**–23**
Interest on contingent capital instruments	0	**–3**
Total comprehensive income attributable to common shareholder	–878	**963**

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

Balance sheet (unaudited)

Assets

USD millions	Note	31.12.2011	31.03.2012
Investments	2, 3, 4		
Fixed income securities:			
Available-for-sale, at fair value (including 7 034 in 2011 and 11 246 in 2012 subject to securities lending and repurchase agreements) (amortised cost: 86 984 in 2011 and 56 530 in 2012)		93 770	**58 702**
Trading (including 620 in 2011 and 313 in 2012 subject to securities lending and repurchase agreements)		3 453	**2 358**
Equity securities:			
Available-for-sale, at fair value (including 45 in 2011 and 0 in 2012 subject to securities lending and repurchase agreements) (cost: 1 907 in 2011 and 1 516 in 2012)		1 960	**1 721**
Trading		571	**596**
Policy loans, mortgages and other loans		8 325	**4 704**
Investment real estate		645	**684**
Short-term investments, at amortised cost which approximates fair value (including 87 in 2011 and 632 in 2012 subject to securities lending and repurchase agreements)		13 660	**13 376**
Other invested assets		19 821	**23 727**
Investments for unit-linked and with-profit business (including fixed income securities trading: 4 095 in 2011 and 0 in 2012, equity securities trading: 16 182 in 2011 and 845 in 2012)		22 349	**845**
Total investments		164 554	**106 713**
Cash and cash equivalents (including 36 in 2011 and 20 in 2012 subject to securities lending)		11 298	**7 199**
Accrued investment income		1 226	**790**
Premiums and other receivables		11 441	**13 142**
Reinsurance recoverable on unpaid claims and policy benefits	7	11 837	**8 199**
Funds held by ceding companies		9 064	**13 506**
Deferred acquisition costs	5, 7	3 923	**4 061**
Acquired present value of future profits	5	4 226	**1 662**
Goodwill		4 051	**4 082**
Income taxes recoverable		703	**653**
Other assets		5 797	**10 725**
Total assets		228 120	**170 732**

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

Liabilities and equity

USD millions	Note	31.12.2011	**31.03.2012**
Liabilities			
Unpaid claims and claim adjustment expenses		64 878	**59 515**
Liabilities for life and health policy benefits	3	39 044	**18 553**
Policyholder account balances		34 162	**2 535**
Unearned premiums		8 299	**10 048**
Funds held under reinsurance treaties		2 436	**3 610**
Reinsurance balances payable		3 962	**4 666**
Income taxes payable		440	**523**
Deferred and other non-current taxes		2 853	**1 784**
Short-term debt	6	4 101	**4 110**
Accrued expenses and other liabilities		20 213	**27 536**
Long-term debt	6	16 541	**16 515**
Total liabilities		196 929	**149 395**
Equity			
Contingent capital instruments		0	**1 102**
Common stock, CHF 0.10 par value			
2011: 370 706 931; 2012: 370 706 931 shares authorised and issued[1]		35	**35**
Additional paid-in capital		8 958	**8 845**
Treasury shares, net of tax		–1 134	**–1 181**
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax		4 223	**1 671**
Other-than-temporary impairment, net of tax		–118	**–51**
Cumulative translation adjustments, net of tax		–3 924	**–3 285**
Accumulated adjustment for pension and post-retirement benefits, net of tax		–775	**–747**
Total accumulated other comprehensive income		–594	**–2 412**
Retained earnings		22 229	**13 610**
Shareholder's equity		29 494	**19 999**
Non-controlling interests		1 697	**1 338**
Total equity		31 191	**21 337**
Total liabilities and equity		228 120	**170 732**

[1] Please refer to Note 1 "Organisation and summary of significant accounting policies" for details on the number of shares authorised and issued.

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

Statement of equity (unaudited)

For the twelve months ended 31 December 2011 and the three months ended 31 March 2012

USD millions	2011	2012
Contingent capital instruments		
Balance as of 1 January	0	**0**
Issued		**1 102**
Balance as of period end	0	**1 102**
Common shares		
Balance as of 1 January	35	**35**
Issue of common shares		
Balance as of period end	35	**35**
Additional paid-in capital		
Balance as of 1 January	10 530	**8 958**
Contingent capital instruments´ issuance cost		**–18**
Share-based compensation	–87	**–81**
Realised gains/losses on treasury shares	–421	**–14**
Sale of Swiss Re Specialised Investments Holdings (UK) Ltd[1]	–29	
Dividends on common shares[2]	–1 035	
Balance as of period end	8 958	**8 845**
Treasury shares, net of tax		
Balance as of 1 January	–1 483	**–1 134**
Purchase of treasury shares	–270	**–59**
Issuance of treasury shares, including share-based compensation to employees	619	**12**
Balance as of period end	–1 134	**–1 181**
Net unrealised gains/losses, net of tax		
Balance as of 1 January	1 042	**4 223**
Effect of change in Group structure[3]		**–2 091**
Other changes during the period	3 181	**–461**
Balance as of period end	4 223	**1 671**
Other-than-temporary impairment, net of tax		
Balance as of 1 January	–169	**–118**
Effect of change in Group structure[3]		**17**
Other changes during the period	51	**50**
Balance as of period end	–118	**–51**
Foreign currency translation, net of tax		
Balance as of 1 January	–3 742	**–3 924**
Effect of change in Group structure[3]		**37**
Other changes during the period	–182	**602**
Balance as of period end	–3 924	**–3 285**
Adjustment for pension and other post-retirement benefits, net of tax		
Balance as of 1 January	–522	**–775**
Effect of change in Group structure[3]		**27**
Change during the period	–253	**1**
Balance as of period end	–775	**–747**
Retained earnings		
Balance as of 1 January	19 651	**22 229**
Effect of change in Group structure[3]		**–8 229**
Net income after attribution of non-controlling interests	2 578	**774**
Interest on contingent capital instruments, net of tax		**–3**
Dividends on common shares		**–1 137**
Cumulative effect of adoption of ASU 2010-26[4], net of tax		**–24**
Balance as of period end	22 229	**13 610**
Shareholder's equity	29 494	**19 999**
Non-controlling interests		
Balance as of 1 January	1 564	**1 697**
Effect of change in Group structure[3]		**–414**
Change during the period	–39	**32**
Income attributable to non-controlling interests	172	**23**
Balance as of period end	1 697	**1 338**
Total equity	31 191	**21 337**

[1] On 3 May 2011, Swiss Reinsurance Company Ltd sold its subsidiary Swiss Re Specialised Investments Holdings (UK) Limited to Swiss Re Ltd. As the transaction has been accounted for in a manner similar to a transaction between entities under common control, the difference between the proceeds received and the book value was accounted for as a capital transaction.
[2] In 2011, dividends to shareholders were paid in the form of a withholding tax exempt repayment of legal reserves from capital contributions.
[3] Please refer to Note 1 "Organisation and summary of significant accounting policies".
[4] The Group adopted a new accounting pronouncement, ASU 2010-26 "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts" as of 1 January 2012, which required the release of USD 24 million of deferred acquisition costs against retained earnings. Refer to Note 5 for more details on the adoption of ASU 2010-26.

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

Statement of cash flow (unaudited)

For the three months ended 31 March

USD millions	2011	2012
Cash flows from operating activities		
Net income attributable to common shareholder	–665	**771**
Add net income attributable to non-controlling interests	21	**23**
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items	603	**694**
Net realised investment gains/losses	–197	**–176**
Change in:		
Technical provisions, net	4 003	**1 309**
Funds held by ceding companies and other reinsurance balances	–2 012	**–1 134**
Reinsurance recoverable on unpaid claims and policy benefits	–706	**–179**
Other assets and liabilities, net	706	**–1 052**
Income taxes payable/recoverable	–574	**286**
Income from equity-accounted investees, net of dividends received	–59	**–50**
Trading positions, net	2 152	**–1 216**
Securities purchased/sold under agreement to resell/repurchase, net	–1 737	**711**
Net cash provided/used by operating activities	1 535	**–13**
Cash flows from investing activities		
Fixed income securities:		
Sales and maturities	28 343	**34 336**
Purchases	–28 132	**–33 772**
Net purchase/sale/maturities of short-term investments	5 362	**–1 935**
Equity securities:		
Sales	237	**163**
Purchases	–1 271	**–163**
Cash paid/received for acquisitions/disposal of reinsurance transactions, net	–6	
Net purchases/sales/maturities of other investments	8	**56**
Net cash provided/used by investing activities	4 541	**–1 315**
Cash flows from financing activities		
Issuance/repayment of long-term debt	–353	**–273**
Issuance/repayment of short-term debt	–5 202	**–345**
Proceeds from the issuance of contingent capital instruments, net of issuance cost		**1 084**
Purchase/sale of treasury shares	69	**–59**
Dividends paid to holding		**–1 137**
Net cash provided/used by financing activities	–5 486	**–730**
Total net cash provided/used	590	**–2 058**
Effect of foreign currency translation	278	**97**
Change in cash and cash equivalents	868	**–1 961**
Cash and cash equivalents as of 1 January	16 928	**11 298**
Effect of change in Group structure[1]		**–2 138**
Cash and cash equivalents as of 31 March	17 796	**7 199**

[1] Please refer to Note 1 "Organisation and summary of significant accounting policies".

Interest paid was USD 252 million and USD 125 million for the three months ended 31 March 2011 and 2012, respectively. The Group has revised the disclosure on interest paid for the three month period ended 31 March 2011. The change had no impact on net income, net equity or balance sheet classification of the Group.

Tax paid was USD 211 million and nil for the three months ended 31 March 2011 and 2012, respectively.

As a result of the new Swiss Re Group corporate structure, effective 1 January 2012, Swiss Reinsurance Company Ltd transferred its investments in Swiss Re Corporate Solutions Ltd and Swiss Re Life Capital Ltd through a dividend in-kind to Swiss Re Ltd. Please refer to Note 1 "Organisation and summary of significant accounting policies".

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

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Notes to the Group financial statements (unaudited)

1 Organisation and summary of significant accounting policies

Nature of operations
The Swiss Reinsurance Company Group, which is headquartered in Zurich, Switzerland, comprises Swiss Reinsurance Company Ltd (the parent company, referred to as "SRZ") and its subsidiaries (collectively, the "Swiss Reinsurance Company Group" or the "Group"). The Swiss Reinsurance Company Group is a wholesale provider of reinsurance, insurance and other insurance-based forms of risk transfer. Working through brokers and a network of offices around the globe, its client base consists 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 three separate business units: the Swiss Reinsurance Company Group, Swiss Re Corporate Solutions Ltd ("Swiss Re Corporate Solutions") and its subsidiaries (collectively, the "Corporate Solutions Business Unit") and Swiss Re Life Capital Ltd ("Swiss Re Life Capital") and its subsidiaries (collectively, the "Admin Re® Business Unit") as well as Swiss Re Specialised Investments Holdings (UK) Ltd.

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 audited Swiss Reinsurance Company Consolidated 2011 annual report.

Effective 1 January 2012, Swiss Reinsurance Company Ltd transferred risks and benefits from its Corporate Solutions Business Unit and Admin Re® Business Unit to the Group holding, Swiss Re Ltd. As a result, Corporate Solutions and Admin Re® are no longer part of the Swiss Reinsurance Company Group. The transfer was executed on 27 April 2012 through a dividend in-kind, whereby the shares ownership of Swiss Re Corporate Solutions Ltd. and Swiss Re Life Capital Swiss Re Ltd. passed to Swiss Re Ltd. For segmentation purposes Corporate Solutions and Admin Re® have been included in the 'Other' column for comparative periods presented in this report. Following the carve-out on 1 January 2012, both business units are no longer included in the results of the Swiss Reinsurance Company Group in 2012. Please refer to notes 5, 7, 8 and 10 for further details on segment results.

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-backed 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. Whilst management considers that appropriate values have been ascribed to such assets, there is always a level of uncertainty and judgment over these valuations. Subsequent valuations could differ significantly from the results of the process described above. The Group may become aware of counterparty valuations, either directly through the exchange of information or indirectly, for example, through collateral demands. Any implied differences are considered in the independent price verification process and may result in adjustments to initially indicated valuations. As of 31 March 2012, 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 3 May 2012. This is the date on which the financial statements are available to be issued.

Recent accounting guidance

In October 2010, the FASB issued "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts" (ASU 2010-26), an update to Topic 944 – Financial Services – Insurance. This update limits the definition of deferrable acquisition costs to costs directly related to the successful acquisition or renewal of insurance contracts. The Group adopted this guidance as of 1 January 2012. Please refer to Note 5 and to the statement of shareholder's equity for the impact on deferred acquisition costs and retained earnings, respectively.

In April 2011, the FASB issued "Reconsideration of Effective Control for Repurchase Agreements" (ASU 2011-03), an update to Topic 860 – Transfers and Servicing. The amendments in this update remove from the assessment of effective control for repos and similar agreements the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee. The Group adopted this guidance as of 1 January 2012. The adoption did not have an impact on the Group's financial statements.

In May 2011, the FASB issued "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRS" (ASU 2011-04), an update to Topic 820 – Fair value measurement. The guidance requires additional fair value disclosures. In addition, the ASU increases the emphasis on the unit of account and introduces more restrictive guidance on the incorporation of premiums and discounts relating to the size of a position of financial instruments held in measuring fair value. The Group adopted this update as of 1 January 2012. Changes in fair value measurements resulting from the application of the new guidance were immaterial. The additional disclosure requirements are reflected in Note 3.

In June 2011, the FASB issued "Presentation of Comprehensive Income" (ASU 2011-05), an update to Topic 220 – Comprehensive Income. In December 2011, an amendment of ASU 2011-05 was issued, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05" (ASU 2011-12). Amended ASU 2011-05 requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity is eliminated. The Group has adjusted its presentation of net income and other comprehensive income accordingly.

In September 2011, the FASB issued "Testing Goodwill for Impairment "(ASU 2011-08), an update to Topic 350 – Intangibles – Goodwill and Other. The update provides entities with the option of performing a "qualitative" assessment to determine whether further impairment testing is necessary. The Group adopted this guidance as of 1 January 2012. The adoption did not have an impact on the Group's financial statements.

2 Investments

Investment income

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

USD millions	2011	2012
Fixed income securities	921	482
Equity securities	12	13
Policy loans, mortgages and other loans	105	25
Investment real estate	32	34
Short-term investments	17	23
Other current investments	–6	
Share in earnings of equity-accounted investees	106	119
Cash and cash equivalents	29	10
Net result from deposit-accounted contracts	25	48
Deposits with ceding companies	80	103
Gross investment income	1 321	857
Investment expenses	–122	–80
Interest charged for funds held	–32	–2
Net investment income – non-participating	1 167	**775**

Dividends received from investments accounted for using the equity method were USD 47 million and USD 69 million for the three months ended 31 March 2011 and 2012, respectively.

Realised gains and losses

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

USD millions	2011	2012
Fixed income securities available-for-sale:		
Gross realised gains	428	725
Gross realised losses	–210	–194
Equity securities available-for-sale:		
Gross realised gains	42	20
Gross realised losses	–2	–4
Other-than-temporary impairments	–87	–68
Net realised investment gains/losses on trading securities	–4	25
Change in net unrealised investment gains/losses on trading securities	–85	40
Other investments:		
Net realised/unrealised gains/losses	11	–159
Net realised/unrealised gains/losses on insurance related derivatives	–29	–106
Foreign exchange gains/losses	106	–226
Net realised investment gains/losses – non-participating	170	**53**

Proceeds from sales of fixed income securities available-for-sale amounted to USD 22 757 million and USD 36 158 million for the three months ended 31 March 2011 and 2012, respectively. Sales of equity securities available-for-sale were USD 259 million and USD 170 million for the three months ended 31 March 2011 and 2012, respectively.

Investment result – unit-linked and with-profit business

As of 31 March 2011 and 2012, net investment result on unit-linked and with-profit business credited to policyholders was USD 222 million, and USD 126 million, respectively, mainly originating from realised gains on equity securities. In the first quarter of 2011, net investment result on unit-linked and with-profit business included results related to the former Admin Re® segment. Following the carve-out effective from January 2012, this business is no longer included in the Group results.

Impairment on fixed income securities related to credit losses

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

For securitised products, cash flow projection analysis is conducted 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 similar hybrid debt instruments, an expected loss approach based on default probabilities and loss severities expected in the current and forecast economic environment is used for securities identified as credit-impaired to project probability-weighted cash flows. Expected cash flows resulting from these analyses are discounted, and net present value is compared to the amortised cost basis to determine the credit component of other-than-temporary impairments.

A reconciliation of the other-than-temporary impairment related to credit losses recognised in earnings for the three months ended 31 March was as follows:

USD millions	2011	2012
Balance as of 1 January	829	515
Effect of change in Group structure[1]		–122
Credit losses for which an other-than-temporary impairment was not previously recognised	61	
Reductions for securities sold during the period	–236	–44
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	18	38
Impact of increase in cash flows expected to be collected	–25	–30
Impact of foreign exchange movements	7	6
Balance as of 31 March	654	**363**

[1] Please refer to Note 1 "Organisation and summary of significant accounting policies".

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 2011 and 31 March 2012 were as follows:

2011 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	20 387	1 881	–1		22 267
US Agency securitised products	3 866	144	–3		4 007
States of the United States and political subdivisions of the states	245	24	–6		263
United Kingdom	15 182	1 865	–51		16 996
Canada	3 078	806	–2		3 882
Germany	4 791	200	–51		4 940
France	3 068	45	–52		3 061
Other	6 849	453	–56	–1	7 245
Total	57 466	5 418	–222	–1	62 661
Corporate debt securities	21 467	2 065	–265	–13	23 254
Residential mortgage-backed securities	2 119	30	–154	–110	1 885
Commercial mortgage-backed securities	3 820	222	–141	–38	3 863
Other asset-backed securities	2 112	64	–54	–15	2 107
Fixed income securities available-for-sale	86 984	7 799	–836	–177	93 770
Equity securities available-for-sale	1 907	201	–148		1 960

2012 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	12 797	306	–88		13 015
US Agency securitised products	2 798	66	–6		2 858
States of the United States and political subdivisions of the states	52	9			61
United Kingdom	10 126	411	–63		10 474
Canada	2 985	604	–9		3 580
Germany	5 125	175	–13		5 287
France	2 766	68	–14		2 820
Other	5 509	256	–28	–1	5 736
Total	42 158	1 895	–221	–1	43 831
Corporate debt securities	8 863	602	–59	–1	9 405
Residential mortgage-backed securities	1 346	33	–81	–43	1 255
Commercial mortgage-backed securities	2 520	146	–72	–19	2 575
Other asset-backed securities	1 643	35	–29	–13	1 636
Fixed income securities available-for-sale	**56 530**	**2 711**	**–462**	**–77**	**58 702**
Equity securities available-for-sale	**1 516**	**268**	**–63**		**1 721**

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

Investments trading

Fixed income securities and equity securities classified as trading (excluding unit-linked and with-profit business) as of 31 December 2011 and 31 March 2012 were as follows:

USD millions	2011	2012
Debt securities issued by governments and government agencies	2957	1892
Corporate debt securities	214	187
Mortgage- and asset-backed securities	282	279
Fixed income securities trading-non-participating	3453	**2358**
Equity securities trading trading-non-participating	571	**596**

Investments held for unit-linked and with-profit business:

Investments held for unit-linked and with-profit business as of 31 December 2011 and 31 March 2012 were as follows:

		2011		2012
USD millions	Unit-linked	With-profit	Unit-linked	With-profit
Fixed income securities trading	2354	1741		
Equity securities trading	15231	951	845	
Investment real estate	828	510		
Short-term investments	734			
Total investments for unit-linked and with-profit business	19147	3202	**845**	**0**

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 as of 31 December 2011 and 31 March 2012 are shown below. Fixed maturity investments are assumed not to be called for redemption prior to the stated maturity date. As of 31 December 2011 and 31 March 2012, USD 10274 million and USD 6362 million, respectively, of fixed income securities available-for-sale were callable.

		2011		2012
USD millions	Amortised cost or cost	Estimated fair value	Amortised cost or cost	Estimated fair value
Due in one year or less	3020	3040	5031	5051
Due after one year through five years	19696	20156	14286	14604
Due after five years through ten years	17955	19072	10132	10602
Due after ten years	38594	43977	21881	23287
Mortgage- and asset-backed securities with no fixed maturity	7719	7525	5200	5158
Total fixed income securities available-for-sale	86984	93770	**56530**	**58702**

Assets pledged

As of 31 December 2011 and 31 March 2012, investments with the carrying value of USD 1 914 million and USD 680 million, respectively, were on deposit with regulatory agencies in accordance with local requirements. As of 31 December 2011 and 31 March 2012, investments with a carrying value of approximately USD 7004 million and USD 3781 million, respectively, were placed on deposit or pledged to secure certain reinsurance liabilities. The Group has reviewed the carrying values of investments on deposit with regulatory agencies, and of investments placed on deposit or pledged to secure certain reinsurance liabilities. The comparatives presented have been revised accordingly. The revision has no impact on net income or net equity of the Group.

As of 31 December 2011 and 31 March 2012, securities of USD 7823 million and USD 12211 million, respectively, were pledged as collateral in securities lending transactions and repurchase agreements. The associated liabilities of USD 8681 million and USD 13504 million, respectively, were recognised in accrued expenses and other liabilities.

A real estate portfolio with a carrying amount of USD 264 million serves as collateral for short-term senior operational debt of USD 719 million.

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

As of 31 December 2011 and 31 March 2012, the fair value of the government and corporate bond securities received as collateral was USD 4241 million and USD 4086 million, respectively. Of this, the amount that was sold or repledged as of 31 December 2011 and 31 March 2012 was nil and nil, respectively. The sources of the collateral are typically highly rated banking market counterparties.

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 2011 and 31 March 2012. As of 31 December 2011 and 31 March 2012, USD 144 million and USD 54 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 4 million and USD 9 million, respectively, to declines in value for more than 12 months.

2011	Less than 12 months		12 months or more		Total	
USD millions	Fair value	Unrealised losses	Fair value	Unrealised losses	Fair value	Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	337	1			337	1
US Agency securitised products	500	3			500	3
States of the United States and political subdivisions of the states	37	1	40	5	77	6
United Kingdom	2832	50	47	1	2879	51
Canada	79	1	2	1	81	2
Germany	1027	50	10	1	1037	51
France	1133	52	4		1137	52
Other	1210	44	142	13	1352	57
Total	7155	202	245	21	7400	223
Corporate debt securities	2760	145	700	133	3460	278
Residential mortgage-backed securities	829	111	702	153	1531	264
Commercial mortgage-backed securities	812	123	342	56	1154	179
Other asset-backed securities	662	15	184	54	846	69
Total	12218	596	2173	417	14391	1013

2012	Less than 12 months		12 months or more		Total	
USD millions	Fair value	Unrealised losses	Fair value	Unrealised losses	Fair value	Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	6778	88			6778	88
US Agency securitised products	393	6			393	6
States of the United States and political subdivisions of the states	5				5	0
United Kingdom	2392	62	9	1	2401	63
Canada	592	9	2		594	9
Germany	659	12	10	1	669	13
France	576	14	4		580	14
Other	831	20	50	9	881	29
Total	12226	211	75	11	12301	222
Corporate debt securities	903	20	238	40	1141	60
Residential mortgage-backed securities	430	38	465	86	895	124
Commercial mortgage-backed securities	733	57	263	34	996	91
Other asset-backed securities	400	11	122	31	522	42
Total	**14692**	**337**	**1163**	**202**	**15855**	**539**

Mortgages, loans and real estate

As of 31 December 2011 and 31 March 2012, 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	2011	**2012**
Policy loans	3 664	97
Mortgage loans	1 336	643
Other loans	3 325	3 964
Investment real estate	645	684

The fair value of the real estate as of 31 December 2011 and 31 March 2012 was USD 2 215 million and USD 2 409 million, respectively. The carrying value of policy loans, mortgages and other loans approximates fair value.

As of 31 December 2011 and 31 March 2012, the Group's investment in mortgages and other loans included USD 270 million and USD 282 million, respectively, of loans due from employees, and USD 357 million and USD 378 million, respectively, due from officers. These loans generally consist of mortgages offered at variable and fixed interest rates.

As of 31 December 2011 and 31 March 2012, investments in real estate included USD 6 million and USD nil million, respectively, of real estate held for sale.

Depreciation expense related to income producing properties was USD 5 million and USD 6 million for the three months ended 31 March 2011 and 2012, respectively. Accumulated depreciation on investment real estate totalled USD 460 million and USD 518 million as of 31 December 2011 and 31 March 2012, respectively.

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

3 Fair value disclosures

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

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

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

Level 2 inputs are market-based inputs that are directly or indirectly observable but not considered level 1 quoted prices. Level 2 inputs consist of (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical assets or liabilities in non-active markets (eg markets which have few transactions and where prices are not current, or price quotations vary substantially); (iii) inputs other than quoted prices that are observable (eg interest rates, yield curves, volatilities, prepayment speeds, credit risks and default rates); and (iv) inputs derived from, or corroborated by, observable market data.

Level 3 inputs are unobservable inputs. These inputs reflect the Group's own assumptions about market pricing using the best internal and external information available.

The types of instruments valued, based on unadjusted quoted market prices in active markets, include most US government and sovereign obligations, active listed equities and most money market securities. Such instruments are generally classified within level 1 of the fair value hierarchy.

The types of instruments that trade in markets that are not considered to be active, but are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency, include most government agency securities, investment-grade corporate bonds, certain mortgage- and asset-backed products, less liquid listed equities, and state, municipal and provincial obligations. Such instruments are generally classified within level 2 of the fair value hierarchy.

Exchange-traded derivative instruments typically fall within level 1 or level 2 of the fair value hierarchy depending on whether they are considered to be actively traded or not.

Certain financial instruments are classified within level 3 of the fair value hierarchy, because they trade infrequently and therefore have little or no price transparency. Such instruments include private equity, less liquid corporate debt securities and certain asset-backed securities. Certain over-the-counter 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 Life & Health policy reserves 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. In the first quarter of 2012, these adjustments were not material. Whenever the underlying assets or liabilities are reported in a specific business segment, the valuation adjustment is allocated accordingly. Valuation adjustments not attributable to any business segment are reported in Group items.

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

Valuation techniques

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

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

Values of residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and other asset-backed securities (Other ABS) 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 ABS for which there are no significant observable inputs are developed using benchmarks to similar transactions or indices. 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, as 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.

The category "Other ABS" primarily includes debt securitised by credit card, student loan and auto loan receivables. Pricing inputs for these securities also focus on capturing, where relevant, collateral quality and performance, payment patterns, and delinquencies.

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

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

The category "Other assets" mainly 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 over-the-counter (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 Black-Scholes option pricing model, various simulation models) calibrated with the inputs, which include underlying spot prices, dividend curves, volatility surfaces, yield curves, and correlations between underlying assets.

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

The Group also holds complex structured credit contracts, such as credit default swaps (CDS) referencing MBS, certain types of collateralised debt obligation (CDO) transactions, and the products sensitive to correlation between two or more underlying parameters (CDO-squared); all of which are classified within level 3 of the fair value hierarchy. A CDO is a debt instrument collateralised by various debt obligations, including bonds, loans and CDS of differing credit profiles. In a CDO-squared transaction both the primary instrument and the underlying instruments are represented by CDOs. Generally, for CDO and CDO-squared transactions, the observable inputs such as CDS spreads and recovery rates are modified to adjust for correlation between the underlying debt instruments. The correlation levels are modelled at the portfolio level and calibrated at a transaction level to liquid benchmark rates.

Governance around level 3 fair valuation

The Group's Senior Risk Committee, chaired by the Chief Risk Officer, has a primary responsibility for governing and overseeing all of the Group's valuation policies and operating parameters (including level 3 measurements). The Senior Risk Committee delegates the responsibility for implementation and overseeing of consistent application of the Group's pricing and valuation policies to the Pricing and Valuation Committee, which is a management control committee. Key functions of the Pricing and Valuation Committee include: oversight over the entire valuation process, approval of internal valuation methodologies, approval of external pricing vendors, monitoring of the independent price verification (IPV) process, and resolution of significant or complex valuation issues.

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

Risk function is responsible for independent validation and ongoing review of the Group's valuation models. Product Control group within Finance is tasked with reporting of fair values and is empowered to challenge vendor- and model-based valuations.

Assets and liabilities measured at fair value on a recurring basis

As of 31 December 2011 and 31 March 2012, the fair values of assets and liabilities measured on a recurring basis by level of input were as follows:

As of 31 December 2011 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	20383	75701	1139		97223
Debt securities issued by US government and government agencies	20383	2170			22553
US Agency securitised products		4018			4018
Debt securities issued by non-US governments and government agencies		39047			39047
Corporate debt securities		22357	1111		23468
Residential mortgage-backed securities		2031	4		2035
Commercial mortgage-backed securities		3962	8		3970
Other asset-backed securities		2116	16		2132
Fixed income securities backing unit-linked and with-profit life and health policies		4095			4095
Equity securities	18161	483	69		18713
Equity securities backing unit-linked and with-profit life and health policies	16173	9			16182
Equity securities held for proprietary investment purposes	1988	474	69		2531
Derivative financial instruments	50	7010	2646	–7252	2454
Interest rate contracts		4147	1512		5659
Foreign exchange contracts	3	866	112		981
Derivative equity contracts	40	1400			1440
Credit contracts		391	986		1377
Other contracts	7	206	36		249
Other assets	2773	1860	2041		6674
Total assets at fair value	41367	89149	5895	–7252	129159
Liabilities					
Derivative financial instruments	–33	–4902	–5875	5950	–4860
Interest rate contracts	–16	–3439	–1191		–4646
Foreign exchange contracts	–4	–764	–66		–834
Derivative equity contracts	–6	–376	–54		–436
Credit contracts		–238	–1075		–1313
Other contracts	–7	–85	–3489		–3581
Liabilities for life and health policy benefits			–341		–341
Accrued expenses and other liabilities	–2926	–3546	–2331		–8803
Total liabilities at fair value	–2959	–8448	–8547	5950	–14004

[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.

As of 31 March 2012 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	12449	47991	620		61060
Debt securities issued by US government and government agencies	12449	650			13099
US Agency securitised products		2868			2868
Debt securities issued by non-US governments and government agencies		29756			29756
Corporate debt securities		8984	608		9592
Residential mortgage-backed securities		1405			1405
Commercial mortgage-backed securities		2675	3		2678
Other asset-backed securities		1653	9		1662
Fixed income securities backing unit-linked and with-profit life and health policies					0
Equity securities	2576	518	68		3162
Equity securities backing unit-linked and with-profit life and health policies	845				845
Equity securities held for proprietary investment purposes	1731	518	68		2317
Derivative financial instruments	61	6858	1142	–5228	2833
Interest rate contracts	6	5080			5086
Foreign exchange contracts	4	656			660
Derivative equity contracts	45	503	607		1155
Credit contracts		448	480		928
Other contracts	6	171	55		232
Other assets	4819	3030	2099		9948
Total assets at fair value	**19905**	**58397**	**3929**	**–5228**	**77003**
Liabilities					
Derivative financial instruments	–41	–5567	–3280	4310	–4578
Interest rate contracts	–18	–4240			–4258
Foreign exchange contracts	–5	–696			–701
Derivative equity contracts	–11	–141	–246		–398
Credit contracts		–422	–527		–949
Other contracts	–7	–68	–2507		–2582
Liabilities for life and health policy benefits			–268		–268
Accrued expenses and other liabilities	–4984	–4417	–2396		–11797
Total liabilities at fair value	**–5025**	**–9984**	**–5944**	**4310**	**–16643**

[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.

Transfers between level 1 and level 2

Transfers between level 1 and level 2 for the three months ended 31 March 2012 were as follows:

As of 31 March 2012 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)
Assets		
Transfers into[1]	141	1 951
Transfers out of[1]	–32	–1 059
Liabilities		
Transfers into[1]		–1 493
Transfers out of[1]		173

[1] Transfers are recognised at the date of the event or change in circumstances that caused the transfer. With the introduction of ASU No. 2011-4 the Group has reassessed the observability of fair value inputs. Yield curves for instruments with maturities above 20 years were deemed observable, and related positions were therefore reclassified from level 3 to level 2. The inputs of one level 2 position were assessed to be unobservable, the respective assets and liabilities were therefore shifted to level 3.

Assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (level 3)
As of 31 December 2011 and 31 March 2012, the reconciliation of the fair values of assets and liabilities measured on a recurring basis using significant unobservable inputs were as follows:

2011 USD millions	Corporate debt securities	Residential mortgage-backed securities	Commercial mortgage-backed securities	US Agency securitised products	Other asset-backed securities
Assets					
Balance as of 1 January 2011	1 748	7	3	0	123
Realised/unrealised gains/losses:					
Included in net income	–1	–4	–5		–15
Included in other comprehensive income	–1	4			–15
Purchases[2]	76		49	10	163
Issuances[2]					
Sales[2]	–670		–30		–218
Settlements[2]	–147	–3			–12
Transfers into level 3[1]	223	4	17		10
Transfers out of level 3[1]	–99	–3	–28	–10	–21
Impact of foreign exchange movements	–18	–1	2		1
Closing balance as of 31 December 2011	1 111	4	8	0	16

Liabilities					
Balance as of 1 January 2011					
Realised/unrealised gains/losses:					
Included in net income					
Included in other comprehensive income					
Purchases[2]					
Issuances[2]					
Sales[2]					
Settlements[2]					
Transfers into level 3[1]					
Transfers out of level 3[1]					
Impact of foreign exchange movements					
Closing balance as of 31 December 2011					

[1] Transfers are recognised at the date of the event or change in circumstances that caused the transfers.
[2] ASU No. 2010-06, gross presentation of activity within level 3 roll forward, presenting separately information about purchases, issuances, sales, and settlements. The standard needs to be applied prospectively.

Equity securities held for proprietary investment purposes	Derivative interest rate contracts	Derivative foreign exchange contracts	Derivative equity contracts	Derivative credit contracts	Other derivative contracts	Other assets	Total
203	839	162	0	1 214	202	1 411	5 912
38	851	–63	1	–77	–48	39	716
4						20	12
21	206	95	11	163		1 136	1 930
–196	–397	–85	–1	–239	–134	–501	–2 471
	13			–23	20	–1	–153
1						9	264
			–11	–52		–70	–294
–2		3			–4	–2	–21
69	1 512	112	0	986	36	2 041	5 895

Liabilities for life and health policy benefits	Derivative interest rate contracts	Derivative foreign exchange contracts	Derivative equity contracts	Derivative credit contracts	Other derivative contracts	Accrued expenses and other liabilities	Total
–271	–825	–72	–56	–1 007	–2 572	–2 349	–7 152
–69	–413	13	2	–158	–771		–1 396
		–7					–7
	46			90	8		144
	1			1	–154		–152
–1				–1		18	16
–341	–1 191	–66	–54	–1 075	–3 489	–2 331	–8 547

2012 USD millions	Corporate debt securities	Residential mortgage-backed securities	Commercial mortgage-backed securities	Other asset-backed securities
Assets				
Balance as of 1 January 2012	1 111	4	8	16
Effect of change in Group structure[1]	–520		–5	
Realised/unrealised gains/losses:				
Included in net income				
Included in other comprehensive income	12			
Purchases	5			
Issuances				
Sales	–9			
Settlements	–2			
Transfers into level 3[2]	13			
Transfers out of level 3[2]	–2	–4		–7
Impact of foreign exchange movements				
Closing balance as of 31 March 2012	**608**	**0**	**3**	**9**
Liabilities				
Balance as of 1 January 2012				
Effect of change in Group structure[1]				
Realised/unrealised gains/losses:				
Included in net income				
Included in other comprehensive income				
Purchases				
Issuances				
Sales				
Settlements				
Transfers into level 3[2]				
Transfers out of level 3[2]				
Impact of foreign exchange movements				
Closing balance as of 31 March 2012				

[1] Please refer to Note 1 "Organisation and summary of significant accounting policies".
[2] Transfers are recognised at the date of the event or change in circumstances that caused the transfer. With the introduction of ASU No. 2011-4 the Group has reassessed the observability of fair value inputs. Yield curves for instruments with maturities above 20 years were deemed observable, and related positions were therefore reclassified to level 2. The inputs of one level 2 position were assessed to be unobservable, the respective assets and liabilities were therefore shifted to level 3.

Equity securities held for proprietary investment purposes	Derivative interest rate contracts	Derivative foreign exchange contracts	Derivative equity contracts	Derivative credit contracts	Other derivative contracts	Other assets	Total
69	1 512	112	0	986	36	2 041	5 895
						–32	–557
–2	–95		–221	–150		–27	–495
						83	95
					14	47	66
	–4					–30	–43
	–1		1	–10	4		–8
			828	22			863
	–1 412	–112		–368	1		–1 904
1			–1			17	18
68	**0**	**0**	**607**	**480**	**55**	**2 099**	**3 930**

Liabilities for life and health policy benefits	Derivative interest rate contracts	Derivative foreign exchange contracts	Derivative equity contracts	Derivative credit contracts	Other derivative contracts	Accrued expenses and other liabilities	Total
–341	–1 191	–66	–54	–1 075	–3 489	–2 331	–8 547
			54		–45		9
72	95		26	218	860		1 271
	–2						–2
	2		98				100
			–5	1	–25		–29
			–365				–365
	1 096	66		331	192		1 684
1				–2		–65	–66
–268	**0**	**0**	**–246**	**–527**	**–2 507**	**–2 396**	**–5 945**

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

The gains and losses relating to the assets and liabilities measured at fair value using significant unobservable inputs (level 3) for the three months ended 31 March 2011 and 2012 were as follows:

USD millions	2011	**2012**
Gains/losses included in net income for the period	268	776
Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date	189	725

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Quantitative information about level 3 fair value measurements

Unobservable inputs for major level 3 assets and liabilities as of 31 March 2012 were as follows:

USD millions
Assets
Corporate debt securities
Surplus notes with a mortality underlying
Private placement corporate debt
Private placement credit tenant leases
Derivative equity contracts
OTC equity option referencing correlated equity indices
Derivative credit contracts
Credit default swaps referencing various asset-backed securities (ABS)
Credit correlation tranche transactions
Liabilities
Derivative equity contracts
OTC equity option referencing correlated equity indices
Option contract referencing a private equity underlying
Derivative credit contracts
Credit default swaps referencing various asset-backed securities (ABS)
Credit correlation tranche transactions
Other derivative contracts and liabilities for life and health policy benefits
Variable annuity and fair valued GMDB contracts
Embedded derivatives in Mod-Co and Coinsurance with Funds Withheld treaties

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

Fair value at **31 March 2012**	Valuation technique	Unobservable input	Range (weighted average)
608			
155	Discounted cash flow model	Illiquidity premium	75 bps (n.a.)
408	Corporate spread matrix	Illiquidity premium	15 – 421 bps (90 bps)
43	Discounted cash flow model	Illiquidity premium	65 – 250 bps (134 bps)
607			
607	Proprietary option model	Correlation	–30% – 100% (35%)[1]
480			
113	Credit spreads derived based on a reciprocal of a reference instrument	Up-front credit default swap premium	40% – 94% (66%)
330	Base correlation model	Correlation	15% – 79% (47%)[1]
–246			
–74	Proprietary option model	Correlation	–30% – 100% (35%)[1]
–172	Option model	Volatility	120% – 162% (141%)[1]
		Growth rate	4% (n.a.)
–527			
–90	Credit spreads derived based on a reciprocal of a reference instrument	Up-front credit default swap premium	40% – 94% (66%)
–419	Base correlation model	Correlation	15% – 79% (47%)[1]
–2 775			
–2 450	Discounted cash flow model	Risk margin	4% (n.a.)
		Volatility	5% – 46%
		Lapse	0.5% – 14%
		Mortality adjustment	–2% – 0%
		Withdrawal rate	0% – 90%
–243	Discounted cash flow model	Lapse	3% – 10%
		Mortality adjustment	80% (n.a.)

Sensitivity of recurring level 3 measurements to changes in unobservable inputs

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

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

The significant unobservable input used in the fair value measurement of the Group's credit default swaps referencing ABS is a current up-front credit default swap premium. Where the Group is long protection, a significant increase (decrease) in this input in isolation would result in a significantly higher (lower) fair value measurement. Where the Group is short protection, a significant decrease (increase) in this input in isolation would result in a significantly higher (lower) fair value measurement.

The significant unobservable input used in the fair value measurement of the Group's credit correlation tranche transactions is correlation. Where the Group is long correlation, 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, a significant increase (decrease) in this input in isolation would result in a significantly lower (higher) fair value measurement.

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

The significant unobservable inputs used in the fair value measurement of the Group's variable annuity and fair valued GMDB contracts are: risk margin, volatility, lapse, mortality adjustment rate and withdrawal rate. 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. 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, as compared to death-benefit products. For the former, significant increase (decrease) in the mortality adjustment rate (ie: increase (decrease) in mortality, respectively) in isolation would result in a decrease (increase) in fair value of the Group's liability. For the latter, significant increase (decrease) in the mortality adjustment rate in isolation would result in an increase (decrease) in fair value of the Group's liability.

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

Other assets measured at net asset value

Other assets measured at net asset value as of 31 December 2011 and 31 March 2012, respectively, were as follows:

USD millions	2011 Fair value	**2012** Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Private equity funds	679	646	291	non-redeemable	na
Hedge funds	1 030	1 052		redeemable[1]	90 – 180 days[2]
Private equity direct	171	168		non-redeemable	na
Real estate funds	172	210	65	non-redeemable	na
Total	2 052	**2 076**	**356**		

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

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

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

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

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

Fair value option

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

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

Equity securities trading

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

Liabilities for life and health policy benefits

The Group elected the fair value option for existing guaranteed minimum death benefit (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 2011 and 31 March 2012 were as follows:

USD millions	2011	2012
Assets		
Equity securities trading	571	596
of which at fair value pursuant to the fair value option	455	499
Liabilities		
Liabilities for life and health policy benefits	–39 044	–18 553
of which at fair value pursuant to the fair value option	–341	–268

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

Gains/losses included in earnings for items measured at fair value pursuant to election of the fair value option including foreign exchange impact for the three months ended 31 March 2011 and 2012 were as follows:

USD millions	2011	2012
Equity securities trading	40	44
Liabilities for life and health policy benefits	27	74
Total	67	**118**

Fair value changes from equity securities trading are reported in net realised investment gains/losses. 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

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.

4 Derivative financial instruments

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

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

Fair values and notional amounts of derivative financial instruments

As of 31 December 2011 and 31 March 2012, the fair values and notional amounts of the derivatives outstanding were as follows:

As of 31 December 2011 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	153 706	4 780	–4 642	138
Foreign exchange contracts	28 714	981	–766	215
Equity contracts	9 338	1 440	–436	1 004
Credit contracts	45 241	1 377	–1 313	64
Other contracts	24 039	249	–3 581	–3 332
Total	261 038	8 827	–10 738	–1 911
Derivatives designated as hedging instruments				
Interest rate contracts	2 914	879	–4	875
Foreign exchange contracts	2 077		–68	–68
Total	4 991	879	–72	807
Total derivative financial instruments	266 029	9 706	–10 810	–1 104
Amount offset				
Where a right of setoff exists		–5 756	5 756	
Due to cash collateral		–1 496	194	
Total net amount of derivative financial instruments		2 454	–4 860	–2 406

As of 31 March 2012 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	175 325	4 321	–4 258	63
Foreign exchange contracts	25 917	649	–668	–19
Equity contracts	9 815	1 155	–398	757
Credit contracts	41 922	928	–949	–21
Other contracts	22 231	232	–2 582	–2 350
Total	**275 210**	**7 285**	**–8 855**	**–1 570**
Derivatives designated as hedging instruments				
Interest rate contracts	2 903	765		765
Foreign exchange contracts	2 131	11	–33	–22
Total	**5 034**	**776**	**–33**	**743**
Total derivative financial instruments	**280 244**	**8 061**	**–8 888**	**–827**
Amount offset				
Where a right of setoff exists		–4 005	4 005	
Due to cash collateral		–1 223	305	
Total net amount of derivative financial instruments		**2 833**	**–4 578**	**–1 745**

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 2011 and 31 March 2012.

Non-hedging activities

The Group primarily uses derivative financial instruments for risk management and trading strategies. Gains and losses of derivative financial instruments not designated as hedging instruments are recorded in net realised investment gains/losses in the income statement. For the three months ended 31 March 2011 and 2012, the gains and losses of derivative financial instruments not designated as hedging instruments were as follow:

USD millions	2011	2012
Derivatives not designated as hedging instruments		
Interest rate contracts	–5	–184
Foreign exchange contracts	–290	–424
Equity contracts	–155	–440
Credit contracts	–97	–149
Other contracts	316	837
Total gain/loss recognised in income	–231	**–360**

Hedging activities

The Group designates certain derivative financial instruments as hedging instruments. The designation of derivative financial instruments is primarily used for overall portfolio and risk management strategies. As of 31 March 2012, the following hedging relationships were outstanding:

Fair value hedges

The Group enters into interest rate and foreign exchange swaps to reduce the exposure to interest rate and foreign exchange volatility for certain of its issued debt positions. These derivative instruments are designated as hedging instruments in qualifying fair value hedges. Gains and losses on derivative financial instruments designated as fair value hedging instruments are recorded in net realised investment gains/losses in the income statement. For the three months ended 31 March 2011 and 2012, the gains and losses attributable to the hedged risks were as follows:

		2011		2012
USD millions	Gains/losses on derivatives	Gains/losses on hedged items	Gains/losses on derivatives	Gains/losses on hedged items
Fair value hedging relationships				
Interest rate contracts	–67	68	–107	106
Foreign exchange contracts	89	–90	46	–56
Total gain/loss recognised in income	22	–22	**–61**	**50**

Hedges of the net investment in foreign operations

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

For the year ended 31 December 2011 and the three months ended 31 March 2012, the Group recorded an accumulated net unrealised foreign currency remeasurement gain of USD 397 million and a loss of USD 29 million, respectively, in shareholders' equity. These offset translation gains and losses on the hedged net investment.

Maximum potential loss

In consideration of the rights of setoff and the qualifying master netting arrangements with various counterparties, the maximum potential loss as of 31 December 2011 and 31 March 2012 was approximately USD 3 950 million and USD 4 056 million, respectively. The maximum potential loss is based on the positive market replacement cost assuming non-performance of all counterparties, net of 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 1 538 million and USD 1 386 million as of 31 December 2011 and 31 March 2012, respectively. For derivative financial instruments containing credit risk-related contingent features, the Group posted collateral of USD 194 million and USD 305 million as of 31 December 2011 and 31 March 2012, respectively. In the event of a reduction of the Group's credit rating to below investment grade, a fair value of USD 1 081 million in additional collateral would have had to be posted as of 31 March 2012. The total equals the amount needed to settle the instruments immediately as of 31 March 2012, respectively.

Credit derivatives written/sold

The Group writes/sells credit derivatives, including credit default swaps, credit spread options and credit index products, and total return swaps. The total return swaps, for which the Group assumes asset risk mainly of variable interest entities, qualify as guarantees under FASB ASC Topic 460. These activities are part of the Group's overall portfolio and risk management strategies. The events that could require the Group to perform include bankruptcy, default, obligation acceleration, or moratorium of the credit derivative's underlying.

The following tables show the fair values and the maximum potential payout of the credit derivatives written/sold as of 31 December 2011 and 31 March 2012, categorised by the type of credit derivative and credit spreads, which were based on external market data. The fair values represent the gross carrying values, excluding the effects of netting under ISDA master agreements and cash collateral netting. The maximum potential payout is based on the notional values of the derivatives and represents the gross undiscounted future payments the Group would be required to make, assuming the default of all credit derivatives' underlyings.

The fair values of the credit derivatives written/sold do not represent the Group's effective net exposure as the ISDA master agreement and the cash collateral netting are excluded.

The Group has purchased protection to manage the performance/payment risks related to credit derivatives and other credit risks. As of 31 December 2011 and 31 March 2012, the total purchased credit protection based on notional values was USD 26 367 million and USD 22 560 million, respectively, of which USD 8 159 million and USD 8 101 million, respectively, were related to identical underlyings for which the Group sold credit protection. For tranched indexes and baskets, only matching tranches of the respective index were determined as identical. In addition to the purchased credit protection, the Group manages the performance/payment risks through a correlation hedge, which is established with non-identical offsetting positions.

The maximum potential payout is based on notional values of the credit derivatives. The Group enters into total return swaps mainly with variable interest entities which issue insurance-linked and credit-linked securities.

As of 31 December 2011 and 31 March 2012, the fair values and maximum potential payout of the written credit derivatives outstanding were as follows:

As of 31 December 2011 USD millions	Total fair values of credit derivatives written/sold	Maximum potential payout (time to maturity)			Total maximum potential payout
		0–5 years	5–10 years	Over 10 years	
Credit Default Swaps					
Credit spread in basis points					
0 – 250	–89	3874	1692	17	5583
251 – 500	–40	95		143	238
501 – 1000	–17	145		37	182
Greater than 1000	–331	154	5	495	654
Total	–477	4268	1697	692	6657
Credit Index Products					
Credit spread in basis points					
0 – 250	–280	11778	134		11912
251 – 500	–57		106		106
501 – 1000	–47	12	71		83
Greater than 1000	–56		116		116
Total	–440	11790	427	0	12217
Total Return Swaps					
Credit spread in basis points					
No credit spread available	100	997			997
Total	100	997	0	0	997
Total credit derivatives written/sold	–817	17055	2124	692	19871

As of 31 March 2012 USD millions	Total fair values of credit derivatives written/sold	Maximum potential payout (time to maturity)			Total maximum potential payout
		0–5 years	5–10 years	Over 10 years	
Credit Default Swaps					
Credit spread in basis points					
0 – 250	–47	3 040	2 726		5 766
251 – 500	–36	83		145	228
501 – 1 000	–16	140	5	36	181
Greater than 1 000	–292	385		523	908
Total	**–391**	**3 648**	**2 731**	**704**	**7 083**
Credit Index Products					
Credit spread in basis points					
0 – 250	11	11 645	57		11 702
251 – 500	–45	22	167		189
501 – 1 000	–7	350	38		388
Greater than 1 000	–33				0
Total	**–74**	**12 017**	**262**	**0**	**12 279**
Total Return Swaps					
Credit spread in basis points					
No credit spread available	75	728			728
Total	**75**	**728**	**0**	**0**	**728**
Total credit derivatives written/sold	**–390**	**16 393**	**2 993**	**704**	**20 090**

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

For the year ended 31 December 2011 and three months ended 31 March 2012, the DAC were as follows:

2011 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other[1]	Total
Opening balance as of 1 January 2011	819	2 743	9	3 571
Deferred	2 233	254	199	2 686
Effect of acquisitions/disposals and retrocessions	–1		–9	–10
Amortisation	–1 798	–313	–188	–2 299
Effect of foreign currency translation	–6	–21	2	–25
Closing balance as of 31 December 2011	1 247	2 663	13	3 923

[1] For 2011 presentation, prior to the carve-out effective from January 2012, the Corporate Solutions and Admin Re® business segments have been included in the 'Other' column. For further information please refer to Note 1 "Organisation and summary of significant accounting policies", under "Basis of presentation".

2012 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Opening balance as of 1 January 2012	1 247	2 663	13	3 923
Effect of change in Group structure[1]			–17	–17
Cumulative effect of adoption of ASU No. 2010-26		–35		–35
Deferred	524	254	2	780
Effect of acquisitions/disposals and retrocessions				0
Amortisation	–544	–99	–1	–644
Effect of foreign currency translation	12	42		54
Closing balance as of 31 March 2012	**1 239**	**2 825**	**–3**	**4 061**

[1] Please refer to Note 1 "Organisation and summary of significant accounting policies".

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 1 January 2012, the Group adopted ASU 2010-26 "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts" (ASU 2010-26). This new guidance limits the definition of deferrable acquisition costs to costs directly related to the successful acquisition or renewal of insurance contracts. The Group chose to adopt the standard retroactively. Due to immateriality, the release of USD 35 million of DAC not qualifying for deferral under the update was recognised against retained earnings as of 1 January 2012. Consequently, prior-period information has not been retrospectively adjusted. The impact of the guidance on the Group is immaterial.

For the year ended 31 December 2011 and three months ended 31 March 2012, the PVFP were as follows:

			2011			**2012**
USD millions	Life & Health Reinsurance	Other[1]	Total	Life & Health Reinsurance	Other	Total
Opening balance	1 736	2 829	4 565	1 674	2 552	4 226
Effect of change in Group structure[2]					–2 552	–2 552
Effect of acquisitions/disposals and retrocessions	112	135	247			0
Amortisation	–218	–413	–631	–53		–53
Interest accrued on unamortised PVFP	54	177	231	13		13
Effect of foreign currency translation	–10	–10	–20	28		28
Effect of change in unrealised gains/losses		–166	–166			0
Closing balance	1 674	2 552	4 226	**1 662**	**0**	**1 662**

[1] For 2011 presentation, prior to the carve-out effective from January 2012, the Admin Re® business segment has been included in the 'Other' column. For further information please refer to Note 1 "Organisation and summary of significant accounting policies", under "Basis of presentation".
[2] Please refer to Note 1 "Organisation and summary of significant accounting policies".

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 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 less 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 2011 and 31 March 2012 was as follows:

USD millions	2011	2012
Senior financial debt	279	288
Senior operational debt	3822	3822
Short-term debt – financial and operational debt	4101	**4110**
Senior financial debt	2976	4997
Senior operational debt	4854	2651
Subordinated financial debt	3587	3650
Subordinated operational debt	5124	5217
Long-term debt – financial and operational debt	16541	**16515**
Total carrying value	20642	**20625**
Total fair value	19996	**20247**

The increase in senior financial debt, and a corresponding decrease in senior operational debt, during the first quarter of 2012 resulted mainly from the reclassification of three senior notes assumed in the acquisition of Insurance Solutions due to a change in the rating agency classification methodology for operational debt.

Interest expense on long-term debt and contingent capital instruments

Interest expense on long-term debt for the three months ended 31 March 2011 and 2012 was as follows:

USD millions	2011	2012
Senior financial debt	20	45
Senior operational debt	81	31
Subordinated financial debt	56	55
Subordinated operational debt	63	62
Total	220	**193**

Interest expenses on contingent capital instruments for the three months ended 31 March 2012 was USD 3 million.

Long-term debt issued in 2012

The Group did not issue any long-term debt in the three months ended 31 March 2012.

Contingent capital instruments issued in 2012

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

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

Both instruments may be converted, at the option of the issuer, into Swiss Re Ltd shares at any time at market or within six months following a solvency event at a pre-set floor price. These instruments are referred to in these financial statements as the "contingent capital instruments".

7 Insurance information

For the three months ended 31 March

Premiums earned and fees assessed against policyholders

2011 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other[1]	Total
Premiums earned, thereof:				
Direct			702	702
Reinsurance	2834	2420	128	5382
Intra-group transactions (assumed and ceded)	–22	18	4	0
Premiums earned before retrocession to external parties	2812	2438	834	6084
Reinsurance ceded to external parties	–591	–443	–168	–1202
Net premiums earned	2221	1995	666	4882
Fee income from policyholders, thereof:				
Direct			166	166
Reinsurance		29	30	59
Intra-group transactions (assumed and ceded)		–4	4	0
Gross fee income before retrocession to external parties		25	200	225
Fee income ceded to external parties		–4		–4
Net fee income	0	21	200	221

[1] For 2011 presentation, prior to the carve-out effective from January 2012, the Corporate Solutions and Admin Re® business segments have been included in the 'Other' column. For further information please refer to Note 1 "Organisation and summary of significant accounting policies", under "Basis of presentation".

Premiums earned and fees assessed against policyholders

2012 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Premiums earned, thereof:				
Direct		19	23	42
Reinsurance	3 985	2 564	2	6 551
Intra-group transactions (assumed and ceded)	6		–6	0
Premiums earned before retrocession to external parties	3 991	2 583	19	6 593
Reinsurance ceded to external parties	–921	–430	–11	–1 362
Net premiums earned	**3 070**	**2 153**	**8**	**5 231**
Fee income from policyholders, thereof:				
Direct				0
Reinsurance		20		20
Intra-group transactions (assumed and ceded)				0
Gross fee income before retrocession to external parties		20		20
Fee income ceded to external parties				0
Net fee income	**0**	**20**	**0**	**20**

Claims and claim adjustment expenses

2011 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other[1]	Consolidation	Total
Claims paid, thereof:					
Gross claims paid to external parties	–1 978	–1 982	–1 335		–5 295
Intra-group transactions (assumed and ceded)	–294	–32	326		0
Claims before receivables from retrocession to external parties	–2 272	–2 014	–1 009		–5 295
Receivables from retrocession to external parties	329	485	241		1 055
Net claims paid	–1 943	–1 529	–768	0	–4 240
Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:					
Gross – with external parties	–2 129	26	65	5	–2 033
Intra-group transactions (assumed and ceded)	186	19	–205		0
Unpaid claims and claim adjustment expenses; life and health benefits before impact of retrocession to third parties	–1 943	45	–140	5	–2 033
Reinsurance ceded to external parties	754	–14	–15		725
Net unpaid claims and claim adjustment expenses; life and health benefits	–1 189	31	–155	5	–1 308
Claims and claim adjustment expenses; life and health benefits	–3 132	–1 498	–923	5	–5 548

[1] For 2011 presentation, prior to the carve-out effective from January 2012, the Corporate Solutions and Admin Re® business segments have been included in the 'Other' column. For further information please refer to Note 1 "Organisation and summary of significant accounting policies", under "Basis of presentation".

Acquisition costs

2011 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other[1]	Consolidation	Total
Acquisition costs, thereof:					
Gross acquisition costs with external parties	–574	–462	–148	3	–1 181
Intra-group transactions (assumed and ceded)	–11	–10	21		0
Acquisition costs before impact of retrocession to external parties	–585	–472	–127	3	–1 181
Retrocession to external parties	183	69	43		295
Net acquisition costs	–402	–403	–84	3	–886

[1] For 2011 presentation, prior to the carve-out effective from January 2012, the Corporate Solutions and Admin Re® business segments have been included in the 'Other' column. For further information please refer to Note 1 "Organisation and summary of significant accounting policies", under "Basis of presentation".

Claims and claim adjustment expenses

2012 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Claims paid, thereof:					
Gross claims paid to external parties	–2 458	–1 898	–5		–4 361
Intra-group transactions (assumed and ceded)	–1		1		0
Claims before receivables from retrocession to external parties	–2 459	–1 898	–4		–4 361
Receivables from retrocession to external parties	366	439	1		806
Net claims paid	**–2 093**	**–1 459**	**–3**	**0**	**–3 555**
Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:					
Gross – with external parties	235	–78	–58		99
Intra-group transactions (assumed and ceded)	–14		14		0
Unpaid claims and claim adjustment expenses; life and health benefits before impact of retrocession to third parties	221	–78	–44		99
Reinsurance ceded to external parties	167		20		187
Net unpaid claims and claim adjustment expenses; life and health benefits	**388**	**–78**	**–24**	**0**	**286**
Claims and claim adjustment expenses; life and health benefits	**–1 705**	**–1 537**	**–27**	**0**	**–3 269**

Acquisition costs

2012 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Acquisition costs, thereof:					
Gross acquisition costs with external parties	–845	–496	–3		–1 344
Intra-group transactions (assumed and ceded)	–1		1		0
Acquisition costs before impact of retrocession to external parties	–846	–496	–2		–1 344
Retrocession to external parties	289	60	1		350
Net acquisition costs	**–557**	**–436**	**–1**	**0**	**–994**

Reinsurance assets and liabilities

The reinsurance assets and liabilities as of 31 December 2011 and 31 March 2012 were as follows:

2011 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other[1]	Consolidation	Total
Assets					
Reinsurance recoverable	4 951	2 902	13 502	–9 518	11 837
Deferred acquisition costs	1 247	2 663	13		3 923
Liabilities					
Unpaid claims and claim adjustment expenses	49 451	9 310	14 148	–8 031	64 878
Life and health policy benefits		18 367	21 424	–747	39 044
Policyholder account balances		2 423	32 486	–747	34 162

[1] For 2011 presentation, prior to the carve-out effective from January 2012, the Corporate Solutions and Admin Re® business segments have been included in the 'Other' column. For further information please refer to Note 1 "Organisation and summary of significant accounting policies", under "Basis of presentation".

2012 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Assets					
Reinsurance recoverable	5 173	2 912	138	–24	8 199
Deferred acquisition costs	1 239	2 825	–3		4 061
Liabilities					
Unpaid claims and claim adjustment expenses	49 711	9 619	209	–24	59 515
Life and health policy benefits		18 553			18 553
Policyholder account balances		2 535			2 535

Reinsurance receivables

Reinsurance receivables as of 31 December 2011 and 31 March 2012 were as follows:

USD millions	2011	**2012**
Premium receivables invoiced	1 916	1 600
Receivables invoiced from ceded (re)insurance business	512	364
Assets arising from the application of the deposit method of accounting and meeting the definition of financing receivables	707	1 346
Recognised allowance	–132	–94

Sales inducements

Sales inducements are offered to contract holders of certain universal life and annuity products. The amounts deferred equal the sum of persistency bonuses credited to the account value plus the non-interest related increase in the persistency bonus liability. These costs are amortised in constant proportion to estimated gross profits over the life of the contract, using the credited interest rates as the discount rate.

Sales inducements as of 31 December 2011 and 31 March 2012 were as follows:

USD millions	2011	**2012**
Balance as of 1 January	1 019	1 020
Impact of carve-outs due to new Group structure	-	–82
Sales inducements deferred	265	179
Sales inducements amortised	–257	–53
Impact of foreign exchange and other movements	–7	28
Unamortised balance of sales inducements	1 020	**1 092**

Policyholder dividends

Policyholder dividends are recognised as an element of policyholder benefits. The amount of policyholder dividend expense for the three months ended 31 March 2011 and 2012 was USD 28 million and USD 4 million, respectively.

8 Premiums written

For the three months ended 31 March

2011 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other[1]	Consolidation	Total
Gross premiums written, thereof:					
Direct		7	558		565
Reinsurance	5 860	2 575	84		8 519
Intra-group transactions (assumed)	147	13	121	–281	0
Gross premiums written	6 007	2 595	763	–281	9 084
Intra-group transactions (ceded)	–121		–160	281	0
Gross premiums written before retrocession to external parties	5 886	2 595	603		9 084
Reinsurance ceded to external parties	–1 168	–443	–157		–1 768
Net premiums written	4 718	2 152	446	0	7 316

[1] For 2011 presentation, prior to the carve-out effective from January 2012, the Corporate Solutions and Admin Re® business segments have been included in the 'Other' column. For further information please refer to Note 1 "Organisation and summary of significant accounting policies", under "Basis of presentation".

2012 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Gross premiums written, thereof:					
Direct		57	17		74
Reinsurance	5 895	2 770	2		8 667
Intra-group transactions (assumed)	6			–6	0
Gross premiums written	5 901	2 827	19	–6	8 741
Intra-group transactions (ceded)			–6	6	0
Gross premiums written before retrocession to external parties	5 901	2 827	13		8 741
Reinsurance ceded to external parties	–639	–426	–8		–1 073
Net premiums written	**5 262**	**2 401**	**5**	**0**	**7 668**

9 Benefit plans

Defined benefit pension plans and post-retirement benefits

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

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

Components of net periodic benefit cost

The components of pension and post-retirement cost for the three months ended 31 March 2011 and 2012 were as follows:

2011 USD millions	Swiss plans	Foreign plans	Other benefits	Total
Service cost (net of participant contributions)	26	2	1	29
Interest cost	21	26	3	50
Expected return on assets	–30	–26		–56
Amortisation of:				
Net gain/loss	9	4	–3	10
Prior service cost	2		–3	–1
Net periodic benefit cost	28	6	–2	32

2012 USD millions	Swiss plans	Foreign plans	Other benefits	Total
Service cost (net of participant contributions)	26	1	1	28
Interest cost	20	18	3	41
Expected return on assets	–25	–19		–44
Amortisation of:				
Net gain/loss	10	3	–2	11
Prior service cost			–3	–3
Net periodic benefit cost	**31**	**3**	**–1**	**33**

Employer's contributions for 2012

For the three months ended 31 March 2012, the Group contributed USD 54 million to its defined benefit pension plans, and USD 4 million to other post-retirement plans, compared to USD 55 million and USD 4 million, respectively, in the same period of 2011.

The expected 2012 contributions to the defined benefit pension plans and to the post-retirement benefit plans, revised as of 31 March 2012 for latest information, amount to USD 136 million and USD 16 million, respectively.

10 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.

On 17 February 2011, the Group announced the implementation of a new organisational structure, to be reflected in the Group financial statements from the first quarter of 2012. On 27 April 2012, SRZ transferred the Corporate Solutions entities and the Admin Re® entities through a dividend in-kind to Swiss Re Ltd and, as a result, the Corporate Solutions Business Unit and the Admin Re® Business Unit are no longer owned by SRZ. Under the new structure, the former Asset Management segment of the Swiss Re Group is split among business segments to ensure invested assets correspond to reinsurance liabilities. The assets and liabilities related to specific transactions have been allocated to the respective business segments.

The Group presents two core operating business segments: Property & Casualty Reinsurance and Life & Health Reinsurance.

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. In addition to 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 is split into two sub-segments.

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. For the comparative period presented the Corporate Solutions and Admin Re® segments have also been included in this column. Effective 1 January 2012, these operating segments are no longer included in the results of the Swiss Reinsurance Company Group. Please refer to note 1 "Organisation and summary of significant accounting policies" under "Basis for presentation" for further information.

Consolidation

Segment information is presented net of external and internal retrocession and other intra-group arrangements. The Group total is obtained after elimination of intra-group transactions in the "Consolidation" column. This includes significant intra-group reinsurance arrangements and certain treasury-related activities are included.

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 are 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. This consideration determined each segment's initial capital position under the new structure.

The segment income statement follows the segmental balance sheets and provides enhanced information regarding investment income, realised investment gains and losses, interest expense, and tax expense and benefit. Investment income is the actual income earned on the invested assets. Investment gains and losses are based on the asset portfolios assigned to the segment. Interest expense is incurred from the segment's capital funding position, and tax is derived from legal entity tax obligations.

The 2011 comparative information has been restated and is presented based on the 2012 presentation. The accounting policies of the business segments are in line with those described in the summary of significant accounting policies (see Note 1 to the Group's annual consolidated financial statements).

a) Business segments – income statement

For the three months ended 31 March 2011

2011 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other[1]	Consolidation	Total
Revenues					
Premiums earned	2 221	1 995	666		4 882
Fee income from policyholders		21	200		221
Net investment income/loss – non-participating	358	377	458	–26	1 167
Net realised investment gains/losses – non-participating	298	–191	63		170
Net investment result – unit-linked and with-profit		58	164		222
Other revenues	4		61	–54	11
Total revenues	2 881	2 260	1 612	–80	6 673
Expenses					
Claims and claim adjustment expenses	–3 132		–397	9	–3 520
Life and health benefits		–1 498	–526	–4	–2 028
Return credited to policyholders		–64	–299		–363
Acquisition costs	–402	–403	–84	3	–886
Other expenses	–265	–141	–224	55	–575
Interest expenses	–41	–132	–63	17	–219
Total expenses	–3 840	–2 238	–1 593	80	–7 591
Income/loss before income tax expense	–959	22	19	0	–918
Income tax expense/benefit	346	–8	–64		274
Net income/loss before attribution of non-controlling interests	–613	14	–45	0	–644
Income attributable to non-controlling interests	–19		–2		–21
Net income/loss after attribution of non-controlling interests	–632	14	–47	0	–665
Interest on contingent capital instruments					0
Net income/loss attributable to common shareholder	–632	14	–47	0	–665
Claims ratio in %	141.0				
Expense ratio in %	30.0				
Combined ratio in %	171.0				
Management expense ratio in %		5.9			
Benefit ratio in %		76.3			

[1] For 2011 presentation, prior to the carve-out effective from January 2012, the Corporate Solutions and Admin Re® business segments have been included in the 'Other' column. For further information please refer to Note 1 "Organisation and summary of significant accounting policies", under "Basis of presentation".

Business segments – total assets

As of 31 December 2011

2011 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other[1]	Consolidation	Total
Total assets	87 888	63 831	96 154	–19 753	228 120

[1] For 2011 presentation, prior to the carve-out effective from January 2012, the Corporate Solutions and Admin Re® business segments have been included in the 'Other' column. For further information please refer to Note 1 "Organisation and summary of significant accounting policies", under "Basis of presentation".

Business segments – income statement
For the three months ended 31 March 2012

2012 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Revenues					
Premiums earned	3 070	2 153	8		5 231
Fee income from policyholders		20			20
Net investment income/loss – non-participating	380	372	21	2	775
Net realised investment gains/losses – non-participating	88	37	–72		53
Net investment result – unit-linked and with-profit		126			126
Other revenues	22			–2	20
Total revenues	**3 560**	**2 708**	**–43**	**0**	**6 225**
Expenses					
Claims and claim adjustment expenses	–1 705		–27		–1 732
Life and health benefits		–1 537			–1 537
Return credited to policyholders		–143	–1		–144
Acquisition costs	–557	–436	–1		–994
Other expenses	–346	–159	6		–499
Interest expenses	–22	–148	–24		–194
Total expenses	**–2 630**	**–2 423**	**–47**	**0**	**–5 100**
Income/loss before income tax expense	**930**	**285**	**–90**	**0**	**1 125**
Income tax expense/benefit	–245	–75	–8		–328
Net income/loss before attribution of non-controlling interests	**685**	**210**	**–98**	**0**	**797**
Income attributable to non-controlling interests	–23				–23
Net income/loss after attribution of non-controlling interests	**662**	**210**	**–98**	**0**	**774**
Interest on contingent capital instruments	–2	–1			–3
Net income/loss attributable to common shareholder	**660**	**209**	**–98**	**0**	**771**
Claims ratio in %	55.6				
Expense ratio in %	29.4				
Combined ratio in %	85.0				
Management expense ratio in %		6.2			
Benefit ratio in %		74.4			

Business segments – total assets
As of 31 March 2012

2012 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Total assets	100 103	66 988	8 000	–4 359	170 732

b) Property & Casualty Reinsurance business segment – by line of business
For the three months ended 31 March 2011

2011 USD millions	Property	Casualty	Specialty	Total
Premiums earned	1 034	675	512	2 221
Expenses				
Claims and claim adjustment expenses	–2 383	–463	–286	–3 132
Acquisition costs	–128	–143	–131	–402
Other expenses	–124	–78	–63	–265
Total expenses before interest expenses	–2 635	–684	–480	–3 799
Underwriting result	–1 601	–9	32	–1 578
Net investment income				358
Net realised investment gains/losses				298
Other revenues				4
Interest expenses				–41
Income before income tax expenses				–959
Claims ratio in %	230.4	68.6	55.9	141.0
Expense ratio in %	24.4	32.7	37.9	30.0
Combined ratio in %	254.8	101.3	93.8	171.0

Property & Casualty Reinsurance business segment – by line of business
For the three months ended 31 March 2012

2012 USD millions	Property	Casualty	Specialty	Total
Premiums earned	**1 386**	**1 186**	**498**	**3 070**
Expenses				
Claims and claim adjustment expenses	–627	–843	–235	–1 705
Acquisition costs	–181	–276	–100	–557
Other expenses	–176	–104	–66	–346
Total expenses before interest expenses	**–984**	**–1 223**	**–401**	**–2 608**
Underwriting result	402	–37	97	462
Net investment income				380
Net realised investment gains/losses				88
Other revenues				22
Interest expenses				–22
Income before income tax expenses				**930**
Claims ratio in %	45.2	71.1	47.2	55.6
Expense ratio in %	25.8	32.0	33.3	29.4
Combined ratio in %	71.0	103.1	80.5	85.0

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

For the three months ended 31 March 2011

2011 USD millions	Life	Health	Total
Revenues			
Premiums earned	1 435	560	1 995
Fee income from policyholders	21		21
Net investment income – non-participating	234	143	377
Net investment income – unit-linked and with-profit	3		3
Net realised investment gains/losses – unit-linked and with-profit	55		55
Net realised investment gains/losses – insurance related derivatives	–34	–1	–35
Total revenues before non-participating realised gains/losses	1 714	702	2 416
Expenses			
Life and health benefits	–1 092	–406	–1 498
Return credited to policyholders	–64		–64
Acquisition costs	–312	–91	–403
Other expenses	–110	–31	–141
Total expenses before interest expenses	–1 578	–528	–2 106
Operating income/loss	136	174	310
Net realised investment gains/losses – non-participating and excluding insurance related derivatives			–156
Interest expenses			–132
Income before income tax expenses			22
Management expense ratio in %	6.5	4.4	5.9
Benefit ratio[1] in %	77.7	72.5	76.3

[1] The benefit ratio is calculated as claims paid and claims adjustment expenses in relation to premiums earned, both of which exclude unit-linked and with-profit business. Additionally, the impact of guaranteed minimum death benefit (GMDB) products is excluded, as this ratio is not indicative of the operating performance of such products.

Life & Health Reinsurance business segment – by line of business
For the three months ended 31 March 2012

2012 USD millions	Life	Health	Total
Revenues			
Premiums earned	1 513	640	2 153
Fee income from policyholders	20		20
Net investment income – non-participating	248	124	372
Net investment income – unit-linked and with-profit	3		3
Net realised investment gains/losses – unit-linked and with-profit	123		123
Net realised investment gains/losses – insurance related derivatives	–83	2	–81
Total revenues before non-participating realised gains/losses	**1 824**	**766**	**2 590**
Expenses			
Life and health benefits	–1 054	–483	–1 537
Return credited to policyholders	–143		–143
Acquisition costs	–329	–107	–436
Other expenses	–128	–31	–159
Total expenses before interest expenses	**–1 654**	**–621**	**–2 275**
Operating income/loss	**170**	**145**	**315**
Net realised investment gains/losses – non-participating and excluding insurance related derivatives			118
Interest expenses			–148
Income before income tax expenses			**285**
Management expense ratio in %	7.2	4.1	6.2
Benefit ratio[1] in %	74.0	75.5	74.4

[1] The benefit ratio is calculated as claims paid and claims adjustment expenses in relation to premiums earned, both of which exclude unit-linked and with-profit business. Additionally, the impact of guaranteed minimum death benefit (GMDB) products is excluded, as this ratio is not indicative of the operating performance of such products.

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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 a modified coinsurance agreement, 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.

Modified coinsurance agreement
The Group assumes insurance risk via a modified coinsurance agreement from a direct insurer which qualifies as a VIE. The Group assumes the majority of the mortality and investment risk in the VIE. In addition, the Group has the power over the investment management and policyholder administration. As these are the activities that most significantly impact the entity's economic performance, the Group qualifies as the primary beneficiary and consolidates the entity. The Group will incur losses if mortality risk or the investment returns of the entity develop unfavourably.

Under the new Group structure the modified coinsurance agreement is not anymore consolidated. Please refer to Note 1 "Organisation and summary of significant accounting policies".

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

Typically, the variable interests held by the Group arise through ownership of insurance-linked and credit-linked securities, or through protection provided under a total return swap for the principal of the collateral held by the securitisation vehicle.

Generally, the activities of a securitisation vehicle are pre-determined at formation. There are substantially no ongoing activities during the life of the VIE that could significantly impact the economic performance of the vehicle. Consequently, the main focus to identify the primary beneficiary is on the activities performed and decisions made when the VIE was designed. Typically, the Group is considered the primary beneficiary of a securitisation vehicle when the Group acts as a sponsor of risk passed to the VIE and enters at the same time in a total return swap with the VIE to protect the VIE's assets from market risk. Under the total return swap, the Group would incur losses when some or all of the securities held as collateral in the securitisation vehicle decline in value or default. Therefore, the Group's maximum exposure to loss equals the principal amount of the collateral protected under the total return swap.

As of 31 March 2012, the total assets of the insurance-linked and credit-linked securitisation vehicles in which the Group holds variable interests but is not the primary beneficiary were USD 2 533 million. The total assets of the vehicles in which the Group is the primary beneficiary were USD 393 million.

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

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

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

The total assets of the debt financing vehicles in which the Group is the primary beneficiary were USD 7 810 million as of 31 March 2012.

Other

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

As of 31 March 2012, the total assets of other VIEs in which the Group holds variable interests but is not the primary beneficiary were USD 3 305 million. The total assets of the vehicles in which the Group is the primary beneficiary were USD 742 million.

The Group did not provide financial or other support to any VIEs during 2012 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 2011 and 31 March 2012:

		2011		**2012**
USD millions	Carrying value	Whereof restricted:	Carrying value	Whereof restricted:
Fixed income securities available-for-sale	9254	9254	6375	6375
Policy loans, mortgages and other loans	191	191		
Short-term investments	998	998	875	875
Other invested assets	202	202	220	220
Cash and cash equivalents	928	928	452	452
Accrued investment income	78	78	51	51
Premiums and other receivables	9	9		
Reinsurance recoverable on unpaid claims and policy benefits	7	7		
Funds held by ceding companies	2	2		
Income taxes recoverable	1	1		
Acquired present value of future profits	23	23		
Other assets	273	253	972	952
Total assets	11 966	11 946	**8 945**	**8 925**
	Carrying value	Whereof limited recourse:	Carrying value	Whereof limited recourse:
Unpaid claims and claim adjustment expenses	15	15		
Liabilities for life and health policy benefits	1 165	1 165		
Policyholder account balances	1 365	1 365		
Reinsurance balances payable	5	5		
Deferred and other non-current taxes	180	180		
Short-term debt	973	973	684	684
Accrued expenses and other liabilities	633	633	1 286	1 286
Long-term debt	5 172	5 172	5 217	5 217
Total liabilities	9 508	9 508	**7 187**	**7 187**

As of 31 March 2012, the consolidation of the VIEs resulted in non-controlling interests in the balance sheet of USD nil (31 December 2011: USD 414 million). The net non-controlling interests in income were USD 2 million and USD nil net of tax for the three months ended 31 March 2011 and 2012, respectively.

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 2011 and 31 March 2012:

USD millions	2011	**2012**
Fixed income securities:		
Available-for-sale	99	106
Trading	20	21
Other invested assets	680	395
Total assets	799	**522**
Short-term debt	393	403
Accrued expenses and other liabilities	509	502
Total liabilities	902	**905**

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 2011 and 31 March 2012:

				2011				**2012**
USD millions	Total assets	Total liabilities	Maximum exposure to loss	Difference between exposure and liabilities	Total assets	Total liabilities	Maximum exposure to loss	Difference between exposure and liabilities
Insurance-linked/Credit-linked securitisations	261		1 168	1 168	231		863	863
Swaps in trusts	212	316	–[1]	–	161	329	–[1]	–
Other	326	586	1 152	566	130	576	979	403
Total	799	902	–[1]	–	**522**	**905**	**–[1]**	**–**

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

The assets and liabilities for the swaps in trusts represent the positive and negative fair values of the derivatives the Group has entered into with the trusts. Liabilities of USD 576 million recognised for the "Other" category relate mainly to collateral received.

12 Related parties

Insurance activities

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

For the three months ended 31 March 2012 USD millions	Corporate Solutions	Admin Re®	**Total**
Premiums earned	–69	27	**–42**
Fee income from policyholders		3	**3**
Net investment income	21	22	**43**
Total revenues	–48	52	**4**
Claims and claim adjustment expenses	45		**45**
Life and health benefits		–18	**–18**
Return credited to policyholders		–11	**–11**
Acquisition costs	15	–6	**9**
Total expenses	60	–35	**25**

As of 31 March 2012 USD millions	Corporate Solutions	Admin Re®	**Total**
Premiums and other receivables	87	72	**159**
Reinsurance recoverable on unpaid claims and policy benefits	57	21	**78**
Funds held by ceding companies	2 182	1 573	**3 755**
Deferred acquisition costs	–19		**–19**
Acquired present value of future profits		208	**208**
Other assets	602		**602**
Total assets	2 909	1 874	**4 783**
Unpaid claims and claim adjustment expenses	7 703	46	**7 749**
Liabilities for life and health policy benefits		725	**725**
Policyholder account balances		746	**746**
Unearned premiums	143		**143**
Funds held under reinsurance treaties	3		**3**
Reinsurance balances payable	651		**651**
Total liabilities	8 500	1 517	**10 017**

Derivative activities

The Group enters into derivative transactions with affiliated companies in the Swiss Re Group resulting in the following related party transactions on the income statement and balance sheet:

For the three months ended 31 March 2012 USD millions	Corporate Solutions	Admin Re®	Other	**Total**
Net realised investment gains/losses	2	6	8	**16**

As of 31 March 2012 USD millions	Corporate Solutions	Admin Re®	Other	**Total**
Other invested assets			23	**23**
Accrued expenses and other liabilities	1	45	5	**51**

Investment activities

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

For the three months ended 31 March 2012 USD millions	Admin Re®	Other	Total
Net investment income	13	1	**14**

As of 31 March 2012 USD millions	Admin Re®	Other	Total
Policy loans, mortgages and other loans	986	562	**1 548**
Accrued investment income	21		**21**

Financing activities

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

For the three months ended 31 March 2012 USD millions	Admin Re®	Other	Total
Net investment income		2	**2**
Interest expense	–2		**–2**

As of 31 March 2012 USD millions	Admin Re®	Other	Total
Policy loans, mortgages and other loans		2397[1]	**2 397**
Accrued investment income		6[1]	**6**
Short-term debt		–896	**–896**
Accrued expenses and other liabilities		2403[1]	**2 403**

[1] The counterparty of these balances is Specialised Investments Holdings (UK) Ltd. The balances are part of two funding transactions of the Swiss Re Group.

Issued in	Instrument	Maturity	Currency	Nominal in millions	Interest rate	Book value in USD millions
2009	Senior note	2012	GBP	101	1 month LIBOR - 12.5 bps	161
2005	Senior note	2028	GBP	100	0.72%	160
2008	Senior note	2028	GBP	240	4.98%	383
2012	Senior note	2014	GBP	120	2.41%	192
Total short-term debt as of 31 March 2012						**896**

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

For the three months ended 31 March 2012 USD millions	Corporate Solutions	Admin Re®	Other	**Total**
Net investment income	2	1		**3**
Other revenues	2	7		**9**
Other expenses	118	27	16	**161**

As of 31 March 2012 USD millions	Corporate Solutions	Admin Re®	Other	**Total**
Other assets	157	84	55	**296**
Income taxes payable		33		**33**
Accrued expenses and other liabilities	6	1	163	**170**

As of 31 December 2011, the Swiss Reinsurance Company Group had contractual relationships with Swiss Re Specialised Investments Holdings (UK) Ltd ("SRSIH"). These relationships consisted of USD 2 686 Mio of other loans granted to SRSIH and USD 685 million of other loans granted to equity accounted investees of SRSIH and accrued expenses and other liabilities in respect of SRSIH of USD 2 331 million. Related income statement amounts were not material.

General impact of adverse market conditions and deterioration in global financial markets
Continued concerns relating to the euro area sovereign debt situation, coupled with weak demand and mild fiscal contraction in the US, have slowed global growth. Recession cannot be ruled out for a number of developed economies, and emerging markets, while continuing to expand, are doing so at a slower pace than in 2011, or than expected. Economic developments, in the form of adverse growth trends, and the political environment, in the form of fiscal tightening, accommodative monetary policy and governance challenges, have resulted in low interest rates, threats to holders of sovereign debt and holders of debt of financial institutions with exposure to sovereign debt, and adverse trends in emerging markets.

Concerns continue to be raised about sovereign debt burdens, possible sovereign defaults and the future of the euro, which in turn could affect economic growth rates, interest rates and inflation. Despite recent developments, including the increase in the lending capacity of the euro area bailout mechanisms and the Greek debt restructuring, uncertainty persists over the euro area sovereign debt crisis and the stability of the euro and the European Monetary Union. This uncertainty could increase the severity and duration of economic recession, cause more economic turmoil in the near term, cause further disruptions in the global financial markets and impact foreign currency exchange rates. These developments in turn could have an adverse impact on our investment results, our ability to access the capital markets and the bank funding market, the ability of counterparties to meet their obligations to us and the short-term outlook for the life insurance industry, particularly in North America and Europe, with a corresponding negative impact on our Life & Health business. Concerns over the stability of the euro could also have a broad effect on contractual arrangements denominated in, or otherwise tied to, the euro.

The foregoing developments could have material adverse effects on our industry and on us.

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

Legislative initiatives directly impacting our industry include the establishment of a pan-European regulator for insurance companies, the European Insurance and Occupational Pension Authority, which gained its regulatory powers on 1 January 2011 and will be able to overrule national regulators in certain circumstances. In addition, SRZ is subject to the Swiss Solvency Test, and Solvency II is currently expected to be transposed into law in January 2013, but will not be binding on insurers until a year later in January 2014. In the US, as a possible step towards federal oversight of insurance, the US Congress created the Federal Insurance Office within the Department of Treasury.

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", which designation is expected to result in enhanced regulatory supervision and heightened capital, liquidity and diversification requirements under evolving

reforms. Although, to date, the focus of reforms in respect of systemically important financial institutions principally has been on banks, there is an emerging focus on insurance companies as well. SRZ could be designated as a global systemically important financial institution. In addition, there appears to be a trend towards a more coordinated, centralised and stricter approach to insurance regulation specifically, in both the EU and the US.

Regulatory changes may also occur in areas of broader application, such as competition policy and tax laws. Changes in tax laws 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 could increase the costs of doing business, reduce access to liquidity, limit the scope of business or affect the competitive balance, or could make reinsurance less attractive to primary insurers.

Market risk

Volatility and disruption in the global financial markets can expose the Group to significant financial and capital markets risk, including changes in interest rates, credit spreads, equity prices and foreign currency exchange rates, which may adversely impact the Group's financial condition, results of operations, liquidity and capital position. The Group's exposure to interest rate risk is primarily related to the market price and cash flow variability associated with changes in interest rates. Exposure to credit spreads primarily relates to market price and cash flow variability associated with changes in credit spreads. When credit spreads widen, the net unrealised loss position of the Group's investment portfolio can increase, as could other-than-temporary impairments. With respect to equity prices, the Group is exposed to changes in the level and volatility of equity prices, as they affect the value of equity securities themselves as well as the value of securities or instruments that derive their value from a particular equity security, a basket of equity securities or a stock index. The Group is also subject to equity price risk to the extent that the values of life-related benefits under certain products and life contracts, most notably variable annuity business, are tied to financial market values; to the extent market values fall, the financial exposure on guarantees related to these contracts would increase to the extent this exposure is not hedged. While the Group has discontinued writing new variable annuity business and has an extensive hedging programme covering its existing variable annuity business, 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. The Group has reduced risk to the portfolio by repositioning the components of the portfolio and, as a result, profitability could potentially be impacted and, unless offset by underwriting returns, reduced.

Credit risk

Although the Group has taken significant steps to de-risk its portfolio and reposition its assets, 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 reinsurance obligations, and that this would continue to be the case following the occurrence of any event or series of events, including extreme catastrophes, that would trigger insurance or reinsurance coverage obligations. The Group's uses of funds include obligations arising in its reinsurance business (including claims and other payments as well as insurance provision repayments due to portfolio transfers, securitisations and commutations), which may include large and unpredictable claims (including catastrophe claims), funding of capital requirements and operating costs, payment of principal and interest on outstanding indebtedness and funding of acquisitions. The Group also enters into contracts or trading arrangements that could give rise to significant short-term funding obligations and, in connection with the Group's trading operations, it could be subject to unexpected calls to deliver collateral or unwind trading positions at a net cost to it. The Group also has unfunded capital commitments in its private equity and hedge fund investments, which could result in funding obligations at a time when it is subject to liquidity constraints. The Group also 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's general exposure to counterparty risk was heightened during the credit crisis, and this risk could still be exacerbated to the extent defaults, or concerns about possible defaults, by certain market participants trigger more systemic concerns about liquidity. Losses due to defaults by counterparties, including issuers of investment securities (which include structured securities) or derivative instrument counterparties, could adversely affect the Group. In addition, trading counterparties, counterparties under swaps and other derivative contracts, and financial intermediaries may default on their obligations due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons, which could also have a material adverse impact 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. The Group's most significant single counterparty risk is in respect of Berkshire Hathaway Inc., with which it has a quota share arrangement, an adverse development cover and a retrocession arrangement in respect of a closed block of US individual life reinsurance business.

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 such as Swiss Re. These ratings are intended to measure a company's ability to repay its obligations and are based upon criteria established by the rating agencies.

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

As claims paying and financial strength ratings are key factors in establishing the competitive position of reinsurers, a decline in ratings alone could make reinsurance provided by the Group less attractive to clients relative to reinsurance from competitors with similar or stronger ratings. A decline in ratings could also cause the loss of clients who are required by either policy or regulation to purchase reinsurance only from reinsurers with certain ratings. A decline in ratings could also impact the availability and terms of unsecured financing and obligate the Group to provide collateral or other guarantees in the course of its reinsurance business or trigger early termination of funding arrangements. Any rating downgrades could also have a material adverse impact on the Group's costs of borrowing and limit its access to the capital markets. Further negative ratings action could also impact reinsurance contracts.

Legal and regulatory risks

The Group has been named, from time to time, as a defendant in various legal actions in connection with its operations. 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 our direct regulators, but also in respect of compliance with broader business conduct rules such as market abuse regulations, anti-bribery legislation, anti-money laundering legislation and trade sanctions legislation. The Group 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 harm 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, industrial accidents, explosions, industrial actions, fires and pandemics) may expose the Group to unexpected large losses, changes in the insurance industry that affect ceding companies, competitive conditions, cyclicality of the industry, risks related to emerging claims and coverage issues, risks arising from the Group's dependence on policies, procedures and expertise of ceding companies, risks related to investments in emerging markets, and risks related to the failure of operational systems and infrastructure. In addition, the occurrence of future risks that the Group's risk management procedures fail to identify or anticipate could have a material adverse effect on the Group. Any of the foregoing, as well as other concerns in respect of the Group's business, could also give rise to reputational risk.

Use of models; accounting matters

The Group is subject to risks relating to the preparation of estimates and assumptions that management uses, 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 realignment of the Swiss Re corporate structure

As Swiss Re Ltd moves to fully implement the realignment of its corporate structure in 2012 to reflect the separation of the Corporate Solutions business unit and the Admin Re® business unit from the Reinsurance business unit and the transfer of the Corporate Solutions business unit and the Admin Re® business unit from SRZ to Swiss Re Ltd, the Reinsurance business unit (comprised of SRZ and the legal entities remaining in the Group following the separation) could face operational risks relating to the full implementation of the new structure. Following full implementation, with a changed legal entity profile, the Reinsurance business unit and its constituent subsidiaries will be impacted differently than would have been the case under SRZ's historical structure, including, without limitation, in respect of legal and regulatory requirements (including as to capital and liquidity), ratings considerations, and lender and other counterparty considerations. Among other things, the realigned Group's asset base has changed, and capital, funding, reserve and cost allocations will be adjusted across the three business units, as a result of which the realigned Group's liquidity and capital profiles have changed and SRZ's SST risk ratio will change.

Cautionary note on forward-looking statements

Certain statements and illustrations contained herein are forward-looking. These statements and illustrations provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to a historical fact or current fact.

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

- further instability affecting the global financial system and developments related thereto, including as a result of concerns over, or adverse developments relating to, sovereign debt of euro area countries;
- further 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 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;
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks; and
- challenges in implementation, adverse responses of counterparties, regulators or rating agencies, or other issues arising from, or otherwise relating to, the changes in the Group's corporate structure.

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

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

Corporate calendar and contact information

Corporate calendar
9 August 2012
Second quarter 2012 results

8 November 2012
Third quarter 2012 results

21 February 2013
2012 annual results

2 May 2013
First quarter 2013 results

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