

Swiss Reinsurance Company Consolidated  
**Third Quarter 2016 Report**



# Content

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# Income statement

USD millions	Note	Three months ended 30 September		Nine months ended 30 September	
		2015	2016	2015	2016
<b>Revenues</b>					
Gross premiums written	4	6 782	7 250	22 665	25 352
Net premiums written	4	6 370	6 860	21 312	23 917
Change in unearned premiums		533	682	-1 782	-2 376
<b>Premiums earned</b>	3	6 903	7 542	19 530	21 541
Fee income from policyholders	3	28	34	106	103
Net investment income – non-participating business	6	727	614	2 131	1 986
Net realised investment gains/losses – non-participating business <sup>1</sup>	6	413	347	967	1 347
Net investment result – unit-linked business	6	-65	73	-24	-64
Other revenues		6	10	45	33
<b>Total revenues</b>		8 012	8 620	22 755	24 946
<b>Expenses</b>					
Claims and claim adjustment expenses	3	-1 993	-2 652	-5 890	-7 686
Life and health benefits	3	-2 236	-2 329	-6 373	-6 988
Return credited to policyholders		-15	-162	-237	-194
Acquisition costs	3	-1 414	-1 510	-4 365	-4 922
Operating expenses <sup>2</sup>		-582	-640	-1 811	-1 749
<b>Total expenses before interest expenses</b>		-6 240	-7 293	-18 676	-21 539
<b>Income before interest and income tax expense</b>		1 772	1 327	4 079	3 407
Interest expenses <sup>2</sup>		-148	-145	-462	-440
<b>Income before income tax expense</b>		1 624	1 182	3 617	2 967
Income tax expense		-275	-245	-707	-568
<b>Net income before attribution of non-controlling interests</b>		1 349	937	2 910	2 399
Income/loss attributable to non-controlling interests			-4	-1	-15
<b>Net income after attribution of non-controlling interests</b>		1 349	933	2 909	2 384
Interest on contingent capital instruments		-17	-17	-51	-51
<b>Net income attributable to common shareholder</b>		1 332	916	2 858	2 333

<sup>1</sup> Total impairments for the three months ended 30 September were USD 16 million in 2015 and USD 13 million in 2016 of which USD 16 million and USD 13 million, respectively, were recognised in earnings. Total impairments for the nine months ended 30 September were USD 27 million in 2015 and USD 57 million in 2016 of which USD 27 million and USD 57 million, respectively, were recognised in earnings.

<sup>2</sup> Letter of credit fees of USD 13 million for the three months ended 30 September 2015 and USD 42 million for the nine months ended 30 September 2015 have been reclassified from "Operating expenses" to "Interest expenses".

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

# Statement of comprehensive income

USD millions	Three months ended 30 September		Nine months ended 30 September	
	2015	2016	2015	2016
Net income before attribution of non-controlling interests	1 349	937	2 910	2 399
Other comprehensive income, net of tax:				
Change in unrealised investment gains/losses	-8	83	-1 341	2 514
Change in other-than-temporary impairment		-1	1	4
Change in foreign currency translation	-217	38	-818	72
Change in adjustment for pension benefits	-288	-500	-253	-474
Other comprehensive income attributable to non-controlling interests		3		39
<b>Total comprehensive income before attribution of non-controlling interests</b>	836	560	499	4 554
Interest on contingent capital instruments	-17	-17	-51	-51
Comprehensive income attributable to non-controlling interests		-7	-1	-54
<b>Total comprehensive income attributable to common shareholder</b>	819	536	447	4 449

## Reclassification out of accumulated other comprehensive income

For the three months ended 30 September

2015 USD millions	Unrealised investment gains/losses <sup>1</sup>	Other-than- temporary impairment <sup>1</sup>	Foreign currency translation <sup>1,2</sup>	Adjustment from pension benefits <sup>3</sup>	Accumulated other comprehensive income
Balance as of 1 July	2 129	-2	-4 862	-727	-3 462
Change during the period	84		-196	-381	-493
Amounts reclassified out of accumulated other comprehensive income	-96			17	-79
Tax	4		-21	76	59
<b>Balance as of period end</b>	2 121	-2	-5 079	-1 015	-3 975

2016 USD millions	Unrealised investment gains/losses <sup>1</sup>	Other-than- temporary impairment <sup>1</sup>	Foreign currency translation <sup>1,2</sup>	Adjustment from pension benefits <sup>3</sup>	Accumulated other comprehensive income
Balance as of 1 July	4 050	-5	-5 103	-927	-1 985
Change during the period	411	-1	32	-648	-206
Amounts reclassified out of accumulated other comprehensive income	-264			16	-248
Tax	-64		6	132	74
<b>Balance as of period end</b>	4 133	-6	-5 065	-1 427	-2 365

<sup>1</sup> Reclassification adjustment included in net income is presented in the "Net realised investment gains/losses – non-participating business" line.

<sup>2</sup> Reclassification adjustment is limited to translation gains and losses realised upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity.

<sup>3</sup> Reclassification adjustment included in net income is presented in the "Operating expenses" line.

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

For the nine months ended 30 September

2015 USD millions	Unrealised investment gains/losses <sup>1</sup>	Other-than- temporary impairment <sup>1</sup>	Foreign currency translation <sup>1,2</sup>	Adjustment from pension benefits <sup>3</sup>	Accumulated other comprehensive income
Balance as of 1 January	3 462	-3	-4 261	-762	-1 564
Change during the period	-765	2	-713	-370	-1 846
Amounts reclassified out of accumulated other comprehensive income	-1 119			52	-1 067
Tax	543	-1	-105	65	502
<b>Balance as of period end</b>	<b>2 121</b>	<b>-2</b>	<b>-5 079</b>	<b>-1 015</b>	<b>-3 975</b>

2016 USD millions	Unrealised investment gains/losses <sup>1</sup>	Other-than- temporary impairment <sup>1</sup>	Foreign currency translation <sup>1,2</sup>	Adjustment from pension benefits <sup>3</sup>	Accumulated other comprehensive income
Balance as of 1 January	1 619	-10	-5 137	-953	-4 481
Change during the period	4 208	4	18	-643	3 587
Amounts reclassified out of accumulated other comprehensive income	-708	2		47	-659
Tax	-986	-2	54	122	-812
<b>Balance as of period end</b>	<b>4 133</b>	<b>-6</b>	<b>-5 065</b>	<b>-1 427</b>	<b>-2 365</b>

<sup>1</sup> Reclassification adjustment included in net income is presented in the "Net realised investment gains/losses – non-participating business" line.

<sup>2</sup> Reclassification adjustment is limited to translation gains and losses realised upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity.

<sup>3</sup> Reclassification adjustment included in net income is presented in the "Operating expenses" line.

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

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# Balance sheet

## Assets

USD millions	Note	31.12.2015	30.09.2016
<b>Investments</b>	6, 7, 8		
Fixed income securities:			
Available-for-sale (including 10 839 in 2015 and 8 484 in 2016 subject to securities lending and repurchase agreements) (amortised cost: 2015: 59 137; 2016: 61 732 )		61 134	<b>67 401</b>
Trading (including 1 729 in 2015 and 2 267 in 2016 subject to securities lending and repurchase agreements)		2 896	<b>3 608</b>
Equity securities:			
Available-for-sale (including 439 in 2015 and 27 in 2016 subject to securities lending and repurchase agreements) (cost: 2015: 2 876; 2016: 2 480)		3 091	<b>2 678</b>
Trading		68	<b>55</b>
Policy loans, mortgages and other loans		3 832	<b>3 721</b>
Investment real estate		1 550	<b>1 756</b>
Short-term investments (including 417 in 2015 and 1 693 in 2016 subject to securities lending and repurchase agreements)		4 662	<b>7 606</b>
Other invested assets		7 861	<b>8 772</b>
Investments for unit-linked business (equity securities trading: 818 in 2015 and 524 in 2016)		818	<b>524</b>
<b>Total investments</b>		85 912	<b>96 121</b>
Cash and cash equivalents (including 181 in 2015 and 342 in 2016 subject to securities lending)		5 398	<b>4 820</b>
Accrued investment income		670	<b>575</b>
Premiums and other receivables		9 747	<b>12 145</b>
Reinsurance recoverable on unpaid claims and policy benefits	3	4 523	<b>4 207</b>
Funds held by ceding companies		10 668	<b>9 254</b>
Deferred acquisition costs	5	5 084	<b>5 800</b>
Acquired present value of future profits	5	1 721	<b>1 588</b>
Goodwill		3 756	<b>3 738</b>
Income taxes recoverable		112	<b>150</b>
Deferred tax assets		5 269	<b>5 144</b>
Other assets		2 331	<b>3 183</b>
<b>Total assets</b>		135 191	<b>146 725</b>

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



## Liabilities and equity

USD millions	Note	31.12.2015	30.09.2016
<b>Liabilities</b>			
Unpaid claims and claim adjustment expenses		49 718	51 751
Liabilities for life and health policy benefits	7	16 779	16 847
Policyholder account balances		5 358	5 377
Unearned premiums		8 044	10 590
Funds held under reinsurance treaties		3 041	2 505
Reinsurance balances payable		1 858	1 795
Income taxes payable		272	148
Deferred and other non-current tax liabilities		6 771	7 758
Short-term debt	9	4 105	4 775
Accrued expenses and other liabilities		8 964	13 976
Long-term debt	9	9 674	8 095
<b>Total liabilities</b>		114 584	123 617
<b>Equity</b>			
Contingent capital instruments	9	1 102	1 102
Common shares CHF 0.10 par value			
2015: 344 052 565; 2016: 344 052 565 shares authorised and issued		32	32
Additional paid-in capital		8 730	8 692
Shares in Swiss Re Ltd, net of tax		-21	-16
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax		1 619	4 133
Other-than-temporary impairment, net of tax		-10	-6
Foreign currency translation, net of tax		-5 137	-5 065
Adjustment for pension and other post-retirement benefits, net of tax		-953	-1 427
Total accumulated other comprehensive income		-4 481	-2 365
Retained earnings		15 222	14 569
<b>Shareholder's equity</b>		20 584	22 014
Non-controlling interests		23	1 094
<b>Total equity</b>		20 607	23 108
<b>Total liabilities and equity</b>		135 191	146 725

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

# Statement of shareholder's equity

For the year ended 31 December and the nine months ended 30 September

USD millions	2015	2016
<b>Contingent capital instruments</b>		
Balance as of 1 January	1 102	1 102
Issued		
Balance as of period end	1 102	1 102
<b>Common shares</b>		
Balance as of 1 January	32	32
Issue of common shares		
Balance as of period end	32	32
<b>Additional paid-in capital</b>		
Balance as of 1 January	8 823	8 730
Share-based compensation	16	-58
Realised gains/losses on treasury shares	-109	20
Balance as of period end	8 730	8 692
<b>Shares in Swiss Re Ltd, net of tax</b>		
Balance as of 1 January	-10	-21
Change of shares in Swiss Re Ltd	-11	5
Balance as of period end	-21	-16
<b>Net unrealised investment gains/losses, net of tax</b>		
Balance as of 1 January	3 462	1 619
Changes during the period	-1 843	2 514
Balance as of period end	1 619	4 133
<b>Other-than-temporary impairment, net of tax</b>		
Balance as of 1 January	-3	-10
Changes during the period	-7	4
Balance as of period end	-10	-6
<b>Foreign currency translation, net of tax</b>		
Balance as of 1 January	-4 261	-5 137
Changes during the period	-876	72
Balance as of period end	-5 137	-5 065
<b>Adjustment for pension and other post-retirement benefits, net of tax</b>		
Balance as of 1 January	-762	-953
Changes during the period <sup>1</sup>	-191	-474
Balance as of period end	-953	-1 427
<b>Retained earnings</b>		
Balance as of 1 January	14 421	15 222
Net income after attribution of non-controlling interests	3 824	2 384
Interest on contingent capital instruments, net of tax	-68	-51
Dividends on common shares and dividends-in-kind	-2 955	-2 986
Balance as of period end	15 222	14 569
<b>Shareholder's equity</b>	20 584	22 014
<b>Non-controlling interests</b>		
Balance as of 1 January	22	23
Change during the period <sup>2</sup>		866
Transactions with non-controlling interests		151
Income attributable to non-controlling interests	1	15
Comprehensive income		39
Balance as of period end	23	1 094
<b>Total equity</b>	20 607	23 108

<sup>1</sup> The Group adjusted the funded status of defined benefit plans due to assumption updates during the reporting period.

<sup>2</sup> As of 1 January 2016 the Group adopted the new accounting guidance, ASU 2015-02 "Amendments to the Consolidation Analysis", which required the additional inclusion of non-controlling interests of USD 866 million.

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

# Statement of cash flow

For the nine months ended 30 September

USD millions	2015	2016
<b>Cash flows from operating activities</b>		
Net income attributable to common shareholder	2 858	2 333
Add net income attributable to non-controlling interests	1	15
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items	347	323
Net realised investment gains/losses	-915	-1 258
Income from equity-accounted investees, net of dividends received	15	104
Change in:		
Technical provisions and other reinsurance assets and liabilities, net <sup>1</sup>	-573	1 600
Funds held by ceding companies and under reinsurance treaties	309	963
Reinsurance recoverable on unpaid claims and policy benefits	601	319
Other assets and liabilities, net	-244	-130
Income taxes payable/recoverable	-151	127
Trading positions, net <sup>1</sup>	435	180
<b>Net cash provided/used by operating activities</b>	<b>2 683</b>	<b>4 576</b>
<b>Cash flows from investing activities</b>		
Fixed income securities:		
Sales	31 353	24 962
Maturities	3 095	2 455
Purchases	-39 422	-28 064
Net purchases/sales/maturities of short-term investments	4 373	-2 601
Equity securities:		
Sales	905	1 690
Purchases	-1 847	-1 011
Securities purchased/sold under agreement to resell/repurchase, net	-772	244
Cash paid/received for acquisitions/disposal and reinsurance transactions, net	178	
Net purchases/sales/maturities of other investments	1 706	503
Net purchases/sales/maturities of investments held for unit-linked business <sup>1</sup>	28	124
<b>Net cash provided/used by investing activities</b>	<b>-403</b>	<b>-1 698</b>
<b>Cash flows from financing activities</b>		
Policyholder account balances, unit-linked business: <sup>1</sup>		
Deposits	17	14
Withdrawals	-75	-148
Issuance/repayment of long-term debt	212	-68
Issuance/repayment of short-term debt	-765	-477
Purchase/sale of shares in Swiss Re Ltd		5
Transactions with non-controlling interests		133
Dividends paid to parent	-2 961	-3 004
<b>Net cash provided/used by financing activities</b>	<b>-3 572</b>	<b>-3 545</b>
<b>Total net cash provided/used</b>	<b>-1 292</b>	<b>-667</b>
Effect of foreign currency translation	-294	89
<b>Change in cash and cash equivalents</b>	<b>-1 586</b>	<b>-578</b>
Cash and cash equivalents as of 1 January	5 855	5 398
<b>Cash and cash equivalents as of 30 September</b>	<b>4 269</b>	<b>4 820</b>

<sup>1</sup> The Group changed the presentation of its investments related to unit-linked business, and related deposits and withdrawals were reclassified from "Technical provisions, net" in the operating cash flow to "Policyholder account balances, unit-linked business" in the financing cash flow. Comparative information for 2015 has been adjusted accordingly.

Interest paid was USD 538 million and USD 609 million (thereof USD 44 million and USD 38 million for letter of credit fees) for the nine months ended 30 September 2015 and 2016, respectively.

Tax paid was USD 834 million and USD 428 million for the nine months ended 30 September 2015 and 2016, respectively.

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

# Notes to the Group financial statements

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## 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 "Group"). The Group is a wholesale provider of reinsurance, insurance and other insurance-based forms of risk transfer. Working through brokers and a network of offices around the globe, the Group serves a client base made up of insurance companies and public sector clients.

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

### **Basis of presentation**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). 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 Group's audited financial statements for the year ended 31 December 2015.

### **Use of estimates in the preparation of financial statements**

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

### **Valuation of financial assets**

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

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

For assets or derivative structures at fair value, the Group uses market prices or inputs derived from market prices. A separate internal price verification process, independent of the trading function, provides an additional control over the market prices or market input used to determine the fair values of such assets. Although management considers that appropriate values have been ascribed to such assets, there is always a level of uncertainty and judgement over these valuations. Subsequent valuations could differ significantly from the results of the process described above. The Group may become aware of counterparty valuations, either directly through the exchange of information or indirectly, for example, through collateral demands. Any implied differences are considered in the independent price verification process and may result in adjustments to initially indicated valuations. As of 30 September 2016, 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 2 November 2016. This is the date on which the financial statements are available to be issued.

### Recent accounting guidance

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-13, "Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity – a consensus of the FASB Emerging Issues Task Force", an update to topic 810, "Consolidation". The ASU applies to entities that are required to consolidate a collateralised financing entity (CFE) under the variable interest entity (VIE) consolidation guidance when the entity measures all financial assets and financial liabilities of the CFE at fair value, with changes in fair value recorded in earnings. Before the ASU became effective, if an entity would measure the fair value of assets and liabilities separately following applicable US GAAP rules, the aggregate fair value might have differed. The new guidance allows the use of the more observable of the fair value of the financial assets or the fair value of the financial liabilities of the CFE to measure both. The Group adopted ASU 2014-13 on 1 January 2016. The adoption did not have a material effect on the Group's financial statements.

In November 2014, the FASB issued ASU 2014-16, "Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity – a consensus of the FASB Emerging Issues Task Force", an update to topic 815, "Derivatives and Hedging". The ASU provides guidance on how to assess whether or not a derivative embedded in an instrument in the legal form of a share must be bifurcated and accounted for separately from its host contract. Entities are required to use "the whole instrument approach" to determine whether the nature of the host contract in a hybrid instrument issued in the form of a share is more akin to debt or to equity. Under this approach, an issuer or investor considers all stated and implied substantive terms and features of a hybrid instrument when determining the nature of the host contract. No single term or feature will necessarily determine the nature of the host contract. The Group adopted ASU 2014-16 on 1 January 2016. The adoption did not have a material effect on the Group's financial statements.

In January 2015, the FASB issued ASU 2015-01, "Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items", an update to subtopic 225-20, "Income Statement—Extraordinary and Unusual Items". The ASU eliminates the separate presentation of extraordinary items, net of tax and the related earnings per share. Extraordinary items were events and transactions that were distinguished by their unusual nature and by the infrequency of their occurrence. The ASU does not affect the requirement to disclose material items that are unusual in nature or infrequently occurring. The Group adopted ASU 2015-01 on 1 January 2016 on a prospective basis. The adoption did not have a material effect on the Group's financial statements.

In February 2015, the FASB issued ASU 2015-02, "Consolidation: Amendments to the Consolidation Analysis", an amendment to topic 810, "Consolidation". ASU 2015-02 (i) eliminates the indefinite deferral of the consolidation requirements for certain investment companies and similar entities, (ii) modifies how to evaluate partnerships and other entities under the VIE framework, (iii) eliminates the presumption that a general partner should consolidate a limited partnership, (iv) modifies consolidation analysis, particularly for decision-maker fee arrangements and related party relationships, (v) excludes from the scope of consolidation assessment the entities that are, or operate similar to, money market funds registered under the US Investment Company Act of 1940. The Group adopted ASU 2015-02 on 1 January 2016 following the modified retrospective method. The modified retrospective method does not require the restatement of prior periods. The adoption did not have a material effect on the Group's financial statements; however, it led to an increase in VIEs disclosed in Note 10 Variable interest entities.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs", an update to subtopic 835-30, "Interest—Imputation of Interest". The ASU changes the presentation of debt issuance costs in financial statements by requiring that an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortisation of the costs is reported as interest expense. The Group adopted ASU 2015-03 on 1 January 2016 on a prospective basis. The adoption did not have an impact on the Group's financial statements.

In May 2015, the FASB issued ASU 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)", an amendment to topic 820, "Fair Value Measurement". ASU 2015-07 removes the requirement to categorise within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The Group adopted ASU 2015-07 on 1 January 2016 and applies the amendments retrospectively. The retrospective approach requires that an

investment for which fair value is measured using the net asset value per share practical expedient gets removed from the fair value hierarchy in all periods presented in an entity's financial statements. The amended disclosures are provided in Note 7 Fair value disclosures.

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

In September 2015, the FASB issued ASU 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments", an amendment to topic 805, "Business Combinations". ASU 2015-16 is on adjustments to provisional amounts from business combinations during the measurement periods. It requires that an acquirer recognises such adjustments in the reporting period in which the adjustment amounts are determined. Further, the ASU requires that the acquirer records, in the same period's financial statements, the effect on earnings of changes in depreciation, amortisation, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The Group adopted this guidance on 1 January 2016. The adoption did not have an effect on the Group's financial statements.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities", an update to subtopic 825-10, "Financial Instruments – Overall". The ASU requires an entity to carry investments in equity securities, including other ownership interests and limited liability companies at fair value through net income, with the exception of equity method investments, investments that result in consolidation or investments for which the entity has elected the practicability exception to fair value measurement. The practicability exception can only be applied by certain entities and only to equity investments without a readily determinable fair value. Investments under the practicability exception will be subject to an indicator-based impairment test. For financial liabilities to which the fair value option has been applied, the ASU also requires an entity to separately present the change in fair value attributable to instrument-specific credit risk in other comprehensive income rather than in net income. Specific exceptions apply to this requirement. In addition, the ASU requires an entity to assess whether a valuation allowance is needed on a deferred tax asset (DTA) related to fixed income securities AFS in combination with the entity's other DTAs rather than separately from other DTAs. The ASU also introduces changes to disclosure requirements for financial instruments not measured at fair value and introduces new requirements for equity instruments where the practicability exception to fair value measurement is applied. The new requirements are effective for annual and interim periods beginning after 15 December 2017 with early adoption permitted for requirements relating to the presentation of the impact of instrument-specific credit risk on qualifying financial liabilities in other comprehensive income. The Group is currently assessing the impact of the new requirements.

In February 2016, the FASB issued ASU 2016-02 "Leases", which creates topic 842, "Leases". The core principle of topic 842 is that a lessee should recognise the assets and liabilities that arise from leases. A lessee should recognise in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing the right to use the underlying asset for the lease term. This accounting treatment applies to finance leases and operating leases. The accounting applied by a lessor is largely unchanged from that applied under the current guidance. The new requirements are effective for the Group for annual and interim periods beginning after 15 December 2018. Early application of the Update is permitted. The Group is currently assessing the impact of the new requirements.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses", an update to topic 326, "Financial Instruments – Credit Losses". ASU 2016-13 replaces the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses. The standard requires for financial instruments that are measured at amortised cost and available-for-sale debt securities that an entity recognises as an allowance its estimate of expected credit losses. This standard is effective for the Group for annual and interim periods beginning after 15 December 2020. Early adoption for interim and annual periods after 15 December 2018 is permitted. The Group is currently assessing the impact of the new requirements.

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## 2 Information on business segments

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

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

As of 1 January 2016, the primary life and health insurance business (individual and group) is reported in the segment "Other" instead of the Life & Health Reinsurance segment. This reflects the announcement in the 3rd Quarter 2015 news release to combine the existing business areas managing life insurance books, currently reported in Life & Health Reinsurance, under the Swiss Re Life Capital Business Unit. In line with the segment definition in the Swiss Re Group financial statements this business is therefore reported in the segment "Other". Comparative information for 2015 has been adjusted accordingly.

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

The Group operating segments are outlined below.

### **Property & Casualty Reinsurance and Life & Health Reinsurance**

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

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

### **Other**

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

### **Consolidation**

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

**a) Business segments – income statement**

For the three months ended 30 September

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance <sup>1</sup>	Other <sup>1</sup>	Consolidation	Total
<b>Revenues</b>					
Gross premium written	3760	2932	145	-55	6782
Net premiums written	3686	2594	90		6370
Change in unearned premiums	422	79	32		533
<b>Premiums earned</b>	<b>4108</b>	<b>2673</b>	<b>122</b>		<b>6903</b>
Fee income from policyholders		10	18		28
Net investment income – non-participating business	299	334	95	-1	727
Net realised investment gains/losses – non-participating business	98	149	166		413
Net investment result – unit-linked business		-65			-65
Other revenues	4	2			6
<b>Total revenues</b>	<b>4509</b>	<b>3103</b>	<b>401</b>	<b>-1</b>	<b>8012</b>
<b>Expenses</b>					
Claims and claim adjustment expenses	-1993				-1993
Life and health benefits		-2085	-151		-2236
Return credited to policyholders		62	-77		-15
Acquisition costs	-920	-480	-14		-1414
Operating expenses <sup>2,3</sup>	-280	-177	-125		-582
<b>Total expenses before interest expenses</b>	<b>-3193</b>	<b>-2680</b>	<b>-367</b>	<b>0</b>	<b>-6240</b>
<b>Income/loss before interest and income tax expense</b>	<b>1316</b>	<b>423</b>	<b>34</b>	<b>-1</b>	<b>1772</b>
Interest expenses <sup>2</sup>	-66	-79	-4	1	-148
<b>Income before income tax expense</b>	<b>1250</b>	<b>344</b>	<b>30</b>	<b>0</b>	<b>1624</b>
Income tax expense/benefit	-225	-59	9		-275
<b>Net income before attribution of non-controlling interests</b>	<b>1025</b>	<b>285</b>	<b>39</b>	<b>0</b>	<b>1349</b>
Income/loss attributable to non-controlling interests	-1		1		0
<b>Net income after attribution of non-controlling interests</b>	<b>1024</b>	<b>285</b>	<b>40</b>	<b>0</b>	<b>1349</b>
Interest on contingent capital instruments	-4	-13			-17
<b>Net income attributable to common shareholder</b>	<b>1020</b>	<b>272</b>	<b>40</b>	<b>0</b>	<b>1332</b>
Claims ratio in %	48.5				
Expense ratio in %	29.2				
Combined ratio in %	77.7				
Management expense ratio in %		5.9			
Net operating margin in %	29.2	13.4	8.5		21.9

<sup>1</sup> As of 1 January 2016, the primary life and health insurance business (individual and group) is reported in the segment "Other" instead of the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly.

<sup>2</sup> Letter of credit fees of USD 12 million in Life & Health Reinsurance and USD 1 million in Property & Casualty Reinsurance have been reclassified from "Operating expenses" to "Interest expenses".

<sup>3</sup> The Group's new internal service cost framework resulted in a reallocation of operating expenses to "Other" from the business segments. Comparative information for 2015 has been adjusted accordingly.

## Business segments – income statement

For the three months ended 30 September

2016 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
<b>Revenues</b>					
Gross premium written	4 170	2 958	155	-33	7 250
Net premiums written	4 114	2 667	79		6 860
Change in unearned premiums	509	139	34		682
<b>Premiums earned</b>	<b>4 623</b>	<b>2 806</b>	<b>113</b>		<b>7 542</b>
Fee income from policyholders		14	20		34
Net investment income – non-participating business	210	312	99	-7	614
Net realised investment gains/losses – non-participating business	162	56	129		347
Net investment result – unit-linked business		73			73
Other revenues	9	-1	2		10
<b>Total revenues</b>	<b>5 004</b>	<b>3 260</b>	<b>363</b>	<b>-7</b>	<b>8 620</b>
<b>Expenses</b>					
Claims and claim adjustment expenses	-2 651		-1		-2 652
Life and health benefits		-2 204	-125		-2 329
Return credited to policyholders		-83	-79		-162
Acquisition costs	-1 102	-400	-8		-1 510
Operating expenses	-309	-204	-127		-640
<b>Total expenses before interest expenses</b>	<b>-4 062</b>	<b>-2 891</b>	<b>-340</b>	<b>0</b>	<b>-7 293</b>
<b>Income/loss before interest and income tax expense</b>	<b>942</b>	<b>369</b>	<b>23</b>	<b>-7</b>	<b>1 327</b>
Interest expenses	-74	-74	-4	7	-145
<b>Income before income tax expense</b>	<b>868</b>	<b>295</b>	<b>19</b>	<b>0</b>	<b>1 182</b>
Income tax expense/benefit	-186	-65	6		-245
<b>Net income before attribution of non-controlling interests</b>	<b>682</b>	<b>230</b>	<b>25</b>	<b>0</b>	<b>937</b>
Income/loss attributable to non-controlling interests	1		-5		-4
<b>Net income after attribution of non-controlling interests</b>	<b>683</b>	<b>230</b>	<b>20</b>	<b>0</b>	<b>933</b>
Interest on contingent capital instruments	-5	-12			-17
<b>Net income attributable to common shareholder</b>	<b>678</b>	<b>218</b>	<b>20</b>	<b>0</b>	<b>916</b>
Claims ratio in %	57.4				
Expense ratio in %	30.5				
Combined ratio in %	87.9				
Management expense ratio in %		6.5			
Net operating margin in %	18.8	11.6	6.3		15.5

**Business segments – income statement**

For the nine months ended 30 September

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance <sup>1</sup>	Other <sup>1</sup>	Consolidation	Total
<b>Revenues</b>					
Gross premium written	13 418	8 866	663	-282	22 665
Net premiums written	13 103	7 833	376		21 312
Change in unearned premiums	-1 725	-39	-18		-1 782
<b>Premiums earned</b>	<b>11 378</b>	<b>7 794</b>	<b>358</b>		<b>19 530</b>
Fee income from policyholders		37	69		106
Net investment income – non-participating business	850	1 019	263	-1	2 131
Net realised investment gains/losses – non-participating business	428	365	174		967
Net investment result – unit-linked business		-24			-24
Other revenues	44	2	1	-2	45
<b>Total revenues</b>	<b>12 700</b>	<b>9 193</b>	<b>865</b>	<b>-3</b>	<b>22 755</b>
<b>Expenses</b>					
Claims and claim adjustment expenses	-5 889		-1		-5 890
Life and health benefits		-5 943	-430		-6 373
Return credited to policyholders		9	-246		-237
Acquisition costs	-2 867	-1 450	-48		-4 365
Operating expenses <sup>2,3</sup>	-856	-545	-410		-1 811
<b>Total expenses before interest expenses</b>	<b>-9 612</b>	<b>-7 929</b>	<b>-1 135</b>	<b>0</b>	<b>-18 676</b>
<b>Income/loss before interest and income tax expense</b>	<b>3 088</b>	<b>1 264</b>	<b>-270</b>	<b>-3</b>	<b>4 079</b>
Interest expenses <sup>2</sup>	-206	-245	-14	3	-462
<b>Income/loss before income tax expense</b>	<b>2 882</b>	<b>1 019</b>	<b>-284</b>	<b>0</b>	<b>3 617</b>
Income tax expense/benefit	-569	-201	63		-707
<b>Net income/loss before attribution of non-controlling interests</b>	<b>2 313</b>	<b>818</b>	<b>-221</b>	<b>0</b>	<b>2 910</b>
Income/loss attributable to non-controlling interests	-1				-1
<b>Net income/loss after attribution of non-controlling interests</b>	<b>2 312</b>	<b>818</b>	<b>-221</b>	<b>0</b>	<b>2 909</b>
Interest on contingent capital instruments	-14	-37			-51
<b>Net income/loss attributable to common shareholder</b>	<b>2 298</b>	<b>781</b>	<b>-221</b>	<b>0</b>	<b>2 858</b>
Claims ratio in %	51.8				
Expense ratio in %	32.7				
Combined ratio in %	84.5				
Management expense ratio in %		6.2			
Net operating margin in %	24.3	13.7	-31.2		17.9

<sup>1</sup> As of 1 January 2016, the primary life and health insurance business (individual and group) is reported in the segment "Other" instead of the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly.

<sup>2</sup> Letter of credit fees of USD 34 million in Life & Health Reinsurance and USD 8 million in Property & Casualty Reinsurance have been reclassified from "Operating expenses" to "Interest expenses".

<sup>3</sup> The Group's new internal service cost framework resulted in a reallocation of operating expenses to "Other" from the business segments. Comparative information for 2015 has been adjusted accordingly.

## Business segments – income statement

For the nine months ended 30 September

2016 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
<b>Revenues</b>					
Gross premium written	15 303	9 544	769	-264	25 352
Net premiums written	14 997	8 562	358		23 917
Change in unearned premiums	-2 282	-85	-9		-2 376
<b>Premiums earned</b>	<b>12 715</b>	<b>8 477</b>	<b>349</b>		<b>21 541</b>
Fee income from policyholders		38	65		103
Net investment income – non-participating business	725	974	306	-19	1 986
Net realised investment gains/losses – non-participating business	644	253	450		1 347
Net investment result – unit-linked business		-64			-64
Other revenues	30	4	2	-3	33
<b>Total revenues</b>	<b>14 114</b>	<b>9 682</b>	<b>1 172</b>	<b>-22</b>	<b>24 946</b>
<b>Expenses</b>					
Claims and claim adjustment expenses	-7 688		2		-7 686
Life and health benefits		-6 585	-403		-6 988
Return credited to policyholders		46	-240		-194
Acquisition costs	-3 359	-1 534	-29		-4 922
Operating expenses	-884	-536	-329		-1 749
<b>Total expenses before interest expenses</b>	<b>-11 931</b>	<b>-8 609</b>	<b>-999</b>	<b>0</b>	<b>-21 539</b>
<b>Income/loss before interest and income tax expense</b>	<b>2 183</b>	<b>1 073</b>	<b>173</b>	<b>-22</b>	<b>3 407</b>
Interest expenses	-220	-228	-14	22	-440
<b>Income before income tax expense</b>	<b>1 963</b>	<b>845</b>	<b>159</b>	<b>0</b>	<b>2 967</b>
Income tax expense/benefit	-401	-173	6		-568
<b>Net income before attribution of non-controlling interests</b>	<b>1 562</b>	<b>672</b>	<b>165</b>	<b>0</b>	<b>2 399</b>
Income/loss attributable to non-controlling interests			-15		-15
<b>Net income after attribution of non-controlling interests</b>	<b>1 562</b>	<b>672</b>	<b>150</b>	<b>0</b>	<b>2 384</b>
Interest on contingent capital instruments	-14	-37			-51
<b>Net income attributable to common shareholder</b>	<b>1 548</b>	<b>635</b>	<b>150</b>	<b>0</b>	<b>2 333</b>
Claims ratio in %	60.4				
Expense ratio in %	33.4				
Combined ratio in %	93.8				
Management expense ratio in %		5.6			
Net operating margin in %	15.5	11.0	14.8		13.6

### Business segments –balance sheet

As of 31 December

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance <sup>1</sup>	Other <sup>1</sup>	Consolidation	Total
Total assets <sup>2</sup>	78 207	55 337	12 851	-11 204	135 191

<sup>1</sup> As of 1 January 2016, the primary life and health insurance business (individual and group) is reported in the segment "Other" instead of the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly.

<sup>2</sup> The Group's new internal service cost framework resulted in a reallocation of operating expenses to "Other" from the business segments. The resulted impact on the balance sheet has been adjusted accordingly for the comparative information 2015.

As of 30 September

2016 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
Total assets	87 900	59 188	14 144	-14 507	146 725

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

For the three months ended 30 September

2015 USD millions	Property	Casualty	Specialty	Unallocated	Total
<b>Revenues</b>					
Gross premiums written	1 547	1 666	547		3 760
Net premiums written	1 489	1 657	540		3 686
Change in unearned premiums	331	3	88		422
<b>Premiums earned</b>	<b>1 820</b>	<b>1 660</b>	<b>628</b>		<b>4 108</b>
Net investment income				299	299
Net realised investment gains/losses				98	98
Other revenues				4	4
<b>Total revenues</b>	<b>1 820</b>	<b>1 660</b>	<b>628</b>	<b>401</b>	<b>4 509</b>
<b>Expenses</b>					
Claims and claim adjustment expenses	-703	-944	-346		-1 993
Acquisition costs	-287	-494	-139		-920
Operating expenses <sup>1,2</sup>	-164	-88	-28		-280
<b>Total expenses before interest expenses</b>	<b>-1 154</b>	<b>-1 526</b>	<b>-513</b>	<b>0</b>	<b>-3 193</b>
<b>Income before interest and income tax expense</b>	<b>666</b>	<b>134</b>	<b>115</b>	<b>401</b>	<b>1 316</b>
Interest expenses <sup>1</sup>				-66	-66
<b>Income before income tax expense</b>	<b>666</b>	<b>134</b>	<b>115</b>	<b>335</b>	<b>1 250</b>
Claims ratio in %	38.6	56.9	55.1		48.5
Expense ratio in %	24.8	35.0	26.6		29.2
Combined ratio in %	63.4	91.9	81.7		77.7

<sup>1</sup> Letter of credit fees of USD 1 million in Property & Casualty Reinsurance have been reclassified from "Operating expenses" to "Interest expenses".<sup>2</sup> The Group's new internal service cost framework resulted in a reallocation of operating expenses to the segment "Other" from the Property & Casualty Reinsurance segment. Comparative information for 2015 has been adjusted accordingly.

2016 USD millions	Property	Casualty	Specialty	Unallocated	Total
<b>Revenues</b>					
Gross premiums written	1 540	2 160	470		4 170
Net premiums written	1 510	2 144	460		4 114
Change in unearned premiums	402	-21	128		509
<b>Premiums earned</b>	<b>1 912</b>	<b>2 123</b>	<b>588</b>		<b>4 623</b>
Net investment income				210	210
Net realised investment gains/losses				162	162
Other revenues				9	9
<b>Total revenues</b>	<b>1 912</b>	<b>2 123</b>	<b>588</b>	<b>381</b>	<b>5 004</b>
<b>Expenses</b>					
Claims and claim adjustment expenses	-926	-1 458	-267		-2 651
Acquisition costs	-340	-618	-144		-1 102
Operating expenses	-166	-103	-40		-309
<b>Total expenses before interest expenses</b>	<b>-1 432</b>	<b>-2 179</b>	<b>-451</b>	<b>0</b>	<b>-4 062</b>
<b>Income/loss before interest and income tax expense</b>	<b>480</b>	<b>-56</b>	<b>137</b>	<b>381</b>	<b>942</b>
Interest expenses				-74	-74
<b>Income/loss before income tax expense</b>	<b>480</b>	<b>-56</b>	<b>137</b>	<b>307</b>	<b>868</b>
Claims ratio in %	48.4	68.6	45.4		57.4
Expense ratio in %	26.5	34.0	31.3		30.5
Combined ratio in %	74.9	102.6	76.7		87.9



## Property & Casualty Reinsurance business segment – by line of business

For the nine months ended 30 September

2015

USD millions	Property	Casualty	Specialty	Unallocated	Total
<b>Revenues</b>					
Gross premiums written	5 875	5 408	2 135		13 418
Net premiums written	5 641	5 383	2 079		13 103
Change in unearned premiums	-1 003	-444	-278		-1 725
<b>Premiums earned</b>	<b>4 638</b>	<b>4 939</b>	<b>1 801</b>		<b>11 378</b>
Net investment income				850	850
Net realised investment gains/losses				428	428
Other revenues				44	44
<b>Total revenues</b>	<b>4 638</b>	<b>4 939</b>	<b>1 801</b>	<b>1 322</b>	<b>12 700</b>
<b>Expenses</b>					
Claims and claim adjustment expenses	-1 989	-3 025	-875		-5 889
Acquisition costs	-889	-1 522	-456		-2 867
Operating expenses <sup>1,2</sup>	-483	-265	-108		-856
<b>Total expenses before interest expenses</b>	<b>-3 361</b>	<b>-4 812</b>	<b>-1 439</b>	<b>0</b>	<b>-9 612</b>
<b>Income before interest and income tax expense</b>	<b>1 277</b>	<b>127</b>	<b>362</b>	<b>1 322</b>	<b>3 088</b>
Interest expenses <sup>1</sup>				-206	-206
<b>Income before income tax expense</b>	<b>1 277</b>	<b>127</b>	<b>362</b>	<b>1 116</b>	<b>2 882</b>
Claims ratio in %	42.9	61.3	48.6		51.7
Expense ratio in %	29.6	36.1	31.3		32.8
Combined ratio in %	72.5	97.4	79.9		84.5

<sup>1</sup> Letter of credit fees of USD 8 million in Property & Casualty Reinsurance have been reclassified from "Operating expenses" to "Interest expenses".

<sup>2</sup> The Group's new internal service cost framework resulted in a reallocation of operating expenses to the segment "Other" from the Property & Casualty Reinsurance segment. Comparative information for 2015 has been adjusted accordingly.

2016

USD millions	Property	Casualty	Specialty	Unallocated	Total
<b>Revenues</b>					
Gross premiums written	5 911	7 390	2 002		15 303
Net premiums written	5 661	7 359	1 977		14 997
Change in unearned premiums	-663	-1 405	-214		-2 282
<b>Premiums earned</b>	<b>4 998</b>	<b>5 954</b>	<b>1 763</b>		<b>12 715</b>
Net investment income				725	725
Net realised investment gains/losses				644	644
Other revenues				30	30
<b>Total revenues</b>	<b>4 998</b>	<b>5 954</b>	<b>1 763</b>	<b>1 399</b>	<b>14 114</b>
<b>Expenses</b>					
Claims and claim adjustment expenses	-2 798	-4 097	-793		-7 688
Acquisition costs	-1 049	-1 847	-463		-3 359
Operating expenses	-490	-282	-112		-884
<b>Total expenses before interest expenses</b>	<b>-4 337</b>	<b>-6 226</b>	<b>-1 368</b>	<b>0</b>	<b>-11 931</b>
<b>Income/loss before interest and income tax expense</b>	<b>661</b>	<b>-272</b>	<b>395</b>	<b>1 399</b>	<b>2 183</b>
Interest expenses				-220	-220
<b>Income/loss before income tax expense</b>	<b>661</b>	<b>-272</b>	<b>395</b>	<b>1 179</b>	<b>1 963</b>
Claims ratio in %	56.0	68.8	45.0		60.4
Expense ratio in %	30.8	35.8	32.6		33.4
Combined ratio in %	86.8	104.6	77.6		93.8

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

For the three months ended 30 September

2015 USD millions	Life	Health	Unallocated	Total <sup>1</sup>
<b>Revenues</b>				
Gross premium written	2 070	862		2 932
Net premiums written	1 761	833		2 594
Change in unearned premiums	31	48		79
<b>Premiums earned</b>	1 792	881		2 673
Fee income from policyholders	10			10
Net investment income – non-participating business	216	118		334
Net realised investment gains/losses – non-participating business	67	42	40	149
Net investment result – unit-linked business	-65			-65
Other revenues	2			2
<b>Total revenues</b>	2 022	1 041	40	3 103
<b>Expenses</b>				
Life and health benefits	-1 416	-669		-2 085
Return credited to policyholders	62			62
Acquisition costs	-326	-154		-480
Operating expenses <sup>2, 3</sup>	-124	-53		-177
<b>Total expenses before interest expenses</b>	-1 804	-876	0	-2 680
<b>Income before interest and income tax expense</b>	218	165	40	423
Interest expenses <sup>2</sup>			-79	-79
<b>Income/loss before income tax expense</b>	218	165	-39	344
Management expense ratio in %	6.1	5.3		5.9
Net operating margin <sup>4</sup> in %	10.4	15.9		13.4

<sup>1</sup> As of 1 January 2016, the primary life and health insurance business (individual and group) is reported in the segment "Other" instead of the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly.

<sup>2</sup> Letter of credit fees of USD 12 million in Life & Health Reinsurance have been reclassified from "Operating expenses" to "Interest expenses".

<sup>3</sup> The Group's new internal service cost framework resulted in a reallocation of operating expenses to the segment "Other" from the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly.

<sup>4</sup> Net operating margin is calculated as "Income before interest and income tax expense" divided by "Total revenues" excluding "Net investment result – unit-linked business".

## Life & Health Reinsurance business segment – by line of business

For the three months ended 30 September

2016 USD millions	Life	Health	Unallocated	Total
<b>Revenues</b>				
Gross premium written	2 182	776		2 958
Net premiums written	1 915	752		2 667
Change in unearned premiums	18	121		139
<b>Premiums earned</b>	1 933	873		2 806
Fee income from policyholders	14			14
Net investment income – non-participating business	218	94		312
Net realised investment gains/losses – non-participating business	8		48	56
Net investment result – unit-linked business	73			73
Other revenues	-1			-1
<b>Total revenues</b>	<b>2 245</b>	<b>967</b>	<b>48</b>	<b>3 260</b>
<b>Expenses</b>				
Life and health benefits	-1 483	-721		-2 204
Return credited to policyholders	-83			-83
Acquisition costs	-253	-147		-400
Operating expenses	-142	-62		-204
<b>Total expenses before interest expenses</b>	<b>-1 961</b>	<b>-930</b>	<b>0</b>	<b>-2 891</b>
<b>Income before interest and income tax expense</b>	<b>284</b>	<b>37</b>	<b>48</b>	<b>369</b>
Interest expenses			-74	-74
<b>Income/loss before income tax expense</b>	<b>284</b>	<b>37</b>	<b>-26</b>	<b>295</b>
Management expense ratio in %	6.6	6.4		6.5
Net operating margin <sup>1</sup> in %	13.1	3.8		11.6

<sup>1</sup> Net operating margin is calculated as "Income before interest and income tax expense" divided by "Total revenues" excluding "Net investment result – unit-linked business".

**Life & Health Reinsurance business segment – by line of business**

For the nine months ended 30 September

2015 USD millions	Life	Health	Unallocated	Total <sup>1</sup>
<b>Revenues</b>				
Gross premium written	6 164	2 702		8 866
Net premiums written	5 224	2 609		7 833
Change in unearned premiums	5	-44		-39
<b>Premiums earned</b>	<b>5 229</b>	<b>2 565</b>		<b>7 794</b>
Fee income from policyholders	37			37
Net investment income – non-participating business	662	357		1 019
Net realised investment gains/losses – non-participating business	100	43	222	365
Net investment result – unit-linked business	-24			-24
Other revenues	2			2
<b>Total revenues</b>	<b>6 006</b>	<b>2 965</b>	<b>222</b>	<b>9 193</b>
<b>Expenses</b>				
Life and health benefits	-4 123	-1 820		-5 943
Return credited to policyholders	9			9
Acquisition costs	-933	-517		-1 450
Operating expenses <sup>2, 3</sup>	-387	-158		-545
<b>Total expenses before interest expenses</b>	<b>-5 434</b>	<b>-2 495</b>	<b>0</b>	<b>-7 929</b>
<b>Income before interest and income tax expense</b>	<b>572</b>	<b>470</b>	<b>222</b>	<b>1 264</b>
Interest expenses <sup>2</sup>			-245	-245
<b>Income/loss before income tax expense</b>	<b>572</b>	<b>470</b>	<b>-23</b>	<b>1 019</b>
Management expense ratio in %	6.5	5.4		6.2
Net operating margin <sup>4</sup> in %	9.5	15.9		13.7

<sup>1</sup> As of 1 January 2016, the primary life and health insurance business (individual and group) is reported in the segment "Other" instead of the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly.

<sup>2</sup> Letter of credit fees of USD 34 million in Life & Health Reinsurance have been reclassified from "Operating expenses" to "Interest expenses".

<sup>3</sup> The Group's new internal service cost framework resulted in a reallocation of operating expenses to the segment "Other" from the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly.

<sup>4</sup> Net operating margin is calculated as "Income before interest and income tax expense" divided by "Total revenues" excluding "Net investment result – unit-linked business".

## Life & Health Reinsurance business segment – by line of business

For the nine months ended 30 September

2016				
USD millions	Life	Health	Unallocated	Total
<b>Revenues</b>				
Gross premium written	6 636	2 908		9 544
Net premiums written	5 724	2 838		8 562
Change in unearned premiums	-26	-59		-85
<b>Premiums earned</b>	<b>5 698</b>	<b>2 779</b>		<b>8 477</b>
Fee income from policyholders	38			38
Net investment income – non-participating business	643	331		974
Net realised investment gains/losses – non-participating business	38	-2	217	253
Net investment result – unit-linked business	-64			-64
Other revenues	4			4
<b>Total revenues</b>	<b>6 357</b>	<b>3 108</b>	<b>217</b>	<b>9 682</b>
<b>Expenses</b>				
Life and health benefits	-4 432	-2 153		-6 585
Return credited to policyholders	46			46
Acquisition costs	-1 023	-511		-1 534
Operating expenses	-377	-159		-536
<b>Total expenses before interest expenses</b>	<b>-5 786</b>	<b>-2 823</b>	<b>0</b>	<b>-8 609</b>
<b>Income before interest and income tax expense</b>	<b>571</b>	<b>285</b>	<b>217</b>	<b>1 073</b>
Interest expenses			-228	-228
<b>Income/loss before income tax expense</b>	<b>571</b>	<b>285</b>	<b>-11</b>	<b>845</b>
Management expense ratio in %	5.9	5.1		5.6
Net operating margin <sup>1</sup> in %	8.9	9.2		11.0

<sup>1</sup> Net operating margin is calculated as "Income before interest and income tax expense" divided by "Total revenues" excluding "Net investment result – unit-linked business".

### 3 Insurance information

#### Premiums earned and fees assessed against policyholders

For the three months ended 30 September

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance <sup>1</sup>	Other <sup>1</sup>	Total
<b>Premiums earned, thereof:</b>				
Direct		10	177	187
Reinsurance	4 282	2 914	35	7 231
Intra-group transactions (assumed and ceded)		90	-90	0
<b>Premiums earned before retrocession to external parties</b>	<b>4 282</b>	<b>3 014</b>	<b>122</b>	<b>7 418</b>
Retrocession to external parties	-174	-341		-515
<b>Net premiums earned</b>	<b>4 108</b>	<b>2 673</b>	<b>122</b>	<b>6 903</b>
<b>Fee income from policyholders, thereof:</b>				
Direct				0
Reinsurance		11	18	29
<b>Gross fee income before retrocession to external parties</b>		<b>11</b>	<b>18</b>	<b>29</b>
Retrocession to external parties		-1		-1
<b>Net fee income</b>	<b>0</b>	<b>10</b>	<b>18</b>	<b>28</b>

2016 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
<b>Premiums earned, thereof:</b>				
Direct		12	198	210
Reinsurance	4 791	3 011	33	7 835
Intra-group transactions (assumed and ceded)		85	-85	0
<b>Premiums earned before retrocession to external parties</b>	<b>4 791</b>	<b>3 108</b>	<b>146</b>	<b>8 045</b>
Retrocession to external parties	-168	-302	-33	-503
<b>Net premiums earned</b>	<b>4 623</b>	<b>2 806</b>	<b>113</b>	<b>7 542</b>
<b>Fee income from policyholders, thereof:</b>				
Direct				0
Reinsurance		14	20	34
<b>Gross fee income before retrocession to external parties</b>		<b>14</b>	<b>20</b>	<b>34</b>
Retrocession to external parties				0
<b>Net fee income</b>	<b>0</b>	<b>14</b>	<b>20</b>	<b>34</b>

<sup>1</sup>As of 1 January 2016, the primary life and health insurance business (individual and group) is reported in the segment "Other" instead of the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly.

## Premiums earned and fees assessed against policyholders

For the nine months ended 30 September

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance <sup>1</sup>	Other <sup>1</sup>	Total
<b>Premiums earned, thereof:</b>				
Direct		30	523	553
Reinsurance	11 774	8 539	103	20 416
Intra-group transactions (assumed and ceded)		263	-263	0
<b>Premiums earned before retrocession to external parties</b>	<b>11 774</b>	<b>8 832</b>	<b>363</b>	<b>20 969</b>
Retrocession to external parties	-396	-1 038	-5	-1 439
<b>Net premiums earned</b>	<b>11 378</b>	<b>7 794</b>	<b>358</b>	<b>19 530</b>
<b>Fee income from policyholders, thereof:</b>				
Direct			5	5
Reinsurance		38	64	102
<b>Gross fee income before retrocession to external parties</b>		<b>38</b>	<b>69</b>	<b>107</b>
Retrocession to external parties		-1		-1
<b>Net fee income</b>	<b>0</b>	<b>37</b>	<b>69</b>	<b>106</b>

2016 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
<b>Premiums earned, thereof:</b>				
Direct		33	599	632
Reinsurance	13 062	9 162	100	22 324
Intra-group transactions (assumed and ceded)		278	-278	0
<b>Premiums earned before retrocession to external parties</b>	<b>13 062</b>	<b>9 473</b>	<b>421</b>	<b>22 956</b>
Retrocession to external parties	-347	-996	-72	-1 415
<b>Net premiums earned</b>	<b>12 715</b>	<b>8 477</b>	<b>349</b>	<b>21 541</b>
<b>Fee income from policyholders, thereof:</b>				
Direct				0
Reinsurance		38	65	103
<b>Gross fee income before retrocession to external parties</b>		<b>38</b>	<b>65</b>	<b>103</b>
Retrocession to external parties				0
<b>Net fee income</b>	<b>0</b>	<b>38</b>	<b>65</b>	<b>103</b>

<sup>1</sup>As of 1 January 2016, the primary life and health insurance business (individual and group) is reported in the segment "Other" instead of the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly.

**Claims and claim adjustment expenses**

For the three months ended 30 September

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance <sup>1</sup>	Other <sup>1</sup>	Total
<b>Claims paid, thereof:</b>				
Gross claims paid to external parties	-2 566	-2 297	-211	-5 074
Intra-group transactions (assumed and ceded)		-67	67	0
<b>Claims before receivables from retrocession to external parties</b>	-2 566	-2 364	-144	-5 074
Retrocession to external parties	201	317		518
<b>Net claims paid</b>	-2 365	-2 047	-144	-4 556
<b>Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:</b>				
Gross - with external parties	506	12	-15	503
Intra-group transactions (assumed and ceded)		-8	8	0
<b>Unpaid claims and claim adjustment expenses; life and health benefits before impact of retrocession to external parties</b>	506	4	-7	503
Retrocession to external parties	-134	-42		-176
<b>Net unpaid claims and claim adjustment expenses; life and health benefits</b>	372	-38	-7	327
<b>Claims and claim adjustment expenses; life and health benefits</b>	-1 993	-2 085	-151	-4 229

**Acquisition costs**

For the three months ended 30 September

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance <sup>1</sup>	Other <sup>1</sup>	Total
<b>Acquisition costs, thereof:</b>				
Gross acquisition costs with external parties	-960	-530	-30	-1 520
Intra-group transactions (assumed and ceded)	-3	-13	16	0
<b>Acquisition costs before impact of retrocession to external parties</b>	-963	-543	-14	-1 520
Retrocession to external parties	43	63		106
<b>Net acquisition costs</b>	-920	-480	-14	-1 414

<sup>1</sup>As of 1 January 2016, the primary life and health insurance business (individual and group) is reported in the segment "Other" instead of the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly.



## Claims and claim adjustment expenses

For the three months ended 30 September

2016 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
<b>Claims paid, thereof:</b>				
Gross claims paid to external parties	-2 162	-2 389	-223	-4 774
Intra-group transactions (assumed and ceded)		-74	74	0
<b>Claims before receivables from retrocession to external parties</b>	<b>-2 162</b>	<b>-2 463</b>	<b>-149</b>	<b>-4 774</b>
Retrocession to external parties	189	263	17	469
<b>Net claims paid</b>	<b>-1 973</b>	<b>-2 200</b>	<b>-132</b>	<b>-4 305</b>
<b>Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:</b>				
Gross – with external parties	-540	14	-9	-535
Intra-group transactions (assumed and ceded)		-1	1	0
<b>Unpaid claims and claim adjustment expenses; life and health benefits before impact of retrocession to external parties</b>	<b>-540</b>	<b>13</b>	<b>-8</b>	<b>-535</b>
Retrocession to external parties	-138	-17	14	-141
<b>Net unpaid claims and claim adjustment expenses; life and health benefits</b>	<b>-678</b>	<b>-4</b>	<b>6</b>	<b>-676</b>
<b>Claims and claim adjustment expenses; life and health benefits</b>	<b>-2 651</b>	<b>-2 204</b>	<b>-126</b>	<b>-4 981</b>

## Acquisition costs

For the three months ended 30 September

2016 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
<b>Acquisition costs, thereof:</b>				
Gross acquisition costs with external parties	-1 150	-439	-23	-1 612
Intra-group transactions (assumed and ceded)		-11	11	0
<b>Acquisition costs before impact of retrocession to external parties</b>	<b>-1 150</b>	<b>-450</b>	<b>-12</b>	<b>-1 612</b>
Retrocession to external parties	48	50	4	102
<b>Net acquisition costs</b>	<b>-1 102</b>	<b>-400</b>	<b>-8</b>	<b>-1 510</b>

**Claims and claim adjustment expenses**

For the nine months ended 30 September

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance <sup>1</sup>	Other <sup>1</sup>	Total
<b>Claims paid, thereof:</b>				
Gross claims paid to external parties	-7 271	-6 967	-654	-14 892
Intra-group transactions (assumed and ceded)		-178	178	0
<b>Claims before receivables from retrocession to external parties</b>	<b>-7 271</b>	<b>-7 145</b>	<b>-476</b>	<b>-14 892</b>
Retrocession to external parties	675	902	5	1 582
<b>Net claims paid</b>	<b>-6 596</b>	<b>-6 243</b>	<b>-471</b>	<b>-13 310</b>
<b>Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:</b>				
Gross - with external parties	1 243	369	10	1 622
Intra-group transactions (assumed and ceded)		-30	30	0
<b>Unpaid claims and claim adjustment expenses; life and health benefits before impact of retrocession to external parties</b>	<b>1 243</b>	<b>339</b>	<b>40</b>	<b>1 622</b>
Retrocession to external parties	-536	-39		-575
<b>Net unpaid claims and claim adjustment expenses; life and health benefits</b>	<b>707</b>	<b>300</b>	<b>40</b>	<b>1 047</b>
<b>Claims and claim adjustment expenses; life and health benefits</b>	<b>-5 889</b>	<b>-5 943</b>	<b>-431</b>	<b>-12 263</b>

**Acquisition costs**

For the nine months ended 30 September

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance <sup>1</sup>	Other <sup>1</sup>	Total
<b>Acquisition costs, thereof:</b>				
Gross acquisition costs with external parties	-2 966	-1 583	-102	-4 651
Intra-group transactions (assumed and ceded)		-54	54	0
<b>Acquisition costs before impact of retrocession to external parties</b>	<b>-2 966</b>	<b>-1 637</b>	<b>-48</b>	<b>-4 651</b>
Retrocession to external parties	99	187		286
<b>Net acquisition costs</b>	<b>-2 867</b>	<b>-1 450</b>	<b>-48</b>	<b>-4 365</b>

<sup>1</sup>As of 1 January 2016, the primary life and health insurance business (individual and group) is reported in the segment "Other" instead of the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly.

## Claims and claim adjustment expenses

For the nine months ended 30 September

2016 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
<b>Claims paid, thereof:</b>				
Gross claims paid to external parties	-6 891	-7 916	-651	-15 458
Intra-group transactions (assumed and ceded)		-213	213	0
<b>Claims before receivables from retrocession to external parties</b>	-6 891	-8 129	-438	-15 458
Retrocession to external parties	441	919	27	1 387
<b>Net claims paid</b>	<b>-6 450</b>	<b>-7 210</b>	<b>-411</b>	<b>-14 071</b>
<b>Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:</b>				
Gross – with external parties	-890	638	-55	-307
Intra-group transactions (assumed and ceded)		-27	27	0
<b>Unpaid claims and claim adjustment expenses; life and health benefits before impact of retrocession to external parties</b>	-890	611	-28	-307
Retrocession to external parties	-348	14	38	-296
<b>Net unpaid claims and claim adjustment expenses; life and health benefits</b>	<b>-1 238</b>	<b>625</b>	<b>10</b>	<b>-603</b>
<b>Claims and claim adjustment expenses; life and health benefits</b>	<b>-7 688</b>	<b>-6 585</b>	<b>-401</b>	<b>-14 674</b>

## Acquisition costs

For the nine months ended 30 September

2016 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
<b>Acquisition costs, thereof:</b>				
Gross acquisition costs with external parties	-3 449	-1 655	-82	-5 186
Intra-group transactions (assumed and ceded)		-44	44	0
<b>Acquisition costs before impact of retrocession to external parties</b>	-3 449	-1 699	-38	-5 186
Retrocession to external parties	90	165	9	264
<b>Net acquisition costs</b>	<b>-3 359</b>	<b>-1 534</b>	<b>-29</b>	<b>-4 922</b>

**Reinsurance assets and liabilities**

The reinsurance assets and liabilities as of 31 December 2015 and 30 September 2016 were as follows:

**Reinsurance receivables**

Reinsurance receivables as of 31 December 2015 and 30 September 2016 were as follows:

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance <sup>1</sup>	Other <sup>1</sup>	Consolidation <sup>1</sup>	Total
<b>Assets</b>					
Reinsurance recoverable on unpaid claims and policy benefits	2 872	1 652	188	-189	4 523
Deferred acquisition costs	2 051	3 020	13		5 084
<b>Liabilities</b>					
Unpaid claims and claim adjustment expenses	39 366	9 468	1 073	-189	49 718
Liabilities for life and health policy benefits		15 472	1 308	-1	16 779
Policyholder account balances		1 368	3 990		5 358

2016 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
<b>Assets</b>					
Reinsurance recoverable on unpaid claims and policy benefits	2 542	1 627	259	-221	4 207
Deferred acquisition costs	2 570	3 217	13		5 800
<b>Liabilities</b>					
Unpaid claims and claim adjustment expenses	40 452	10 343	1 176	-220	51 751
Liabilities for life and health policy benefits		15 628	1 222	-3	16 847
Policyholder account balances		1 297	4 080		5 377

<sup>1</sup> As of 1 January 2016, the primary life and health insurance business (individual and group) is reported in the segment "Other" instead of the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly.

USD millions	2015	2016
Premium receivables invoiced	1103	1 293
Receivables invoiced from ceded re/insurance business	126	219
Assets arising from the application of the deposit method of accounting and meeting the definition of financing receivables	169	88
Recognised allowance	-36	-33

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## 4 Premiums written

For the three months ended 30 September

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance <sup>1</sup>	Other <sup>1</sup>	Consolidation <sup>1</sup>	Total
<b>Gross premiums written, thereof:</b>					
Direct		10	109		119
Reinsurance	3 760	2 867	36		6 663
Intra-group transactions (assumed)		55		-55	0
<b>Gross premiums written</b>	<b>3 760</b>	<b>2 932</b>	<b>145</b>	<b>-55</b>	<b>6 782</b>
Intra-group transactions (ceded)			-55	55	0
<b>Gross premiums written before retrocession to external parties</b>					
	3 760	2 932	90		6 782
Retrocession to external parties	-74	-338			-412
<b>Net premiums written</b>	<b>3 686</b>	<b>2 594</b>	<b>90</b>	<b>0</b>	<b>6 370</b>

2016 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
<b>Gross premiums written, thereof:</b>					
Direct		12	122		134
Reinsurance	4 170	2 913	33		7 116
Intra-group transactions (assumed)		33		-33	0
<b>Gross premiums written</b>	<b>4 170</b>	<b>2 958</b>	<b>155</b>	<b>-33</b>	<b>7 250</b>
Intra-group transactions (ceded)			-33	33	0
<b>Gross premiums written before retrocession to external parties</b>					
	4 170	2 958	122		7 250
Retrocession to external parties	-56	-291	-43		-390
<b>Net premiums written</b>	<b>4 114</b>	<b>2 667</b>	<b>79</b>	<b>0</b>	<b>6 860</b>

<sup>1</sup>As of 1 January 2016, the primary life and health insurance business (individual and group) is reported in the segment "Other" instead of the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly.

For the nine months ended 30 September

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance <sup>1</sup>	Other <sup>1</sup>	Consolidation <sup>1</sup>	Total
<b>Gross premiums written, thereof:</b>					
Direct		30	561		591
Reinsurance	13 418	8 554	102		22 074
Intra-group transactions (assumed)		282		-282	0
<b>Gross premiums written</b>	<b>13 418</b>	<b>8 866</b>	<b>663</b>	<b>-282</b>	<b>22 665</b>
Intra-group transactions (ceded)			-282	282	0
<b>Gross premiums written before retrocession to external parties</b>					
	13 418	8 866	381	0	22 665
Retrocession to external parties	-315	-1 033	-5		-1 353
<b>Net premiums written</b>	<b>13 103</b>	<b>7 833</b>	<b>376</b>	<b>0</b>	<b>21 312</b>

2016 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Consolidation	Total
<b>Gross premiums written, thereof:</b>					
Direct		33	669		702
Reinsurance	15 303	9 247	100		24 650
Intra-group transactions (assumed)		264		-264	0
<b>Gross premiums written</b>	<b>15 303</b>	<b>9 544</b>	<b>769</b>	<b>-264</b>	<b>25 352</b>
Intra-group transactions (ceded)			-264	264	0
<b>Gross premiums written before retrocession to external parties</b>					
	15 303	9 544	505		25 352
Retrocession to external parties	-306	-982	-147		-1 435
<b>Net premiums written</b>	<b>14 997</b>	<b>8 562</b>	<b>358</b>	<b>0</b>	<b>23 917</b>

<sup>1</sup> As of 1 January 2016, the primary life and health insurance business (individual and group) is reported in the segment "Other" instead of the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly.

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

As of 31 December 2015 and 30 September 2016, the DAC were as follows:

2015 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance <sup>1</sup>	Other <sup>1</sup>	Total
Opening balance as of 1 January	1 756	2 723	1	4 480
Effect of change in Group structure <sup>1</sup>		-12	12	0
Deferred	4 132	1 018	35	5 185
Effect of acquisitions/disposals and retrocessions	7	2		9
Amortisation	-3 793	-560	-34	-4 387
Effect of foreign currency translation	-51	-151	-1	-203
<b>Closing balance</b>	<b>2 051</b>	<b>3 020</b>	<b>13</b>	<b>5 084</b>

2016 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Other	Total
Opening balance as of 1 January	2 051	3 020	13	5 084
Deferred	3 806	476	25	4 307
Amortisation	-3 334	-254	-25	-3 613
Effect of foreign currency translation	47	-25		22
<b>Closing balance</b>	<b>2 570</b>	<b>3 217</b>	<b>13</b>	<b>5 800</b>

<sup>1</sup> As of 1 January 2016, the primary life and health insurance business (individual and group) is reported in the "Other" segment instead of the Life & Health Reinsurance segment. Comparative information for 2015 has been adjusted accordingly.

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

As of 31 December 2015 and 30 September 2016, the PVFP was as follows:

USD millions	2015			2016		
	Life & Health Reinsurance	Other	Total	Life & Health Reinsurance	Other	Total
Opening balance as of 1 January	1 294	605	1 899	1 134	587	1 721
Amortisation	-159	-28	-187	-88	-10	-98
Interest accrued on unamortised PVFP	40	1	41	25		25
Effect of change in unrealised gains/losses		9	9		-9	-9
Effect of foreign currency translation	-41		-41	-51		-51
<b>Closing balance</b>	<b>1 134</b>	<b>587</b>	<b>1 721</b>	<b>1 020</b>	<b>568</b>	<b>1 588</b>

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



## 6 Investments

### Investment income

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

USD millions	Three months ended 30 September		Nine months ended 30 September	
	2015	2016	2015	2016
Fixed income securities	475	469	1 436	1 415
Equity securities	22	20	58	59
Policy loans, mortgages and other loans	37	34	109	106
Investment real estate	42	48	115	137
Short-term investments	14	7	54	32
Other current investments	17	-1	42	39
Share in earnings of equity-accounted investees	21	-11	101	-10
Cash and cash equivalents	6	6	24	17
Net result from deposit-accounted contracts	48	19	77	86
Deposits with ceding companies	140	112	362	346
<b>Gross investment income</b>	<b>822</b>	<b>703</b>	<b>2 378</b>	<b>2 227</b>
Investment expenses	-90	-86	-239	-236
Interest charged for funds held	-5	-3	-8	-5
<b>Net investment income – non-participating business</b>	<b>727</b>	<b>614</b>	<b>2 131</b>	<b>1 986</b>

Dividends received from investments accounted for using the equity method were USD 39 million and USD 47 million for the three months ended 30 September 2015 and 2016, respectively, as well as USD 116 million and USD 94 million for the nine months ended 30 September 2015 and 2016, respectively.

### Realised gains and losses

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

USD millions	Three months ended 30 September		Nine months ended 30 September	
	2015	2016	2015	2016
Fixed income securities available-for-sale:				
Gross realised gains	174	119	520	556
Gross realised losses	-83	-4	-234	-133
Equity securities available-for-sale:				
Gross realised gains	34	113	202	232
Gross realised losses	-15	-23	-33	-84
Other-than-temporary impairments	-16	-13	-27	-57
Net realised investment gains/losses on trading securities	21	75	61	191
Change in net unrealised investment gains/losses on trading securities	7	-52	17	46
Net realised/unrealised gains/losses other investments	-23	-45	119	-101
Net realised/unrealised gains/losses on insurance-related activities	96	33	123	39
Foreign exchange gains/losses	218	144	219	658
<b>Net realised investment gains/losses – non-participating business</b>	<b>413</b>	<b>347</b>	<b>967</b>	<b>1 347</b>

**Investment result – unit-linked business**

The net investment result on unit-linked business credited to policyholders amounted to losses of USD 65 million and to gains of USD 73 million for the three months ended 30 September 2015 and 2016, and losses of USD 24 million and USD 64 million for the nine months ended 30 September 2015 and 2016, respectively, mainly originating from gains/losses on equity securities.

**Impairment on fixed income securities related to credit losses**

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

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

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

USD millions	2015	2016
Balance as of 1 January	131	129
Credit losses for which an other-than-temporary impairment was not previously recognised	4	12
Reductions for securities sold during the period	-17	-35
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	6	7
Impact of increase in cash flows expected to be collected	-6	-5
Impact of foreign exchange movements	-3	-3
<b>Balance as of 30 September</b>	<b>115</b>	<b>105</b>

### 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 2015 and 30 September 2016 were as follows:

2015 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Other-than-temporary impairments recognised in other comprehensive income	Estimated fair value
Debt securities issued by governments and government agencies:					
US Treasury and other US government corporations and agencies	9 981	507	-94		10 394
US Agency securitised products	2 761	28	-27		2 762
States of the United States and political subdivisions of the states	913	39	-11		941
United Kingdom	4 462	486	-43		4 905
Canada	3 730	518	-13		4 235
Germany	2 789	232	-27		2 994
France	1 861	189	-16		2 034
Other	7 023	190	-143		7 070
Total	33 520	2 189	-374		35 335
Corporate debt securities	21 287	621	-482	-10	21 416
Mortgage- and asset-backed securities	4 330	88	-32	-3	4 383
<b>Fixed income securities available-for-sale</b>	<b>59 137</b>	<b>2 898</b>	<b>-888</b>	<b>-13</b>	<b>61 134</b>
<b>Equity securities available-for-sale</b>	<b>2 876</b>	<b>375</b>	<b>-160</b>		<b>3 091</b>

2016 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	10 319	892	-18		11 193
US Agency securitised products	3 644	64	-9		3 699
States of the United States and political subdivisions of the states	982	112	-2		1 092
United Kingdom	4 070	988	-13		5 045
Canada	3 897	770	-4		4 663
Germany	2 998	475	-4		3 469
France	1 859	369	-1		2 227
Other	8 125	436	-26		8 535
Total	35 894	4 106	-77		39 923
Corporate debt securities	21 703	1 595	-51		23 247
Mortgage- and asset-backed securities	4 135	119	-16	-7	4 231
<b>Fixed income securities available-for-sale</b>	<b>61 732</b>	<b>5 820</b>	<b>-144</b>	<b>-7</b>	<b>67 401</b>
<b>Equity securities available-for-sale</b>	<b>2 480</b>	<b>294</b>	<b>-96</b>		<b>2 678</b>

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

### Investments trading

The carrying amounts of fixed income securities and equity securities classified as trading (excluding unit-linked business) as of 31 December 2015 and 30 September 2016 were as follows:

USD millions	2015	2016
Debt securities issued by governments and government agencies	2 710	3 442
Corporate debt securities	52	43
Mortgage- and asset-backed securities	134	123
<b>Fixed income securities trading – non-participating business</b>	<b>2 896</b>	<b>3 608</b>
<b>Equity securities trading – non-participating business</b>	<b>68</b>	<b>55</b>

### Investments held for unit-linked business

The carrying amounts of investments held for unit-linked business consist of equity securities trading. As of 31 December 2015 and 30 September 2016, these amounted to USD 818 million and USD 524 million, respectively.

### Maturity of fixed income securities available-for-sale

The amortised cost or cost and estimated fair values of investments in fixed income securities available-for-sale by remaining maturity are shown below. Fixed maturity investments are assumed not to be called for redemption prior to the stated maturity date. As of 31 December 2015 and 30 September 2016, USD 10 893 million and USD 12 659 million, respectively, of fixed income securities available-for-sale were callable.

USD millions	2015		2016	
	Amortised cost or cost	Estimated fair value	Amortised cost or cost	Estimated fair value
Due in one year or less	3 261	3 309	5 225	5 277
Due after one year through five years	14 508	14 695	14 609	14 991
Due after five years through ten years	13 039	13 364	14 290	15 313
Due after ten years	24 246	25 631	23 764	27 885
Mortgage- and asset-backed securities with no fixed maturity	4 083	4 135	3 844	3 935
<b>Total fixed income securities available-for-sale</b>	<b>59 137</b>	<b>61 134</b>	<b>61 732</b>	<b>67 401</b>

### Assets pledged

As of 30 September 2016, investments with a carrying value of USD 6 702 million were on deposit with regulatory agencies in accordance with local requirements, and investments with a carrying value of USD 10 546 million were placed on deposit or pledged to secure certain reinsurance liabilities, including pledged investments in subsidiaries.

As of 31 December 2015 and 30 September 2016, securities of USD 13 605 million and USD 12 813 million, respectively, were transferred to third parties under securities lending transactions and repurchase agreements on a fully collateralised basis. Corresponding liabilities of USD 995 million and USD 1 921 million, respectively, were recognised in accrued expenses and other liabilities for the obligation to return collateral that the Group has the right to sell or repledge.

As of 30 September 2016, a real estate portfolio with a carrying value of USD 227 million serves as collateral for a credit facility allowing the Group to withdraw funds up to CHF 650 million.

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

As of 31 December 2015 and 30 September 2016, the fair value of the equity securities, government and corporate debt securities received as collateral was USD 10 732 million and USD 11 805 million, respectively. Of this, the amount that was sold or repledged as of 31 December 2015 and 30 September 2016 was USD 6 125 million and USD 7 046 million, respectively. The sources of the collateral are securities borrowing, reverse repurchase agreements and derivative transactions.

### Offsetting of derivatives, financial assets and financial liabilities

Offsetting of derivatives, financial assets and financial liabilities as of 31 December 2015 and 30 September 2016 was as follows:

2015 USD millions	Gross amounts of recognised financial assets	Collateral set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related financial instruments not set off in the balance sheet	Net amount
Derivative financial instruments – assets	2 752	-1 953	799	-34	765
Reverse repurchase agreements	6 358	-3 000	3 358	-3 351	7
Securities borrowing	452		452	-452	0
<b>Total</b>	<b>9 562</b>	<b>-4 953</b>	<b>4 609</b>	<b>-3 837</b>	<b>772</b>

2015 USD millions	Gross amounts of recognised financial liabilities	Collateral set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related financial instruments not set off in the balance sheet	Net amount
Derivative financial instruments – liabilities	-2 090	1 477	-613	77	-536
Repurchase agreements	-2 844	2 475	-369	369	0
Securities lending	-1 151	525	-626	582	-44
<b>Total</b>	<b>-6 085</b>	<b>4 477</b>	<b>-1 608</b>	<b>1 028</b>	<b>-580</b>

2016 USD millions	Gross amounts of recognised financial assets	Collateral set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related financial instruments not set off in the balance sheet	Net amount
Derivative financial instruments – assets	2 891	-1 873	1 018	-2	<b>1 016</b>
Reverse repurchase agreements	7 729	-3 602	4 127	-4 127	<b>0</b>
Securities borrowing	351		351	-351	<b>0</b>
<b>Total</b>	<b>10 971</b>	<b>-5 475</b>	<b>5 496</b>	<b>-4 480</b>	<b>1 016</b>

2016 USD millions	Gross amounts of recognised financial liabilities	Collateral set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related financial instruments not set off in the balance sheet	Net amount
Derivative financial instruments – liabilities	-2 845	1 885	-960	78	<b>-882</b>
Repurchase agreements	-3 764	3 077	-687	685	<b>-2</b>
Securities lending	-1 759	525	-1 234	1 174	<b>-60</b>
<b>Total</b>	<b>-8 368</b>	<b>5 487</b>	<b>-2 881</b>	<b>1 937</b>	<b>-944</b>

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

**Recognised gross liability for the obligation to return collateral that the Group has the right to sell or repledge**

As of 31 December 2015 and 30 September 2016, the gross amounts of liabilities related to repurchase agreements and securities lending by the class of securities transferred to third parties and by the remaining maturity are shown below. The liabilities are recognised for the obligation to return collateral that the Group has the right to sell or repledge.

2015 USD millions	Remaining contractual maturity of the agreements				Total
	Overnight and continuous	Up to 30 days	30–90 days	Greater than 90 days	
<b>Repurchase agreements</b>					
Debt securities issued by governments and government agencies	370	2 136	176	135	2 817
Corporate debt securities	3	24			27
<b>Total repurchase agreements</b>	<b>373</b>	<b>2 160</b>	<b>176</b>	<b>135</b>	<b>2 844</b>
<b>Securities lending</b>					
Debt securities issued by governments and government agencies	217		501	433	1 151
<b>Total securities lending</b>	<b>217</b>	<b>0</b>	<b>501</b>	<b>433</b>	<b>1 151</b>
Gross amount of recognised liabilities for repurchase agreements and securities lending					3 995

2016 USD millions	Remaining contractual maturity of the agreements				Total
	Overnight and continuous	Up to 30 days	30–90 days	Greater than 90 days	
<b>Repurchase agreements</b>					
Debt securities issued by governments and government agencies	490	2 722	417	135	3 764
<b>Total repurchase agreements</b>	<b>490</b>	<b>2 722</b>	<b>417</b>	<b>135</b>	<b>3 764</b>
<b>Securities lending</b>					
Debt securities issued by governments and government agencies	668		289	796	1 753
Equity securities	6				6
<b>Total securities lending</b>	<b>674</b>	<b>0</b>	<b>289</b>	<b>796</b>	<b>1 759</b>
Gross amount of recognised liabilities for repurchase agreements and securities lending					5 523

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

### Unrealised losses on securities available-for-sale

The following table shows the fair value and unrealised losses of the Group's fixed income securities, aggregated by investment category and length of time that individual securities were in a continuous unrealised loss position as of 31 December 2015 and 30 September 2016. As of 31 December 2015 and 30 September 2016, USD 126 million and USD 63 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 34 million and USD 33 million, respectively, to decline in value for more than 12 months.

2015 USD millions	Less than 12 months		12 months or more		Total	
	Fair value	Unrealised losses	Fair value	Unrealised losses	Fair value	Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	4 516	93	6	1	4 522	94
US Agency securitised products	1 408	22	226	5	1 634	27
States of the United States and political subdivisions of the states	339	10	6	1	345	11
United Kingdom	1 067	42	14	1	1 081	43
Canada	930	11	10	2	940	13
Germany	825	25	113	2	938	27
France	500	13	16	3	516	16
Other	3 067	107	194	36	3 261	143
<b>Total</b>	<b>12 652</b>	<b>323</b>	<b>585</b>	<b>51</b>	<b>13 237</b>	<b>374</b>
Corporate debt securities	9 201	426	383	66	9 584	492
Mortgage- and asset-backed securities	2 150	27	187	8	2 337	35
<b>Total</b>	<b>24 003</b>	<b>776</b>	<b>1 155</b>	<b>125</b>	<b>25 158</b>	<b>901</b>

2016 USD millions	Less than 12 months		12 months or more		Total	
	Fair value	Unrealised losses	Fair value	Unrealised losses	Fair value	Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	2 286	18			2 286	18
US Agency securitised products	524	6	184	3	708	9
States of the United States and political subdivisions of the states	59	1	9	1	68	2
United Kingdom	759	8	70	5	829	13
Canada	757	2	13	2	770	4
Germany	71	4	107	0	178	4
France	31	1			31	1
Other	1 286	13	283	13	1 569	26
<b>Total</b>	<b>5 773</b>	<b>53</b>	<b>666</b>	<b>24</b>	<b>6 439</b>	<b>77</b>
Corporate debt securities	1 414	35	289	16	1 703	51
Mortgage- and asset-backed securities	530	16	211	7	741	23
<b>Total</b>	<b>7 717</b>	<b>104</b>	<b>1 166</b>	<b>47</b>	<b>8 883</b>	<b>151</b>

### Mortgages, loans and real estate

As of 31 December 2015 and 30 September 2016, the carrying values of investments in mortgages, policy and other loans, and real estate (excluding unit-linked business) were as follows:

USD millions	2015	2016
Policy loans	80	80
Mortgage loans	1 389	1 405
Other loans	2 363	2 236
Investment real estate	1 550	1 756

The fair value of mortgage loans as of 31 December 2015 and 30 September 2016 was USD 1 389 million and USD 1 443 million, respectively. The fair value of other loans as of 31 December 2015 and 30 September 2016 was USD 2 363 million and USD 2 254 million, respectively. The fair value of the real estate as of 31 December 2015 and 30 September 2016 was USD 3 205 million and USD 3 483 million, respectively. The carrying value of policy loans approximates fair value.

Depreciation expense related to income-producing properties was USD 25 million and USD 31 million for the nine months ended 30 September 2015 and 2016, respectively. Accumulated depreciation on investment real estate totalled USD 504 million and USD 539 million as of 31 December 2015 and 30 September 2016, respectively.

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



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## 7 Fair value disclosures

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

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

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

Level 2 inputs are market-based inputs that are directly or indirectly observable, but not considered level 1 quoted prices. Level 2 inputs consist of (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical assets or liabilities in non-active markets (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 (OTC) derivatives trade in less liquid markets with limited pricing information and the determination of fair value for these derivatives is inherently more difficult. Such instruments are classified within level 3 of the fair value hierarchy. Pursuant to the election of the fair value option, the Group classifies certain liabilities for life and health policy benefits in level 3 of the fair value hierarchy. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads, and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

The fair values of assets are adjusted to incorporate the risk of counterparty non-performance. Similarly, the fair values of liabilities reflect the risk of non-performance of the Group, captured by the Group's credit spread. These valuation adjustments from assets and liabilities measured at fair value using significant unobservable inputs are recognised in net realised gains and losses. For the nine months ended 30 September 2016, these adjustments were not material. Whenever the underlying assets or liabilities are reported in a specific business segment, the valuation adjustment is allocated accordingly. Valuation adjustments not attributable to any business segment are reported in Other.

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

### Valuation techniques

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

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

Values of mortgage- and asset-backed securities are obtained both from third-party pricing vendors and through quoted prices, some of which may be based on the prices of comparable securities with similar structural and collateral features. Values of certain asset-backed securities (ABS) for which there are no significant observable inputs are developed using benchmarks to similar transactions or indices. For both residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (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, judgements may be required to determine comparable securities based on the loan type and deal-specific performance. CMBS terms may also incorporate lock-out periods that restrict borrowers from prepaying the loans or provide disincentives to prepay and therefore reduce prepayment risk of these securities compared to RMBS. The factors specifically considered in valuation of CMBS include borrower-specific statistics in a specific region, such as debt service coverage and loan-to-value ratios, as well as the type of commercial property. Mortgage- and asset-backed securities also include debt securitised by credit card, student loan and auto loan receivables. Pricing inputs for these securities also focus on capturing, where relevant, collateral quality and performance, payment patterns, and delinquencies.

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

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

The category "Other invested assets" includes the Group's private equity and hedge fund investments which are made directly or via ownership of funds. Valuation of direct private equity investments requires significant management judgement 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 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). These investments are included under investments measured at net asset value as a practical expedient.

The Group holds both exchange-traded and OTC interest rate, foreign exchange, credit and equity derivative contracts for hedging and trading purposes. The fair values of exchange-traded derivatives measured using observable exchange prices are classified in level 1. Long-dated contracts may require adjustments to the exchange-traded prices which would trigger reclassification to level 2 in the fair value hierarchy. OTC derivatives are generally valued by the Group based on 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 judgements and assumptions).

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

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

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

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

### **Governance around level 3 fair valuation**

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

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

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

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

**Assets and liabilities measured at fair value on a recurring basis**

As of 31 December 2015 and 30 September 2016, the fair values of assets and liabilities measured on a recurring basis by level of input were as follows:

2015 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impact of netting <sup>1</sup>	Total
<b>Assets</b>					
Fixed income securities held for proprietary investment purposes	10 695	52 997	338		64 030
Debt securities issued by US government and government agencies	10 695	1 450			12 145
US Agency securitised products		2 776			2 776
Debt securities issued by non-US governments and government agencies		23 124			23 124
Corporate debt securities		21 143	325		21 468
Mortgage- and asset-backed securities		4 504	13		4 517
Equity securities held for proprietary investment purposes	3 148		11		3 159
Equity securities backing unit-linked business	818				818
Short-term investments held for proprietary investment purposes	1 795	2 867			4 662
Derivative financial instruments	22	2 266	464	-1 953	799
Interest rate contracts	6	1 304			1 310
Foreign exchange contracts		319			319
Equity contracts	16	617	334		967
Credit contracts		1	1		2
Other contracts		25	129		154
Other invested assets	579	49	1 013		1 641
Funds held by ceding companies		245			245
<b>Total assets at fair value</b>	<b>17 057</b>	<b>58 424</b>	<b>1 826</b>	<b>-1 953</b>	<b>75 354</b>
<b>Liabilities</b>					
Derivative financial instruments	-17	-1 576	-497	1 477	-613
Interest rate contracts	-5	-789			-794
Foreign exchange contracts		-201			-201
Equity contracts	-12	-582	-38		-632
Credit contracts			-19		-19
Other contracts		-4	-440		-444
Liabilities for life and health policy benefits			-165		-165
Accrued expenses and other liabilities	-812	-2 524	-1 474		-4 810
<b>Total liabilities at fair value</b>	<b>-829</b>	<b>-4 100</b>	<b>-2 136</b>	<b>1 477</b>	<b>-5 588</b>

<sup>1</sup>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.

2016 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 <sup>1</sup>	Investments measured at net asset value as a practical expedient	Total
<b>Assets</b>						
Fixed income securities held for proprietary investment purposes	10 938	59 725	346			71 009
Debt securities issued by US government and government agencies	10 938	1 741				12 679
US Agency securitised products		4 204				4 204
Debt securities issued by non-US governments and government agencies		26 482				26 482
Corporate debt securities		22 952	338			23 290
Mortgage- and asset-backed securities		4 346	8			4 354
Equity securities held for proprietary investment purposes	2 732		1			2 733
Equity securities backing unit-linked business	524					524
Short-term investments held for proprietary investment purposes	3 662	3 944				7 606
Derivative financial instruments	12	2 345	534	-1 873		1 018
Interest rate contracts	4	1 510				1 514
Foreign exchange contracts		352				352
Equity contracts	8	478	419			905
Credit contracts						0
Other contracts		5	115			120
Other invested assets	600	74	169		742	1 585
Funds held by ceding companies		225				225
<b>Total assets at fair value</b>	<b>18 468</b>	<b>66 313</b>	<b>1 050</b>	<b>-1 873</b>	<b>742</b>	<b>84 700</b>
<b>Liabilities</b>						
Derivative financial instruments	-13	-2 156	-676	1 885		-960
Interest rate contracts	-4	-1 178				-1 182
Foreign exchange contracts		-316				-316
Equity contracts	-9	-662	-49			-720
Credit contracts			-7			-7
Other contracts			-620			-620
Liabilities for life and health policy benefits			-171			-171
Accrued expenses and other liabilities	-882	-3 553	-1 299			-5 734
<b>Total liabilities at fair value</b>	<b>-895</b>	<b>-5 709</b>	<b>-2 146</b>	<b>1 885</b>		<b>-6 865</b>

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

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

As of 31 December 2015 and 30 September 2016, the reconciliation of the fair values of assets and liabilities measured on a recurring basis using significant unobservable inputs was as follows:

2015 USD millions	Fixed income securities	Equity securities	Derivative assets	Other invested assets	Total assets	Derivative liabilities	Liabilities for life and health policy benefits	Accrued expenses and other liabilities	Total liabilities
<b>Assets and liabilities</b>									
Balance as of 1 January	388	4	537	1 289	2 218	-717	-187	-1 559	-2 463
Realised/unrealised gains/losses:									
Included in net income	4		-20	45	29	165	22		187
Included in other comprehensive income	-14	-1		-71	-86				0
Purchases	9		7	134	150				0
Issuances					0	-10			-10
Sales	-46		-3	-441	-490	1			1
Settlements	-35		-72		-107	65			65
Transfers into level 3 <sup>1</sup>	33	8	15	70	126	-1			-1
Transfers out of level 3 <sup>1</sup>					0				0
Impact of foreign exchange movements	-1			-13	-14			85	85
<b>Closing balance as of 31 December</b>	<b>338</b>	<b>11</b>	<b>464</b>	<b>1 013</b>	<b>1 826</b>	<b>-497</b>	<b>-165</b>	<b>-1 474</b>	<b>-2 136</b>

<sup>1</sup> Transfers are recognised at the date of the event or change in circumstances that caused the transfer.

2016 USD millions	Fixed income securities	Equity securities	Derivative assets	Other invested assets	Total assets	Derivative liabilities	Liabilities for life and health policy benefits	Accrued expenses and other liabilities	Total liabilities
<b>Assets and liabilities</b>									
Balance as of 1 January	338	11	464	1 013	<b>1 826</b>	-497	-165	-1 474	<b>-2 136</b>
Impact of Accounting Standards Updates <sup>2</sup>				-895	<b>-895</b>				<b>0</b>
Realised/unrealised gains/losses:									
Included in net income	3		95	-14	<b>84</b>	-118	2		<b>-116</b>
Included in other comprehensive income	7			9	<b>16</b>				<b>0</b>
Purchases	74		4	42	<b>120</b>				<b>0</b>
Issuances					<b>0</b>	-23			<b>-23</b>
Sales	-37		-21	-1	<b>-59</b>	20			<b>20</b>
Settlements	-30		-14		<b>-44</b>	-53			<b>-53</b>
Transfers into level 3 <sup>1</sup>			6	10	<b>16</b>	-13			<b>-13</b>
Transfers out of level 3 <sup>1</sup>	-5	-10			<b>-15</b>	8	-9		<b>-1</b>
Impact of foreign exchange movements	-4			5	<b>1</b>		1	175	<b>176</b>
<b>Closing balance as of 30 September</b>	<b>346</b>	<b>1</b>	<b>534</b>	<b>169</b>	<b>1 050</b>	<b>-676</b>	<b>-171</b>	<b>-1 299</b>	<b>-2 146</b>

<sup>1</sup> Transfers are recognised at the date of the event or change in circumstances that caused the transfer.

<sup>2</sup> Impact of ASU 2015-07. Please refer to Note 1 for more details.

**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 nine months ended 30 September were as follows:

USD millions	2015	2016
Gains/losses included in net income for the period	153	-32
Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date	-3	-154

**Quantitative information about level 3 fair value measurements**

Unobservable inputs for major level 3 assets and liabilities as of 31 December 2015 and 30 September 2016 were as follows:

USD millions	2015 Fair value	2016 Fair value	Valuation technique	Unobservable input	Range (weighted average)
<b>Assets</b>					
Corporate debt securities	325	<b>338</b>			
Private placement corporate debt	241	205	Corporate Spread Matrix	Credit spread	60 bps–674 bps (221 bps)
Private placement credit tenant leases	51	51	Discounted Cash Flow Model	Illiquidity premium	75 bps–175 bps (132 bps)
Infrastructure loans	32	80	Discounted Cash Flow Model	Valuation spread	171 bps–175 bps (173 bps)
Derivative equity contracts	334	<b>419</b>			
OTC equity option referencing correlated equity indices	334	419	Proprietary Option Model	Correlation	-50%–100% (25%) <sup>1</sup>
<b>Liabilities</b>					
Derivative equity contracts	-38	<b>-49</b>			
OTC equity option referencing correlated equity indices	-38	-49	Proprietary Option Model	Correlation	-50%–100% (25%) <sup>1</sup>
Other derivative contracts and liabilities for life and health policy benefits	-605	<b>-791</b>			
Variable annuity and fair valued GMDDB contracts	-567	-761	Discounted Cash Flow Model	Risk margin Volatility Lapse Mortality adjustment Withdrawal rate	4% (n.a.) 4%–42% 0.5%–33% -10%–0% 0%–90%

<sup>1</sup> Represents average input value for the reporting period.



### **Sensitivity of recurring level 3 measurements to changes in unobservable inputs**

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

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

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

**Other invested assets measured at net asset value**

Other invested assets measured at net asset value as of 31 December 2015 and 30 September 2016, respectively, were as follows:

USD millions	2015 Fair value	2016 Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Private equity funds	550	437	91	non-redeemable	n.a.
Hedge funds	135	104		redeemable <sup>1</sup>	45-95 days <sup>2</sup>
Private equity direct	31	1		non-redeemable	n.a.
Real estate funds	203	200	54	non-redeemable	n.a.
<b>Total</b>	<b>919</b>	<b>742</b>	<b>145</b>		

<sup>1</sup> The redemption frequency varies by position.

<sup>2</sup> Cash distribution can be delayed for an extended period depending on the sale of the underlyings.

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

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

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

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

**Fair value option**

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

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

**Other invested assets**

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

**Funds held by ceding companies**

For operational efficiencies, the Group elected the fair value option for funds held by the cedent under three of its reinsurance agreements. The assets are carried at fair value and changes in fair value are reported as a component of earnings.

**Liabilities for life and health policy benefits**

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

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

Pursuant to the election of the fair value option for the items described, the balances as of 31 December 2015 and 30 September 2016 were as follows:

USD millions	2015	2016
<b>Assets</b>		
Other invested assets	7 861	8 772
of which at fair value pursuant to the fair value option	92	114
Funds held by ceding companies	10 668	9 254
of which at fair value pursuant to the fair value option	245	225
<b>Liabilities</b>		
Liabilities for life and health policy benefits	-16 779	-16 847
of which at fair value pursuant to the fair value option	-165	-171

### 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 nine months ended 30 September were as follows:

USD millions	2015	2016
Other invested assets	5	-11
Funds held by ceding companies	4	6
Liabilities for life and health policy benefits	6	-5
<b>Total</b>	15	-10

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

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

Assets and liabilities not measured at fair value but for which the fair value is disclosed as of 31 December 2015 and 30 September 2016 were as follows:

2015 USD millions	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
<b>Assets</b>			
Policy loans		80	80
Mortgage loans		1 389	1 389
Other loans		2 363	2 363
Investment real estate		3 205	3 205
<b>Total assets</b>	0	7 037	7 037

**Liabilities**

Debt	-8 190	-7 137	-15 327
<b>Total liabilities</b>	-8 190	-7 137	-15 327

2016 USD millions	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
<b>Assets</b>			
Policy loans		80	80
Mortgage loans		1 443	1 443
Other loans		2 254	2 254
Investment real estate		3 483	3 483
<b>Total assets</b>	0	7 260	7 260
<b>Liabilities</b>			
Debt	-7 317	-7 894	-15 211
<b>Total liabilities</b>	-7 317	-7 894	-15 211

Policy loans, other loans and certain mortgage loans are classified as level 3 measurements, as they do not have an active exit market. Some of these positions need to be assessed in conjunction with the corresponding insurance business, whilst the fair value of some other positions do not differ materially from the carrying amount. Considering these circumstances for these positions, the Group presents the carrying amount as an approximation for the fair value. For certain commercial mortgage loans and infrastructure loans, which are included in mortgage loans and other loans respectively, the fair value can be estimated using discounted cash flow models which are based on discount curves and spread inputs that require management's judgement.

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

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

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## 8 Derivative financial instruments

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

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

## Fair values and notional amounts of derivative financial instruments

As of 31 December 2015 and 30 September 2016, the fair values and notional amounts of the derivatives outstanding were as follows:

2015 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
<b>Derivatives not designated as hedging instruments</b>				
Interest rate contracts	66 787	1 310	-794	516
Foreign exchange contracts	14 273	282	-201	81
Equity contracts	16 374	967	-632	335
Credit contracts	188	2	-19	-17
Other contracts	17 842	154	-444	-290
<b>Total</b>	<b>115 464</b>	<b>2 715</b>	<b>-2 090</b>	<b>625</b>
<b>Derivatives designated as hedging instruments</b>				
Foreign exchange contracts	2 151	37		37
<b>Total</b>	<b>2 151</b>	<b>37</b>	<b>0</b>	<b>37</b>
<b>Total derivative financial instruments</b>	<b>117 615</b>	<b>2 752</b>	<b>-2 090</b>	<b>662</b>
<b>Amount offset</b>				
Where a right of set-off exists		-1 162	1 162	
Due to cash collateral		-791	315	
<b>Total net amount of derivative financial instruments</b>		<b>799</b>	<b>-613</b>	<b>186</b>

2016 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
<b>Derivatives not designated as hedging instruments</b>				
Interest rate contracts	67 858	1 514	-1 182	332
Foreign exchange contracts	21 652	235	-197	38
Equity contracts	14 426	905	-720	185
Credit contracts	167		-7	-7
Other contracts	16 370	120	-620	-500
<b>Total</b>	<b>120 473</b>	<b>2 774</b>	<b>-2 726</b>	<b>48</b>
<b>Derivatives designated as hedging instruments</b>				
Foreign exchange contracts	10 103	117	-119	-2
<b>Total</b>	<b>10 103</b>	<b>117</b>	<b>-119</b>	<b>-2</b>
<b>Total derivative financial instruments</b>	<b>130 576</b>	<b>2 891</b>	<b>-2 845</b>	<b>46</b>
<b>Amount offset</b>				
Where a right of set-off exists		-1 285	1 285	
Due to cash collateral		-588	600	
<b>Total net amount of derivative financial instruments</b>		<b>1 018</b>	<b>-960</b>	<b>58</b>

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 2015 and 30 September 2016.

### Non-hedging activities

The Group primarily uses derivative financial instruments for risk management and trading strategies. Gains and losses of derivative financial instruments not designated as hedging instruments are recorded in "Net realised investment gains/losses – non-participating business" in the income statement. The gains and losses of derivative financial instruments not designated as hedging instruments for the periods ended 30 September were as follows:

USD millions	Three months ended 30 September		Nine months ended 30 September	
	2015	2016	2015	2016
<b>Derivatives not designated as hedging instruments</b>				
Interest rate contracts	47	-5	58	236
Foreign exchange contracts	170	127	411	169
Equity contracts	74	-44	-78	-83
Credit contracts	3	9		11
Other contracts	-46	110	118	-108
<b>Total gains/losses recognised in income</b>	<b>248</b>	<b>197</b>	<b>509</b>	<b>225</b>

### Hedging activities

The Group designates certain derivative financial instruments as hedging instruments. The designation of derivative financial instruments is primarily used for overall portfolio and risk management strategies. As of 30 September 2016, the following hedging relationships were outstanding:

#### Fair value hedges

The Group enters into foreign exchange swaps to reduce the exposure to foreign exchange volatility for certain of its issued debt positions and fixed income securities. These derivative instruments are designated as hedging instruments in qualifying fair value hedges. Gains and losses on derivative financial instruments designated as fair value hedging instruments are recorded in "Net realised investment gains/losses – non-participating business" in the income statement. The gains and losses attributable to the hedged risks for the periods ended 30 September were as follows:

2015 USD millions	Three months ended 30 September		Nine months ended 30 September	
	Gains/losses on derivatives	Gains/losses on hedged items	Gains/losses on derivatives	Gains/losses on hedged items
<b>Fair value hedging relationships</b>				
Foreign exchange contracts	12	-12	95	-95
<b>Total gains/losses recognised in income</b>	<b>12</b>	<b>-12</b>	<b>95</b>	<b>-95</b>

2016 USD millions	Three months ended 30 September		Nine months ended 30 September	
	Gains/losses on derivatives	Gains/losses on hedged items	Gains/losses on derivatives	Gains/losses on hedged items
<b>Fair value hedging relationships</b>				
Foreign exchange contracts	-48	48	-2	2
<b>Total gains/losses recognised in income</b>	<b>-48</b>	<b>48</b>	<b>-2</b>	<b>2</b>

#### Hedges of the net investment in foreign operations

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

For the year ended 31 December 2015 and the nine months ended 30 September 2016, the Group recorded an accumulated net unrealised foreign currency remeasurement gain of USD 1 075 million and a gain of USD 1 028 million, respectively, in shareholder's equity. These offset translation gains and losses on the hedged net investment.



**Maximum potential loss**

In consideration of the rights of set-off and the qualifying master netting arrangements with various counterparties, the maximum potential loss as of 31 December 2015 and 30 September 2016 was approximately USD 1 590 million and USD 1 606 million, respectively. The maximum potential loss is based on the positive market replacement cost assuming non-performance of all counterparties, excluding cash collateral.

**Credit risk-related contingent features**

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

The total fair value of derivative financial instruments containing credit risk-related contingent features amounted to USD 51 million and USD 92 million as of 31 December 2015 and 30 September 2016, respectively. For derivative financial instruments containing credit risk-related contingent features, the Group posted collateral of nil as of 31 December 2015 and 30 September 2016, respectively. In the event of a reduction of the Group's credit rating to below investment grade, a fair value of USD 92 million additional collateral would have had to be posted as of 30 September 2016. The total equals the amount needed to settle the instruments immediately as of 30 September 2016.

## 9 Debt and contingent capital instruments

The Group enters into long- and short-term debt arrangements to obtain funds for general corporate use and specific transaction financing. The Group defines short-term debt as debt having a maturity at the balance sheet date of not greater than one year and long-term debt as having a maturity of greater than one year. For subordinated debt positions, maturity is defined as the first optional redemption date (notwithstanding that optional redemption could be subject to regulatory consent). Interest expense is classified accordingly.

The Group's debt as of 31 December 2015 and 30 September 2016 was as follows:

USD millions	2015	2016
Senior financial debt	2 285	3 759
Senior operational debt	751	442
Subordinated financial debt	1 069	574
<b>Short-term debt – financial and operational debt</b>	<b>4 105</b>	<b>4 775</b>
Senior financial debt	2 880	2 278
Senior operational debt	467	424
Subordinated financial debt	3 607	3 012
Subordinated operational debt	2 720	2 381
<b>Long-term debt – financial and operational debt</b>	<b>9 674</b>	<b>8 095</b>
<b>Total carrying value</b>	<b>13 779</b>	<b>12 870</b>
<b>Total fair value</b>	<b>15 327</b>	<b>15 211</b>

### Interest expense on long-term debt and contingent capital instruments

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

USD millions	Three months ended 30 September		Nine months ended 30 September	
	2015	2016	2015	2016
Senior financial debt	26	25	78	77
Senior operational debt	2	3	8	8
Subordinated financial debt	42	36	170	121
Subordinated operational debt	35	30	103	94
<b>Total</b>	<b>105</b>	<b>94</b>	<b>359</b>	<b>300</b>

In addition to the above, interest expense on contingent capital instruments classified as equity was USD 17 million and USD 17 million for the three months ended 30 September 2015 and 2016, respectively, and USD 51 million and USD 51 million for the nine months ended 30 September 2015 and 2016, respectively.

### Long-term debt issued in 2016

No long-term debt was issued in the nine months ended 30 September 2016.

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## 10 Variable interest entities

The adoption of ASU 2015-02 as of 1 January 2016 led to an increase in the number of variable interest entities (VIEs), mainly due to the evaluation of partnerships and investment funds.

The Group enters into arrangements with 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 primarily as a result of the Group's involvement in certain insurance-linked securitisations, life and health funding transactions, swaps in trusts, debt financing, investment, senior commercial mortgage and infrastructure loans as well as other entities, which meet the definition of a VIE.

When analysing whether the entity is a VIE, 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 is assessed for consolidation under the VIE section of the Consolidation Topic.

The party that has a controlling financial interest is called a primary beneficiary and consolidates the VIE. The party 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 the entity's losses 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.

For all its variable interests in VIEs, the Group assesses whether it has a controlling financial interest in these entities and, thus, is the primary beneficiary. 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. Additionally, 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.

The Group monitors changes to the facts and circumstances of the existing involvement with legal entities to determine whether they require reconsideration of the entity's designation as a VIE or voting interest entity. For VIEs, the Group reassesses regularly the primary beneficiary determination.

### **Insurance-linked securitisations**

The insurance-linked securitisations transfer pre-existing insurance risk to investors through the issuance of insurance-linked securities. In insurance-linked securitisations, the securitisation vehicle assumes the insurance risk from a sponsor through insurance or derivative contracts. The securitisation vehicle generally retains the issuance proceeds as collateral, which consists of investment-grade securities. The Group does not have potentially significant variable interest in these vehicles and therefore is not a primary beneficiary.

Typically, the variable interests held by the Group arise through ownership of insurance-linked securities, in which case the Group's maximum loss equals the principal amount of the securities held by the Group.

### **Life and health funding vehicles**

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

### **Swaps in trusts**

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

### **Debt financing vehicles**

The Group consolidates a debt-financing vehicle created to collateralise reinsurance coverage provided by the Group. The Group manages the asset portfolio in the vehicle and absorbs the variability of the investment return of the vehicle's portfolio thereby satisfying both criteria for a controlling financial interest: power over activities most significant to the vehicle's economic performance and significant economic interest.

### **Investment vehicles**

The Group's variable interests in investment partnerships arise through ownership of the limited partner interests. Many investment partnerships are VIEs under ASU 2015-02, because the limited partners as a group lack kick-out or participating rights. The Group does not hold the general partner interest in the limited partnerships and therefore does not direct investment activities of the entity. Therefore, the Group lacks power over the relevant activities of the vehicles and, consequently, does not qualify as the primary beneficiary. The Group is exposed to losses when the values of the investments held by the investment vehicles decrease. The Group's maximum exposure to loss equals the Group's share of the investment.

The Group is a passive investor in structured securitisation vehicles issuing residential and commercial mortgage-backed securities (RMBS and CMBS, respectively) and other asset-backed securities (ABS). The Group's investments in RMBS, CMBS and other ABS are passive in nature and do not obligate the Group to provide any financial or other support to the issuer entities. By design, RMBS, CMBS and ABS securitisation entities are not adequately capitalised and therefore considered VIEs. The Group is not the primary beneficiary, because it does not have power to direct most significant activities. These investments are accounted for as available-for-sale as described in the investment note 6 and are not included in the tables below.

The Group consolidates an investment vehicle, because the Group holds the entire interest in the entity and makes investment decisions related to the entity. The investment vehicle is a VIE under ASU 2015-02, because it is structured as an umbrella company comprised of multiple sub-funds. Majority of the investments held in this vehicle are accounted for as available for sale and are disclosed in the investment note 6 and not included in the tables below.

### **Investment vehicles (unit-linked business)**

Additionally, the Group invests on behalf of the policyholders as a passive investor in a variety of investment funds across various jurisdictions. By design, many of these funds meet a VIE definition. While the Group may have a potentially significant variable interest in some of these entities due to its share of the fund's total net assets, it never has power over the fund's investment decisions, or unilateral kick-out rights relative to the decision maker.

The Group is not exposed to losses in the aforementioned investment vehicles, as the investment risk is born by the policyholder.

### **Senior commercial mortgage and infrastructure loans**

The Group also invests in structured commercial mortgage and infrastructure loans, which are held for investment.

The commercial mortgage loans are made to non-recourse special purpose entities collateralised with commercial real estate. The entities are adequately capitalised and generally structured as voting interest entities. Occasionally, the borrower entities can be structured as limited partnerships where the limited partners do not have kick-out or participating rights, which results in the VIE designation.

The infrastructure loans are made to non-recourse special purpose entities collateralised with infrastructure project assets. Some borrower entities may have insufficient equity investment at risk, which results in the VIE designation.

The Group does not have power over the activities most significant to the aforementioned borrower entities designated as VIEs and therefore does not consolidate them.

The Group's maximum exposure to loss from its investments equals the loan outstanding amount.

### **Other**

The Group consolidates a vehicle providing reinsurance to its members, because it serves as a decision maker over the entity's investment and underwriting activities, as well as provides retrocession for the majority of the vehicle's insurance risk and receives performance-based fees. Additionally, the Group is obligated to provide the vehicle with loans in case of a deficit. The vehicle is a VIE, primarily because its total equity investment at risk is insufficient and the members lack decision-making rights.

The Group did not provide financial or other support to any VIEs during 2016 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 the VIEs of which the Group is the primary beneficiary as of 31 December 2015 and 30 September 2016:

USD millions	2015	2016
Fixed income securities available-for-sale	3 876	4 158
Short-term investments	88	139
Other invested assets	26	
Cash and cash equivalents	147	16
Accrued investment income	42	43
Premiums and other receivables	34	46
Deferred acquisition costs	9	11
Deferred tax assets	38	80
Other assets	8	18
<b>Total assets</b>	<b>4 268</b>	<b>4 511</b>
Unpaid claims and claim adjustment expenses	53	68
Unearned premiums	26	30
Reinsurance balances payable	2	14
Deferred and other non-current tax liabilities	96	302
Accrued expenses and other liabilities	17	18
Long-term debt	2 720	2 381
<b>Total liabilities</b>	<b>2 914</b>	<b>2 813</b>

The assets of the consolidated VIEs may only be used to settle obligations of these VIEs and to settle any investors' ownership liquidation requests. There is no recourse to the Group for the consolidated VIEs' liabilities. The assets of the consolidated VIEs are not available to the Group's creditors.

### Non-consolidated VIEs

The following table shows the total assets and liabilities in the Group's balance sheet related to the VIEs in which the Group held a variable interest but was not the primary beneficiary as of 31 December 2015 and 30 September 2016:

USD millions	2015	2016
Fixed income securities available-for-sale	52	328
Equity securities available-for-sale		459
Policy loans, mortgages and other loans	1	710
Other invested assets	918	1 371
Investments for unit-linked business		165
<b>Total assets</b>	<b>971</b>	<b>3 033</b>
Accrued expenses and other liabilities	45	91
<b>Total liabilities</b>	<b>45</b>	<b>91</b>

The following table shows the Group's assets, liabilities representing variable interests and maximum exposure to loss related to the VIEs in which the Group held a variable interest but was not the primary beneficiary as of 31 December 2015 and 30 September 2016:

USD millions	2015			2016		
	Total assets	Total liabilities	Maximum exposure to loss <sup>1</sup>	Total assets	Total liabilities	Maximum exposure to loss <sup>1</sup>
Insurance-linked securitisations	52		52	296		290
Life and health funding vehicles	2	1	1 777	2	1	1 878
Swaps in trusts	146	44	— <sup>2</sup>	116	90	— <sup>2</sup>
Investment vehicles	771		773	1 721		1 721
Investment vehicles for unit-linked business				165		—
Commercial mortgage / infrastructure loans				733		733
<b>Total</b>	<b>971</b>	<b>45</b>	<b>—<sup>2</sup></b>	<b>3 033</b>	<b>91</b>	<b>—<sup>2</sup></b>

<sup>1</sup> Maximum exposure to loss is the loss the Group would absorb from a variable interest in a VIE in the event that all of the assets of the VIE are deemed worthless.

<sup>2</sup> 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.

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## 11 Benefit plans

### **Net periodic benefit cost**

Pension and post-retirement cost for the Group and affiliated companies for the nine months ended 30 September 2015 and 2016 were USD 94 million and USD 82 million, respectively.

### **Employers' contributions for 2016**

For the nine months ended 30 September 2016, the Group and affiliated companies contributed USD 127 million to its defined benefit pension plans and USD 12 million to other post-retirement plans, compared to USD 134 million and USD 12 million, respectively, in the same period of 2015.

The expected 2016 contributions to the defined benefit pension plans and to the post-retirement benefit plans, revised as of 30 September 2016 for the latest information, amount to USD 151 million and USD 16 million, respectively.



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# Cautionary note on forward-looking statements

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

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

- further instability affecting the global financial system and developments related thereto;
- 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 one or more Group companies, and developments adversely affecting the Group’s ability to achieve improved ratings;
- the cyclical nature of the reinsurance industry;
- uncertainties in estimating reserves;

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

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

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

# Note on risk factors

## **General impact of adverse market conditions**

The operations of Swiss Reinsurance Company Ltd (“Swiss Re”) and its subsidiaries (the “Group”) as well as its investment returns are subject to market volatility and macro-economic factors, which are outside of the Group’s control and are often inter-related.

Market sentiment currently is dominated largely by reactions to the outcome of the UK referendum in favour of withdrawing from the European Union, and concerns in respect of a range of related economic, monetary, political, regulatory and constitutional issues. There is no consensus on the future of the relationship between the United Kingdom and the European Union. Since the referendum, sterling has fallen to lows against the dollar not seen since 1985, bond yields have plummeted and business confidence indices and consumer confidence have dropped. The uncertainty is compounded by upcoming elections in various key European countries and the magnitude of the issues that will need to be addressed and resolved in the coming months and possibly longer as between the United Kingdom and the European Union. Efforts to address the issues presented by the UK referendum will take place against the backdrop of macro-economic and global political conditions that predate the referendum, including uneven and uncertain growth forecasts for the principal global economies; continued dislocation caused by the drop in oil prices; continued concerns over the implications of austerity-driven economic policies in Europe and the ability of the European Union to address significant ongoing structural challenges; deceleration in GDP growth and other negative trends in emerging markets; and geopolitical instability, reflecting the political and military situations in the Middle East and North Africa, the rise of the so-called Islamic State, concerns over further terrorist attacks across the globe and the political, economic and social crises caused by massive waves of migration into and through Europe. These factors have contributed to downward pressure on the capital markets and significant volatility in foreign exchange markets, and call into question the likelihood of continued recovery of the global economies. Liquidity concerns in respect of financial institutions could exacerbate current levels of volatility.

With the nature of the relationship between the United Kingdom and the European Union unlikely to be resolved in the near-term, fewer options available to policymakers and concerns generally over the absence of realistic confidence-building measures, and with heightened risk that volatility or depressed conditions in one sector, one market, one country or one region could have far broader implications, volatility can be expected to continue. Further adverse developments or the continuation of adverse trends that in turn have a negative impact on financial markets and economic conditions could limit the Group’s ability to access the capital markets and bank funding markets, could adversely affect the ability of counterparties to meet their obligations to the Group and could adversely affect the confidence of the ultimate buyers of reinsurance. Any such developments and trends could also have an adverse effect on the Group’s investment results, which in the current low interest rate environment and soft insurance cycle could have a material adverse effect on the Group’s overall results, make it difficult to determine the value of certain assets in the Group’s investment portfolio and/or make it difficult to acquire suitable investments to meet the Group’s risk and return criteria. The Group will continue to assess the longer-term implications of the UK referendum and potential scenarios affecting both the United Kingdom and the European Union on its operations and capital position.

## Regulatory changes

Swiss Re and its subsidiaries operate in a highly regulated environment and are subject to applicable regulation in each of the jurisdictions in which they conduct business, particularly Switzerland, the United States, the United Kingdom, Luxembourg and Germany. In addition, the Group could be affected by regulatory changes or developments affecting the overall Swiss Re group, comprising Swiss Re Ltd (“SRL”) and its consolidated subsidiaries, of which the Group is a part (the “Swiss Re Group”). The regulatory regimes to which members of the Group are subject have changed significantly in recent years and are expected to continue to evolve as a result of global efforts following the credit crisis.

Although early regulatory efforts following the credit crisis were focused primarily on banking institutions, there has been a noticeable trend in recent years to extend the scope of reforms and oversight beyond such institutions to cover insurance and reinsurance operations. Legislative initiatives directly impacting the Group’s industry include the establishment of a pan-European regulator for insurance companies, the European Insurance and Occupational Pension Authority (the “EIOPA”), which has the power to overrule national regulators in certain circumstances. In addition, the Group is subject to the Swiss Solvency Test and, through its legal entities organised in the European Economic Area, Solvency II, which entered into force on 1 January 2016. The Group is also monitoring the impact of the Swiss Federal Act on Financial Market Infrastructure (which became effective 1 January 2016 and which introduced new regulations for over-the-counter derivatives trading in line with international standards) and the proposed Swiss Federal Financial Services Act and Financial Institutions Act (which contain rules for financial services providers that are based on the EU Markets in Financial Instruments Directive (“MiFID II”) and EU Markets in Financial Instruments Regulation (“MiFIR”). In the United States, as a possible step towards federal oversight of insurance, the US Congress created the Federal Insurance Office within the Department of Treasury. Evolving rules in respect of derivative trading under the Wall Street Reform and Consumer Protection Act of 2010, as well as under the European Market Infrastructure Regulation, MiFIR and MiFID II (which enters into force 3 January 2018) could have a significant impact on the Group.

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

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

The Group cannot predict which legislative and regulatory initiatives will be enacted or promulgated, what the scope and content of these initiatives ultimately will be, when they will be effective and what the implications will be for the industry, in general, and for the Group, in particular. The Group may be subject to changes in views of its regulators in respect of the models the Group uses for capital and solvency purposes, and could be adversely affected if for example the Group is required to use standard models rather than internal models. Generally, legal and regulatory changes could have a material impact on the Group's business. Uncertainty triggered by the outcome of the UK referendum could also impact the legislative or regulatory regimes to which the Group or the broader Swiss Re Group are subject, both in the United Kingdom and in the European Union.

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

#### **Market risk**

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

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

These risks can have a significant effect on investment returns and market values of securities positions, which in turn may affect both the Group's results of operations and financial condition. The Group continues to focus on asset-liability management for its investment portfolio, but pursuing even this strategy has its risks – including

possible mismatch – that in turn can lead to reinvestment risk. The Group seeks to manage the risks inherent in its investment portfolio by repositioning the portfolio from time to time, as needed, and to reduce risk and fluctuations through the use of hedges and other risk management tools.

#### **Credit risk**

If the credit markets were again to deteriorate and further asset classes were to be impacted, the Group could experience 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 write-downs in other areas of its portfolio, including other structured instruments, and the Group and its counterparties could face difficulties in valuing credit-related instruments. Differences in opinion with respect to valuations of credit-related instruments could result in legal disputes among the Group and its counterparties as to their respective obligations, the outcomes of which are difficult to predict and could be material.

#### **Liquidity risks**

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

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

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

### **Counterparty risks**

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

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

### **Risks relating to credit rating downgrades**

Ratings are an important factor in establishing the competitive position of reinsurance companies. Third-party rating agencies assess and rate the financial strength of reinsurers and insurers. These ratings are intended to measure a company's ability to repay its obligations and are based upon criteria established by the rating agencies. Ratings may be revised downward or revoked at the sole discretion of 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, and market conditions could increase the risk of downgrade. Rating agencies may increase the frequency and scope of ratings reviews, revise their criteria or take other actions that may negatively impact the Group's ratings. In addition, changes to the process or methodology of issuing ratings, or the occurrence of events or developments affecting the Group, could make it more difficult for the Group to achieve improved ratings which it would otherwise have expected.

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

### **Legal and regulatory risks**

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

The Group is also involved, from time to time, in investigations and regulatory proceedings, certain of which could result in adverse judgements, settlements, fines and other outcomes. The number of these investigations and proceedings involving



the financial services industry has increased in recent years, and the potential scope of these investigations and proceedings has also increased, not only in respect of matters covered by the Group's direct regulators, but also in respect of compliance with broader business conduct rules, including those in respect of market abuse, bribery, money laundering, trade sanctions and data protection and privacy. The Group also is subject to audits and challenges from time to time by tax authorities, which could result in increases in tax costs, changes to internal structures and interest and penalties. Tax authorities may also actively pursue additional taxes based on retroactive changes to tax laws. 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 and malfeasance, such as undertaking or facilitating cyber attacks on internal systems. Substantial legal liability could materially adversely affect the Group's business, financial condition or results of operations or could cause significant reputational harm, which could seriously affect its business.

#### **Insurance, operational and other risks**

As part of the Group's ordinary course operations, the Group is subject to a variety of risks, including risks that reserves may not adequately cover future claims and benefits, risks that catastrophic events (including hurricanes, windstorms, floods, earthquakes, acts of terrorism, man-made disasters such as industrial accidents, explosions, and fires, and pandemics) may expose the Group to unexpected large losses (and related uncertainties in estimating future claims in respect of such events); changes in the insurance industry that affect ceding companies, particularly those that further increase their sensitivity to counterparty risk; competitive conditions (including as a result of consolidation and the availability of significant levels of alternative capacity); cyclicalities of the industry; risks related to emerging claims and coverage issues (including, for example, trends to establish stricter building standards, which can lead to higher industry losses for earthquake cover based on higher replacement values); macro developments giving rise to emerging risks, including climate change and technological developments (including greater exposure to cyber risks); risks arising from the Group's dependence on policies, procedures and expertise of ceding companies; risks related to investments in emerging markets; and risks related to the failure of, or attacks directed at, the Group's operational systems and infrastructure. Any of the foregoing, as well 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, and 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. Changes in accounting standards could impact future reported results or require restatement of past reported results. 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.

The Group uses non-GAAP financial measures in its external reporting. 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 substitutes for measures prepared in accordance with US GAAP. Moreover, these may be different from or otherwise inconsistent with non-GAAP financial measures used by other companies. These measures have inherent limitations, are not required to be uniformly applied and are not audited.

**Risks related to the Swiss Re corporate structure**

Following the realignment of the corporate structure of SRL in 2012, the asset base, liquidity position, capital profile and other characteristics of the Group of relevance to its counterparties changed. Swiss Re is a wholly owned subsidiary of SRL, and the Group represents only two of the four principal operating segments of the Swiss Re Group. Capital, funding, reserve and cost allocations are made at the Swiss Re Group level across the four operating segments based principally on business plans as measured against US GAAP and economic value management metrics. Decisions at the Swiss Re Group level in respect of the broader Swiss Re Group could have an adverse impact on the Group's financial condition, including its capital and liquidity levels, as well as on its SST ratio. As part of the Swiss Re Group's focus on efficient capital allocation, the Group expects to be paying dividends to SRL. Decisions on dividends payable by each of the operating segments, including the Group, are made at the Swiss Re Group level based on legal entity, regulatory, capital and liquidity considerations. The Swiss Re Group expects that, over time, its structure will continue to evolve, and while to date all of the Swiss Re Group's principal operations, including the Group, remain wholly owned, in the future the Swiss Re Group may elect to partner with minority investors in or within one or more of the Swiss Re Group's business units or sub-groups within its business units, which could alter historical approaches taken in respect of capital, liquidity, funding and/or dividends, as well as other governance matters, including strategy for such business unit or sub-group.

While further changes to the overall Swiss Re Group structure may not have a financial statement impact on a Swiss Re Group consolidated basis, they would impact the Group to the extent that operations are transferred into or from the Group, or as a result of intra-group transactions (from the perspective of the Swiss Re Group) to the extent the Group is a counterparty to any such transactions.



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