Swiss Re

# Swiss Reinsurance Company Consolidated Second Quarter 2013 Report

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

# Income statement (unaudited)

| USD millions | Note | Three months ended 30 June 2012 | 2013 | Six months ended 30 June 2012 | 2013 |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Premiums earned | 7 | 4977 | **5903** | 10208 | **11783** |
| Fee income from policyholders | 7 | 22 | **40** | 42 | **85** |
| Net investment income – non-participating | 2 | 810 | **790** | 1585 | **1533** |
| Net realised investment gains/losses – non-participating business (total impairments for the three months ended 30 June were 31 in 2012 and 6 in 2013, of which 23 and 6, respectively, were recognised in earnings)[1] | 2 | 581 | **84** | 634 | **524** |
| Net investment result – unit-linked and with-profit | 2 | –39 | **–7** | 87 | **92** |
| Other revenues | | 30 | **11** | 50 | **21** |
| **Total revenues** | | 6381 | **6821** | 12606 | **14038** |
| | | | | | |
| **Expenses** | | | | | |
| Claims and claim adjustment expenses | 7 | –1419 | **–2247** | –3151 | **–3736** |
| Life and health benefits | 7 | –1630 | **–2264** | –3167 | **–4086** |
| Return credited to policyholders | | 17 | **–84** | –127 | **–281** |
| Acquisition costs | 7 | –1086 | **–1100** | –2080 | **–2073** |
| Other expenses | | –474 | **–647** | –973 | **–1262** |
| Interest expenses | | –182 | **–190** | –376 | **–385** |
| **Total expenses** | | –4774 | **–6532** | –9874 | **–11823** |
| | | | | | |
| **Income before income tax expense** | | 1607 | **289** | 2732 | **2215** |
| Income tax expense/benefit | | –394 | **228** | –722 | **–267** |
| **Net income before attribution of non-controlling interests** | | 1213 | **517** | 2010 | **1948** |
| | | | | | |
| Income attributable to non-controlling interests | | –92 | **–1** | –115 | **–1** |
| **Net income after attribution of non-controlling interests** | | 1121 | **516** | 1895 | **1947** |
| | | | | | |
| Interest on contingent capital instruments | | –18 | **–14** | –21 | **–32** |
| **Net income attributable to common shareholder** | | 1103 | **502** | 1874 | **1915** |

[1] Total impairments for the six months ended 30 June were USD 120 million in 2012 and USD 18 million in 2013, of which USD 91 million and USD 18 million, respectively, were recognised in earnings.

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

# Statement of comprehensive income (unaudited)

| USD millions | Three months ended 30 June 2012 | 2013 | Six months ended 30 June 2012 | 2013 |
|---|---|---|---|---|
| Net income before attribution of non-controlling interests | 1 213 | **517** | 2 010 | **1 948** |
| Other comprehensive income, net of tax: | | | | |
| Change in unrealised gains/losses (tax: for the three months ended 30 June –343 in 2012 and 722 in 2013; for the six months ended 30 June –179 in 2012 and 932 in 2013) | 929 | **–1 839** | 468 | **–2 356** |
| Change in other-than-temporary impairment (tax: for the three months ended 30 June –2 in 2012 and –7 in 2013; for the six months ended 30 June –27 in 2012 and –10 in 2013) | 1 | **13** | 51 | **18** |
| Change in foreign currency translation (tax: for the three months ended 30 June –95 in 2012 and –13 in 2013; for the six months ended 30 June –1 in 2012 and –43 in 2013) | –215 | **–185** | 387 | **–487** |
| Change in adjustment for pension benefits (tax: for the three months ended 30 June –3 in 2012 and 3 in 2013; for the six months ended 30 June –2 in 2012 and –10 in 2013) | 9 | **–6** | 10 | **39** |
| **Total comprehensive income before attribution of non-controlling interests** | 1 937 | **–1 500** | 2 926 | **–838** |
| | | | | |
| Interest on contingent capital instruments | –18 | **–14** | –21 | **–32** |
| Comprehensive income attributable to non-controlling interests | –92 | **–1** | –115 | **–1** |
| **Total comprehensive income attributable to common shareholder** | 1 827 | **–1 515** | 2 790 | **–871** |

### Reclassification out of accumulated other comprehensive income

For the three months ended 30 June

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

For the six months ended 30 June

| **2013** USD millions | Unrealised gains/ losses[1] | Other-than-temporary impairment[1] | Foreign currency translation[1,2] | Adjustment from pension benefits[3] | **Accumulated other comprehensive income** |
|---|---|---|---|---|---|
| Balance as of 1 January | 3 059 | –27 | –3 180 | –928 | **–1 076** |
| Change during the period | –2 896 | 28 | –444 | 19 | **–3 293** |
| Amounts reclassified out of accumulated other comprehensive income | –392 | | | 30 | **–362** |
| Tax | 932 | –10 | –43 | –10 | **869** |
| **Balance as of period end** | **703** | **–9** | **–3 667** | **–889** | **–3 862** |

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

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

# Balance sheet (unaudited)

## Assets

| USD millions | Note | 31.12.2012 | 30.06.2013 |
|---|---|---|---|
| **Investments** | 2, 3, 4 | | |
| Fixed income securities: | | | |
| Available-for-sale, at fair value (including 9 256 in 2012 and 11 072 in 2013 subject to securities lending and repurchase agreements) (amortised cost: 2012: 62 762; 2013: 58 782) | | 66 827 | **59 577** |
| Trading (including 196 in 2012 and 563 in 2013 subject to securities lending and repurchase agreements) | | 1 795 | **1 568** |
| Equity securities: | | | |
| Available-for-sale, at fair value (including 0 in 2012 and 8 in 2013 subject to securities lending and repurchase agreements) (cost: 2012: 2 263; 2013: 4 207) | | 2 538 | **4 440** |
| Trading | | 671 | **640** |
| Policy loans, mortgages and other loans | | 3 713 | **3 579** |
| Investment real estate | | 772 | **767** |
| Short-term investments, at amortised cost which approximates fair value (including 3 454 in 2012 and 3 112 in 2013 subject to securities lending and repurchase agreements) | | 16 103 | **16 050** |
| Other invested assets | | 12 383 | **12 359** |
| Investments for unit-linked and with-profit business (including fixed income securities trading: 0 in 2012 and 0 in 2013, equity securities trading: 841 in 2012 and 832 in 2013) | | 841 | **832** |
| **Total investments** | | 105 643 | **99 812** |
| | | | |
| Cash and cash equivalents (including 75 in 2012 and 379 in 2013 subject to securities lending) | | 8 662 | **8 764** |
| Accrued investment income | | 743 | **671** |
| Premiums and other receivables | | 10 157 | **12 103** |
| Reinsurance recoverable on unpaid claims and policy benefits | 7 | 8 175 | **6 951** |
| Funds held by ceding companies | | 14 427 | **13 657** |
| Deferred acquisition costs | 5, 7 | 3 811 | **4 088** |
| Acquired present value of future profits | 5 | 1 986 | **2 154** |
| Goodwill | | 4 075 | **4 001** |
| Income taxes recoverable | | 417 | **509** |
| Deferred tax assets[1] | | 4 867 | **4 890** |
| Other assets | | 4 971 | **7 018** |
| | | | |
| **Total assets** | | 167 934 | **164 618** |

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

## Liabilities and equity

| USD millions | Note | 31.12.2012 | 30.06.2013 |
|---|---|---|---|
| **Liabilities** | | | |
| Unpaid claims and claim adjustment expenses | | 58 904 | **56 274** |
| Liabilities for life and health policy benefits | 3 | 20 270 | **19 834** |
| Policyholder account balances | | 6 512 | **6 519** |
| Unearned premiums | | 7 535 | **9 967** |
| Funds held under reinsurance treaties | | 3 275 | **3 057** |
| Reinsurance balances payable | | 3 666 | **2 769** |
| Income taxes payable | | 498 | **663** |
| Deferred and other non-current taxes[1] | | 7 863 | **6 854** |
| Short-term debt | 6 | 6 551 | **6 264** |
| Accrued expenses and other liabilities | | 13 436 | **18 059** |
| Long-term debt | 6 | 16 482 | **15 530** |
| **Total liabilities** | | 144 992 | **145 790** |
| | | | |
| **Equity** | | | |
| Contingent capital instruments | | 1 102 | **1 102** |
| Common stock, CHF 0.10 par value | | | |
| 2012: 344 052 565; 2013: 344 052 565 shares authorised and issued[2] | | 32 | **32** |
| Additional paid-in capital | | 8 875 | **8 832** |
| Treasury shares, net of tax | | 0 | **0** |
| Shares in Swiss Re Ltd, net of tax | | –144 | **–385** |
| | | | |
| Accumulated other comprehensive income: | | | |
| Net unrealised investment gains/losses, net of tax | | 3 059 | **703** |
| Other-than-temporary impairment, net of tax | | –27 | **–9** |
| Cumulative translation adjustments, net of tax | | –3 180 | **–3 667** |
| Accumulated adjustment for pension and post-retirement benefits, net of tax | | –928 | **–889** |
| Total accumulated other comprehensive income | | –1 076 | **–3 862** |
| | | | |
| Retained earnings | | 14 129 | **13 084** |
| **Shareholder's equity** | | 22 918 | **18 803** |
| | | | |
| Non-controlling interests | | 24 | **25** |
| **Total equity** | | 22 942 | **18 828** |
| | | | |
| **Total liabilities and equity** | | 167 934 | **164 618** |

[1] The Group updated its balance sheet presentation of deferred tax assets and liabilities. Deferred tax assets and liabilities are presented on a gross basis as per the first quarter 2013. The comparative period has been adjusted accordingly and is consistent with the relevant income tax disclosure in the notes to the financial statements in the prior year.
[2] Please refer to Note 1 "Organisation and summary of significant accounting policies" for details on the number of shares authorised and issued.

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

# Statement of equity (unaudited)

For the twelve months ended 31 December 2012 and the six months ended 30 June 2013

| USD millions | 2012 | 2013 |
|---|---|---|
| **Contingent capital instruments** | | |
| Balance as of 1 January | 0 | **1 102** |
| Issued | 1 102 | |
| Balance as of period end | 1 102 | **1 102** |
| **Common shares** | | |
| Balance as of 1 January | 35 | **32** |
| Issue/cancellation of common shares | –3 | |
| Balance as of period end | 32 | **32** |
| **Additional paid-in capital** | | |
| Balance as of 1 January | 8 958 | **8 875** |
| Contingent capital instruments' issuance cost | –18 | |
| Share-based compensation | –29 | **–11** |
| Realised gains/losses on treasury shares | –36 | **–32** |
| Dividends on common shares | | |
| Balance as of period end | 8 875 | **8 832** |
| **Treasury shares, net of tax** | | |
| Balance as of 1 January | –1 032 | **0** |
| Cancellation of treasury shares[1] | 1 032 | |
| Balance as of period end | 0 | **0** |
| **Shares in Swiss Re Ltd, net of tax** | | |
| Balance as of 1 January | –102 | **–144** |
| Change of shares in Swiss Re Ltd[1] | –42 | **–241** |
| Balance as of period end | –144 | **–385** |
| **Net unrealised gains/losses, net of tax** | | |
| Balance as of 1 January | 4 223 | **3 059** |
| Effect of change in Group structure[2] | –2 091 | |
| Other changes during the period[3] | 927 | **–2 356** |
| Balance as of period end | 3 059 | **703** |
| **Other-than-temporary impairment, net of tax** | | |
| Balance as of 1 January | –118 | **–27** |
| Effect of change in Group structure[2] | 17 | |
| Other changes during the period | 74 | **18** |
| Balance as of period end | –27 | **–9** |
| **Foreign currency translation, net of tax** | | |
| Balance as of 1 January | –3 924 | **–3 180** |
| Effect of change in Group structure[2] | 37 | |
| Other changes during the period[3] | 707 | **–487** |
| Balance as of period end | –3 180 | **–3 667** |
| **Adjustment for pension and other post-retirement benefits, net of tax** | | |
| Balance as of 1 January | –775 | **–928** |
| Effect of change in Group structure[2] | 27 | |
| Change during the period | –180 | **39** |
| Balance as of period end | –928 | **–889** |

| | | |
|---|---|---|
| **Retained earnings** | | |
| Balance as of 1 January | 22 229 | **14 129** |
| Effect of change in Group structure[2] | –8 536 | |
| Net income after attribution of non-controlling interests | 3 547 | **1 947** |
| Interest on contingent capital instruments, net of tax | –56 | **–32** |
| Dividends on common shares and dividends-in-kind[3] | –2 636 | **–2 960** |
| Cumulative effect of adoption of ASU 2010-26[4], net of tax | –24 | |
| Cancellation of treasury shares[1] | –1 029 | |
| Effect of transfer of Aurora National Life Assurance Company | 191 | |
| Effect of new reinsurance agreements[5] | 443 | |
| Balance as of period end | 14 129 | **13 084** |
| **Shareholder's equity** | 22 918 | **18 803** |
| **Non-controlling interests** | | |
| Balance as of 1 January | 1 697 | **24** |
| Effect of change in Group structure[2] | –414 | |
| Change during the period | –1 935 | |
| Income attributable to non-controlling interests | 136 | **1** |
| Effect of transfer of Aurora National Life Assurance Company | 540 | |
| Balance as of period end | 24 | **25** |
| **Total equity** | 22 942 | **18 828** |

[1] Based on a resolution adopted at Swiss Reinsurance Company Ltd's Annual General Meeting, held 19 March 2012, to reduce the share capital, the former Swiss Reinsurance Company Ltd shares have been cancelled. The Group presents all transactions related to common shares of Swiss Re Ltd, the parent company of Swiss Reinsurance Company Ltd, in a separate section "Shares in Swiss Re Ltd, net of tax" in its "Statement of equity".
[2] Please refer to Note 1 "Organisation and summary of significant accounting policies".
[3] Includes the impact of the transfer of the shares of Swiss Re Principal Investments Company Ltd through a dividend-in-kind to Swiss Re Ltd. Please refer to Note 1 "Organisation and summary of significant accounting policies".
[4] The Group adopted a new accounting pronouncement, ASU 2010-26 "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts" as of 1 January 2012, which required the release of USD 24 million of deferred acquisition costs against retained earnings.
[5] Due to the sale of Admin Re® US to Jackson National by the Swiss Re Group, certain blocks of business were retained by the Swiss Re Group mainly by way of retrocession to Swiss Reinsurance Company Group legal entities effective 1 July 2012. This resulted in an increase in retained earnings by USD 443 million.

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

# Statement of cash flow (unaudited)

For the six months ended 30 June

| USD millions | 2012 | 2013 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income attributable to common shareholder | 1 874 | **1 915** |
| Add net income attributable to non-controlling interests | 115 | **1** |
| | | |
| Adjustments to reconcile net income to net cash provided/used by operating activities: | | |
| Depreciation, amortisation and other non-cash items | 1 565 | **1 619** |
| Net realised investment gains/losses | –714 | **–610** |
| Change in: | | |
| Technical provisions, net | –102 | **–515** |
| Funds held by ceding companies and other reinsurance balances | –767 | **–2 124** |
| Reinsurance recoverable on unpaid claims and policy benefits | –238 | **476** |
| Other assets and liabilities, net | –1 490 | **756** |
| Income taxes payable/recoverable | 682 | **–48** |
| Income from equity-accounted investees, net of dividends received | –225 | **–15** |
| Trading positions, net | –204 | **–354** |
| Securities purchased/sold under agreement to resell/repurchase, net | 1 546 | **–158** |
| **Net cash provided/used by operating activities** | 2 042 | **943** |
| | | |
| **Cash flows from investing activities** | | |
| Fixed income securities: | | |
| Sales and maturities | 60 414 | **47 974** |
| Purchases | –56 663 | **–43 423** |
| Net purchase/sale/maturities of short-term investments | 14 | **–502** |
| Equity securities: | | |
| Sales | 419 | **657** |
| Purchases | –448 | **–2 648** |
| Cash paid/received for acquisitions/disposal of reinsurance transactions, net | | |
| Net purchases/sales/maturities of other investments | 167 | **–29** |
| **Net cash provided/used by investing activities** | 3 903 | **2 029** |
| | | |
| **Cash flows from financing activities** | | |
| Issuance/repayment of long-term debt | –308 | **664** |
| Issuance/repayment of short-term debt | –697 | **–1 138** |
| Proceeds from the issuance of contingent capital instruments, net of issuance cost | 1 084 | |
| Purchase/sale of shares in Swiss Re Ltd | –111 | **–222** |
| Dividends paid to parent | –2 637 | **–1 873** |
| **Net cash provided/used by financing activities** | –2 669 | **–2 569** |
| | | |
| **Total net cash provided/used** | 3 276 | **403** |
| Effect of foreign currency translation | –61 | **–301** |
| **Change in cash and cash equivalents** | 3 215 | **102** |
| Cash and cash equivalents as of 1 January | 11 298 | **8 662** |
| Effect of change in Group structure[1] | –2 138 | |
| Effect of transfer of Aurora National Life Assurance Company[2] | 464 | |
| **Cash and cash equivalents as of 30 June** | 12 839 | **8 764** |

[1] Please refer to Note 1 "Organisation and summary of significant accounting policies".
[2] Please refer to Note 12 "Related parties" for more details.

Interest paid amounted to USD 483 million and USD 458 million for the six months ended 30 June 2012 and 2013, respectively.

Tax paid amounted to USD 122 million and 270 million for the six months ended 30 June 2012 and 2013, respectively.

Effective 1 January 2013, Swiss Reinsurance Company Ltd transferred its shares in Swiss Re Principal Investments Company Ltd through a USD 1 102 million dividend-in-kind to Swiss Re Ltd. The dividend-in-kind mainly consisted of investments in equity investees and Equity securities available for sale.

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

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# Notes to the Group financial statements (unaudited)

## 1 Organisation and summary of significant accounting policies

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

**Basis of presentation**
The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and comply with Swiss law. All significant intra-group transactions and balances have been eliminated on consolidation. The year-end balance sheet data presented was derived from audited financial statements. These interim financial statements do not include all disclosures that US GAAP requires on an annual basis, and therefore they should be read in conjunction with the audited Swiss Reinsurance Company Consolidated 2012 annual report.

On 25 March 2013, SRZ transferred the shares of Swiss Re Principal Investments Company Ltd through a dividend-in-kind to Swiss Re Ltd. Following the transfer, Swiss Re Principal Investments Company Ltd ceased to be a subsidiary of Swiss Reinsurance Company Ltd. Swiss Re Principal Investments Company Ltd instead became a subsidiary of Swiss Re Ltd. Risks and benefits related to this entity passed to Swiss Re Ltd as of 1 January 2013. Consequently these financial statements were prepared as if Swiss Re Principal Investments Company Ltd had been transferred to Swiss Re Ltd as of 1 January 2013.

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

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

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

For assets or derivative structures at fair value, the Group uses market prices or inputs derived from market prices. A separate internal price verification process, independent of the trading function, provides an additional control over the market prices or market input used to determine the fair values of such assets. Whilst management considers that appropriate values have been ascribed to such assets, there is always a level of uncertainty and judgment over these valuations. Subsequent valuations could differ significantly from the results of the process described above. The Group may become aware of counterparty valuations, either directly through the exchange of information or indirectly, for example, through collateral demands. Any implied differences are considered in the independent price verification process and may result in adjustments to initially indicated valuations. As of 30 June 2013, 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 7 August 2013. This is the date on which the financial statements are available to be issued.

**Recent accounting guidance**

In December 2011, the FASB issued "Disclosures about Offsetting Assets and Liabilities" (ASU 2011-11), an update to Topic 210 – Balance Sheet. In January 2013, a scope clarification of ASU 2011-11 was issued, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities" (ASU 2013-01). ASU 2011-11 requires additional disclosures on derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions that are netted in accordance with current US GAAP guidance. The Group adopted this guidance as of 1 January 2013. The additional disclosure requirements are reflected in Note 2.

In July 2012, the FASB issued "Testing Indefinite-Lived Intangible Assets for Impairment" (ASU 2012-02), an update to Topic 350 – Intangibles – Goodwill and Other. The update allows an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test for indefinite-lived intangible assets. The Group adopted this guidance as of 1 January 2013. The adoption did not have an impact on the Group's financial statements.

In October 2012, the FASB issued "Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution" (ASU 2012-06), an update to Topic 805 – Business Combinations. This ASU gives guidance on the subsequent accounting of an indemnification asset in a government-assisted acquisition. The Group adopted this guidance as of 1 January 2013. The adoption did not have an impact on the Group's financial statements.

In February 2013, the FASB issued "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" (ASU 2013-02). This update supersedes and replaces the presentation requirements for reclassifications out of accumulated other comprehensive income in ASU 2011-05 and ASU 2011-12. The new guidance requires an entity to provide additional information about reclassifications out of accumulated other comprehensive income. The Group adopted this guidance as of 1 January 2013. The additional disclosures are presented below the statement of comprehensive income.

## 2 Investments

### Investment income

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

| USD millions | Three months ended 30 June 2012 | 2013 | Six months ended 30 June 2012 | 2013 |
|---|---|---|---|---|
| Fixed income securities | 432 | 480 | 914 | 961 |
| Equity securities | 24 | 37 | 37 | 49 |
| Policy loans, mortgages and other loans | 22 | 24 | 47 | 46 |
| Investment real estate | 33 | 34 | 67 | 70 |
| Short-term investments | 21 | 27 | 44 | 54 |
| Other current investments | 3 | 22 | 3 | 44 |
| Share in earnings of equity-accounted investees | 175 | 45 | 294 | 74 |
| Cash and cash equivalents | 19 | 16 | 29 | 25 |
| Net result from deposit-accounted contracts | 35 | 33 | 83 | 69 |
| Deposits with ceding companies | 129 | 161 | 232 | 310 |
| **Gross investment income** | 893 | **879** | 1 750 | **1 702** |
| Investment expenses | –81 | –86 | –161 | –165 |
| Interest charged for funds held | –2 | –3 | –4 | –4 |
| **Net investment income – non-participating** | 810 | **790** | 1 585 | **1 533** |

Dividends received from investments accounted for using the equity method were nil and USD 30 million for the three months ended 30 June 2012 and 2013, respectively, as well as USD 69 million and USD 59 million for the six months ended 30 June 2012 and 2013, respectively.

### Realised gains and losses

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

| USD millions | Three months ended 30 June 2012 | 2013 | Six months ended 30 June 2012 | 2013 |
|---|---|---|---|---|
| Fixed income securities available-for-sale: | | | | |
| Gross realised gains | 477 | 364 | 1 202 | 669 |
| Gross realised losses | –26 | –236 | –220 | –366 |
| Equity securities available-for-sale: | | | | |
| Gross realised gains | 27 | 69 | 47 | 104 |
| Gross realised losses | –24 | –7 | –28 | –9 |
| Other-than-temporary impairments | –23 | –6 | –91 | –18 |
| Net realised investment gains/losses on trading securities | 7 | –13 | 32 | –17 |
| Change in net unrealised investment gains/losses on trading securities | 41 | –30 | 81 | –29 |
| Other investments: | | | | |
| Net realised/unrealised gains/losses | –79 | 44 | –238 | 45 |
| Net realised/unrealised gains/losses on insurance-related derivatives | 11 | –50 | –95 | –80 |
| Foreign exchange gains/losses | 170 | –51 | –56 | 225 |
| **Net realised investment gains/losses – non-participating** | 581 | **84** | 634 | **524** |

Proceeds from sales of fixed income securities available-for-sale amounted to USD 20 670 million and USD 24 626 million for the three months ended 30 June 2012 and 2013, respectively, and USD 56 828 million and USD 46 959 million for the six months ended 30 June 2012 and 2013, respectively. Sales of equity securities available-for-sale were USD 254 million and USD 385 million for the three months ended 30 June 2012 and 2013, respectively, and USD 424 million and USD 672 million for the six months ended 30 June 2012 and 2013, respectively.

**Investment result – unit-linked and with-profit business**
The net investment result on unit-linked and with-profit business credited to policyholders amounted to losses of USD 39 million and USD 7 million for the three months ended 30 June 2012 and 2013, and to gains of USD 87 million and USD 92 million for the six months ended 30 June 2012 and 2013, respectively, mainly originating from gains/losses on equity securities.

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

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

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

| USD millions | 2012 | **2013** |
|---|---|---|
| Balance as of 1 January[1] | 515 | 295 |
| Effect of change in Group structure[2] | –122 | |
| Credit losses for which an other-than-temporary impairment was not previously recognised | 2 | –38 |
| Reductions for securities sold during the period | –79 | 7 |
| 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 | 45 | –16 |
| Impact of increase in cash flows expected to be collected | –44 | 13 |
| Impact of foreign exchange movements | 1 | |
| **Balance as of 30 June** | 318 | **261** |

[1] During 2013 the Group revised the other-than-temporary impairment on fixed income securities related to credit losses. The revision had no impact on net income and shareholder's equity of the Group.
[2] Please refer to Note 1 "Organisation and summary of significant accounting policies".

**Investments available-for-sale**

Amortised cost or cost, estimated fair values and other-than-temporary impairments of fixed income securities classified as available-for-sale as of 31 December 2012 and 30 June 2013 were as follows:

| 2012<br>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 | 11 618 | 606 | –34 | | 12 190 |
| US Agency securitised products | 3 844 | 109 | –7 | | 3 946 |
| States of the United States and political subdivisions of the states | 88 | 11 | –1 | | 98 |
| United Kingdom | 9 653 | 461 | –40 | | 10 074 |
| Canada | 3 339 | 756 | –1 | | 4 094 |
| Germany | 5 224 | 240 | –7 | | 5 457 |
| France | 2 855 | 225 | –5 | | 3 075 |
| Other | 6 543 | 383 | –35 | | 6 891 |
| Total | 43 164 | 2 791 | –130 | | 45 825 |
| Corporate debt securities | 13 906 | 1 271 | –31 | –18 | 15 128 |
| Residential mortgage-backed securities | 850 | 37 | –23 | –14 | 850 |
| Commercial mortgage-backed securities | 2 510 | 198 | –30 | –2 | 2 676 |
| Other asset-backed securities | 2 332 | 29 | –6 | –7 | 2 348 |
| **Fixed income securities available-for-sale** | 62 762 | 4 326 | –220 | –41 | 66 827 |
| **Equity securities available-for-sale** | 2 263 | 318 | –43 | | 2 538 |

| **2013**<br>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 | 6 938 | 203 | –83 | | 7 058 |
| US Agency securitised products | 3 757 | 54 | –66 | | 3 745 |
| States of the United States and political subdivisions of the states | 478 | 6 | –30 | | 454 |
| United Kingdom | 8 018 | 119 | –297 | | 7 840 |
| Canada | 3 138 | 418 | –45 | | 3 511 |
| Germany | 3 945 | 102 | –32 | | 4 015 |
| France | 2 560 | 101 | –19 | | 2 642 |
| Other | 6 213 | 144 | –181 | | 6 176 |
| Total | **35 047** | **1 147** | **–753** | | **35 441** |
| Corporate debt securities | 18 298 | 750 | –457 | –4 | 18 587 |
| Residential mortgage-backed securities | 766 | 42 | –15 | –6 | 787 |
| Commercial mortgage-backed securities | 2 394 | 139 | –48 | | 2 485 |
| Other asset-backed securities | 2 277 | 18 | –15 | –3 | 2 277 |
| **Fixed income securities available-for-sale** | **58 782** | **2 096** | **–1 288** | **–13** | **59 577** |
| **Equity securities available-for-sale** | **4 207** | **337** | **–104** | | **4 440** |

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

### Investments trading
Fixed income securities and equity securities classified as trading (excluding unit-linked and with-profit business) as of 31 December 2012 and 30 June 2013 were as follows:

| USD millions | 2012 | **2013** |
|---|---|---|
| Debt securities issued by governments and government agencies | 1 432 | 1 231 |
| Corporate debt securities | 177 | 153 |
| Mortgage- and asset-backed securities | 186 | 184 |
| **Fixed income securities trading – non-participating** | 1 795 | **1 568** |
| **Equity securities trading – non-participating** | 671 | **640** |

### Investments held for unit-linked and with-profit business
Investments held for unit-linked business consist of equity securities trading. As of 31 December 2012 and 30 June 2013, these amounted to USD 841 million and USD 832 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 as of 31 December 2012 and 30 June 2013 are shown below. Fixed maturity investments are assumed not to be called for redemption prior to the stated maturity date. As of 31 December 2012 and 30 June 2013, USD 8 536 million and USD 9 182 million, respectively, of fixed income securities available-for-sale were callable.

| | | 2012 | | **2013** |
|---|---|---|---|---|
| USD millions | Amortised cost or cost | Estimated fair value | Amortised cost or cost | Estimated fair value |
| Due in one year or less | 1 885 | 1 902 | 4 505 | 4 504 |
| Due after one year through five years | 16 536 | 16 978 | 15 325 | 15 523 |
| Due after five years through ten years | 11 769 | 12 603 | 10 478 | 10 584 |
| Due after ten years | 27 170 | 29 763 | 23 202 | 23 583 |
| Mortgage- and asset-backed securities with no fixed maturity | 5 402 | 5 581 | 5 272 | 5 383 |
| **Total fixed income securities available-for-sale** | 62 762 | 66 827 | **58 782** | **59 577** |

### Assets pledged
As of 30 June 2013, investments with a carrying value of USD 7 289 million were on deposit with regulatory agencies in accordance with local requirements, and investments with a carrying value of USD 10 224 million were placed on deposit or pledged to secure certain reinsurance liabilities, including pledged investments in subsidiaries.

As of 31 December 2012 and 30 June 2013, securities of USD 12 981 million and USD 15 134 million, respectively, were pledged as collateral in securities lending transactions and repurchase agreements. The associated liabilities of USD 2 612 million and USD 4 018 million, respectively, were recognised in accrued expenses and other liabilities.

As of 30 June 2013, a real estate portfolio with a carrying value of USD 253 million serves as collateral for short-term senior operational debt of USD 687 million.

### Collateral accepted which the Group has the right to sell or repledge
As of 31 December 2012 and 30 June 2013, the fair value of the government and corporate bond securities received as collateral was USD 5 964 million and USD 7 684 million, respectively. Of this, the amount that was sold or repledged as of 31 December 2012 and 30 June 2013 was USD 2 830 million and USD 4 514 million, respectively. The sources of the collateral are reverse repurchase agreements and derivative transactions. During the first quarter of 2013, the Group reviewed the fair value of securities received as collateral, the amount sold or repledged thereof, and the liabilities related to securities pledged as collateral in securities lending transactions. The comparatives have been revised accordingly.

**Offsetting of derivatives, financial assets and financial liabilities**
Offsetting of derivatives, financial assets and financial liabilities as of 31 December 2012 and 30 June 2013 was as follows:

| 2012<br>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 | 7960 | –5644 | 2316 | –411 | 1905 |
| Reverse repurchase agreements | 5897 | –3434 | 2463 | –2462 | 1 |
| Securities borrowing | | | 0 | | 0 |
| **Total** | 13857 | –9078 | 4779 | –2873 | 1906 |

| 2012<br>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 | –8716 | 4990 | –3726 | 93 | –3633 |
| Repurchase agreements | –3896 | 3434 | –462 | 462 | 0 |
| Securities lending | –2135 | | –2135 | 2062 | –73 |
| **Total** | –14747 | 8424 | –6323 | 2617 | –3706 |

| **2013**<br>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 | 5989 | –4356 | 1633 | –316 | **1317** |
| Reverse repurchase agreements | 4920 | –1112 | 3808 | –3808 | **0** |
| Securities borrowing | | | 0 | | **0** |
| **Total** | **10909** | **–5468** | **5441** | **–4124** | **1317** |

| **2013**<br>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 | –6639 | 4264 | –2375 | 111 | **–2264** |
| Repurchase agreements | –2779 | 1112 | –1667 | 1667 | **0** |
| Securities lending | –2339 | | –2339 | 2212 | **–127** |
| **Total** | **–11757** | **5376** | **–6381** | **3990** | **–2391** |

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

## Unrealised losses on securities available-for-sale

The following table shows the fair value and unrealised losses of the Group's fixed income securities, aggregated by investment category and length of time that individual securities were in a continuous unrealised loss position as of 31 December 2012 and 30 June 2013. As of 31 December 2012 and 30 June 2013, USD 26 million and USD 94 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 17 million and USD 10 million, respectively, to declines in value for more than 12 months.

| 2012<br>USD millions | Less than 12 months<br>Fair value | <br>Unrealised losses | 12 months or more<br>Fair value | <br>Unrealised losses | Total<br>Fair value | <br>Unrealised losses |
|---|---|---|---|---|---|---|
| Debt securities issued by governments and government agencies: | | | | | | |
| US Treasury and other US government corporations and agencies | 2 840 | 34 | | | 2 840 | 34 |
| US Agency securitised products | 757 | 7 | | | 757 | 7 |
| States of the United States and political subdivisions of the states | 34 | 1 | | | 34 | 1 |
| United Kingdom | 2 741 | 40 | | | 2 741 | 40 |
| Canada | 173 | 1 | 2 | | 175 | 1 |
| Germany | 506 | 7 | 14 | | 520 | 7 |
| France | 147 | 5 | | | 147 | 5 |
| Other | 1 852 | 32 | 32 | 3 | 1 884 | 35 |
| Total | 9 050 | 127 | 48 | 3 | 9 098 | 130 |
| Corporate debt securities | 1 411 | 23 | 256 | 26 | 1 667 | 49 |
| Residential mortgage-backed securities | 60 | 2 | 423 | 35 | 483 | 37 |
| Commercial mortgage-backed securities | 175 | 11 | 340 | 21 | 515 | 32 |
| Other asset-backed securities | 478 | 6 | 98 | 7 | 576 | 13 |
| **Total** | 11 174 | 169 | 1 165 | 92 | 12 339 | 261 |

| **2013**<br>USD millions | Less than 12 months<br>Fair value | <br>Unrealised losses | 12 months or more<br>Fair value | <br>Unrealised losses | Total<br>Fair value | <br>Unrealised losses |
|---|---|---|---|---|---|---|
| Debt securities issued by governments and government agencies: | | | | | | |
| US Treasury and other US government corporations and agencies | 3 750 | 83 | | | 3 750 | 83 |
| US Agency securitised products | 2 048 | 66 | | | 2 048 | 66 |
| States of the United States and political subdivisions of the states | 381 | 30 | | | 381 | 30 |
| United Kingdom | 6 474 | 297 | | | 6 474 | 297 |
| Canada | 908 | 45 | 2 | | 910 | 45 |
| Germany | 2 071 | 32 | 1 | | 2 072 | 32 |
| France | 945 | 19 | | | 945 | 19 |
| Other | 3 737 | 176 | 39 | 5 | 3 776 | 181 |
| Total | 20 314 | 748 | 42 | 5 | 20 356 | 753 |
| Corporate debt securities | 9 000 | 443 | 134 | 18 | 9 134 | 461 |
| Residential mortgage-backed securities | 73 | 2 | 251 | 19 | 324 | 21 |
| Commercial mortgage-backed securities | 629 | 35 | 162 | 13 | 791 | 48 |
| Other asset-backed securities | 1 204 | 14 | 68 | 4 | 1 272 | 18 |
| **Total** | **31 220** | **1 242** | **657** | **59** | **31 877** | **1 301** |

**Mortgages, loans and real estate**

As of 31 December 2012 and 30 June 2013, the carrying values of investments in mortgages, policy and other loans, and real estate (excluding unit-linked and with-profit business) were as follows:

| USD millions | 2012 | 2013 |
|---|---|---|
| Policy loans | 270 | **259** |
| Mortgage loans | 656 | **650** |
| Other loans | 2 787 | **2 670** |
| Investment real estate | 772 | **767** |

The fair value of the real estate as of 31 December 2012 and 30 June 2013 was USD 2 531 million and USD 2 465 million, respectively. The carrying value of policy loans, mortgages and other loans approximates fair value.

As of 31 December 2012 and 30 June 2013, the Group's investment in mortgages and other loans included USD 282 million and USD 270 million, respectively, of loans due from employees, and USD 390 million and USD 382 million, respectively, due from officers. These loans generally consist of mortgages offered at variable and fixed interest rates.

As of 31 December 2012 and 30 June 2013, investments in real estate included nil real estate held for sale.

Depreciation expense related to income-producing properties was USD 11 million and USD 12 million for the six months ended 30 June 2012 and 2013, respectively. Accumulated depreciation on investment real estate totalled USD 549 million and USD 559 million as of 31 December 2012 and 30 June 2013, respectively.

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

## 3 Fair value disclosures

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

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

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

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

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

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

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

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

Certain financial instruments are classified within level 3 of the fair value hierarchy, because they trade infrequently and therefore have little or no price transparency. Such instruments include private equity, less liquid corporate debt securities and certain asset-backed securities. Certain over-the-counter derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. Such instruments are classified within level 3 of the fair value hierarchy. Pursuant to the election of the fair value option, the Group classifies certain liabilities for life and health policy benefits in level 3 of the fair value hierarchy. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads, and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

The fair values of assets are adjusted to incorporate the counterparty risk of non-performance. Similarly, the fair values of liabilities reflect the risk of non-performance of the Group, captured by the Group's credit spread. These valuation adjustments from assets and liabilities measured at fair value using significant unobservable inputs are recognised in net realised gains and losses. In the second quarter of 2013, these adjustments were not material. Whenever the underlying assets or liabilities are reported in a specific business segment, the valuation adjustment is allocated accordingly. Valuation adjustments not attributable to any business segment are reported in Group items.

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

### Valuation techniques

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

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

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

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

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

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

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

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

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

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

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

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

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

### Governance around level 3 fair valuation

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

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

The Risk 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 and is empowered to challenge vendor- and model-based valuations.

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

As of 31 December 2012 and 30 June 2013, the fair values of assets and liabilities measured on a recurring basis by level of input were as follows:

| As of 31 December 2012<br>USD millions | Quoted prices in active markets for identical assets and liabilities (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Impact of netting[1] | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Fixed income securities held for proprietary investment purposes | 11 689 | 56 296 | 637 | | 68 622 |
| Debt securities issued by US government and government agencies | 11 689 | 626 | | | 12 315 |
| US Agency securitised products | | 3 953 | | | 3 953 |
| Debt securities issued by non-US governments and government agencies | | 30 989 | | | 30 989 |
| Corporate debt securities | | 14 681 | 624 | | 15 305 |
| Residential mortgage-backed securities | | 920 | | | 920 |
| Commercial mortgage-backed securities | | 2 770 | 13 | | 2 783 |
| Other asset-backed securities | | 2 357 | | | 2 357 |
| Fixed income securities backing unit-linked and with-profit life and health policies | | | | | 0 |
| Equity securities | 3 450 | 526 | 74 | | 4 050 |
| Equity securities backing unit-linked and with-profit life and health policies | 841 | | | | 841 |
| Equity securities held for proprietary investment purposes | 2 609 | 526 | 74 | | 3 209 |
| Derivative financial instruments | 261 | 6 689 | 1 010 | –5 644 | 2 316 |
| Interest rate contracts | 194 | 5 240 | | | 5 434 |
| Foreign exchange contracts | 26 | 415 | | | 441 |
| Derivative equity contracts | 34 | 508 | 636 | | 1 178 |
| Credit contracts | | 393 | 223 | | 616 |
| Other contracts | 7 | 133 | 151 | | 291 |
| Other assets | 747 | 1 372 | 2 071 | | 4 190 |
| **Total assets at fair value** | 16 147 | 64 883 | 3 792 | –5 644 | 79 178 |
| | | | | | |
| **Liabilities** | | | | | |
| Derivative financial instruments | –273 | –5 578 | –2 865 | 4 990 | –3 726 |
| Interest rate contracts | –205 | –3 977 | | | –4 182 |
| Foreign exchange contracts | –12 | –792 | | | –804 |
| Derivative equity contracts | –42 | –380 | –232 | | –654 |
| Credit contracts | | –412 | –271 | | –683 |
| Other contracts | –14 | –17 | –2 362 | | –2 393 |
| Liabilities for life and health policy benefits | | | –272 | | –272 |
| Accrued expenses and other liabilities | –885 | –2 556 | –1 625 | | –5 066 |
| **Total liabilities at fair value** | –1 158 | –8 134 | –4 762 | 4 990 | –9 064 |

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

| **As of 30 June 2013**<br>USD millions | Quoted prices in active markets for identical assets and liabilities (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Impact of netting[1] | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Fixed income securities held for proprietary investment purposes | 6 577 | 53 941 | 627 | | 61 145 |
| Debt securities issued by US government and government agencies | 6 577 | 956 | | | 7 533 |
| US Agency securitised products | | 3 759 | | | 3 759 |
| Debt securities issued by non-US governments and government agencies | | 25 380 | | | 25 380 |
| Corporate debt securities | | 18 130 | 610 | | 18 740 |
| Residential mortgage-backed securities | | 860 | | | 860 |
| Commercial mortgage-backed securities | | 2 570 | 12 | | 2 582 |
| Other asset-backed securities | | 2 286 | 5 | | 2 291 |
| Fixed income securities backing unit-linked and with-profit life and health policies | | | | | 0 |
| Equity securities | 5 353 | 532 | 27 | | 5 912 |
| Equity securities backing unit-linked and with-profit life and health policies | 832 | | | | 832 |
| Equity securities held for proprietary investment purposes | 4 521 | 532 | 27 | | 5 080 |
| Derivative financial instruments | 230 | 4 986 | 773 | –4 356 | 1 633 |
| Interest rate contracts | 176 | 3 841 | | | 4 017 |
| Foreign exchange contracts | 14 | 328 | | | 342 |
| Derivative equity contracts | 40 | 668 | 502 | | 1 210 |
| Credit contracts | | 39 | 178 | | 217 |
| Other contracts | | 110 | 93 | | 203 |
| Other assets | 1 027 | 1 224 | 1 991 | | 4 242 |
| **Total assets at fair value** | **13 187** | **60 683** | **3 418** | **–4 356** | **72 932** |
| | | | | | |
| **Liabilities** | | | | | |
| Derivative financial instruments | –235 | –4 651 | –1 753 | 4 264 | –2 375 |
| Interest rate contracts | –165 | –3 002 | | | –3 167 |
| Foreign exchange contracts | –30 | –986 | | | –1 016 |
| Derivative equity contracts | –40 | –490 | –213 | | –743 |
| Credit contracts | | –131 | –250 | | –381 |
| Other contracts | | –42 | –1 290 | | –1 332 |
| Liabilities for life and health policy benefits | | | –186 | | –186 |
| Accrued expenses and other liabilities | –1 172 | –2 886 | –1 517 | | –5 575 |
| **Total liabilities at fair value** | **–1 407** | **–7 537** | **–3 456** | **4 264** | **–8 136** |

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

## Transfers between level 1 and level 2

Transfers between level 1 and level 2 for the three and six months ended 30 June 2012 were as follows:

| As of 30 June 2012<br>USD millions | For the three months ended 30 June<br>Quoted prices in active markets for identical assets and liabilities (Level 1) | Significant other observable inputs (Level 2) | For the six months ended 30 June<br>Quoted prices in active markets for identical assets and liabilities (Level 1) | Significant other observable inputs (Level 2) |
|---|---|---|---|---|
| **Assets** | | | | |
| Transfer into[1] | 43 | 270 | 184 | 2 221 |
| Transfer out of[1] | –34 | –278 | –66 | –1 337 |
| | | | | |
| **Liabilities** | | | | |
| Transfer into[1] | | –338 | | –1 831 |
| Transfer out of[1] | | 416 | | 589 |

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

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

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

As of 31 December 2012 and 30 June 2013, the reconciliation of the fair values of assets and liabilities measured on a recurring basis using significant unobservable inputs were as follows:

| 2012<br>USD millions | Corporate debt securities | Residential mortgage-backed securities | Commercial mortgage-backed securities | Other asset-backed securities |
|---|---|---|---|---|
| **Assets** | | | | |
| Balance as of 1 January 2012 | 1 111 | 4 | 8 | 16 |
| Effect of change in Group structure | –520 | | –5 | |
| Realised/unrealised gains/losses: | | | | |
| Included in net income | | | | |
| Included in other comprehensive income | 28 | | | |
| Purchases | 50 | | 6 | 32 |
| Issuances | | | | |
| Sales | –19 | | | –32 |
| Settlements | –32 | | | –9 |
| Transfers into level 3[1] | 18 | | 5 | |
| Transfers out of level 3[1] | –12 | –4 | –1 | –7 |
| Impact of foreign exchange movements | | | | |
| **Closing balance as of 31 December 2012** | 624 | 0 | 13 | 0 |

| | |
|---|---|
| **Liabilities** | |
| Balance as of 1 January 2012 | |
| Effect of change in Group structure | |
| Realised/unrealised gains/losses: | |
| Included in net income | |
| Included in other comprehensive income | |
| Purchases | |
| Issuances | |
| Sales | |
| Settlements | |
| Transfers into level 3[1] | |
| Transfers out of level 3[1] | |
| Impact of foreign exchange movements | |
| **Closing balance as of 31 December 2012** | |

[1] Transfers are recognised at the date of the event or change in circumstances that caused the transfer. With the introduction of ASU No. 2011-4 the Group has reassessed the observability of fair value inputs as of 1 January 2012. Yield curves for instruments with maturities above 20 years were deemed observable and related positions were therefore reclassified to level 2. The inputs of one level 2 position were assessed to be unobservable, the respective assets and liabilities were therefore shifted to level 3.

| Equity securities held for proprietary investment purposes | Derivative interest rate contracts | Derivative foreign exchange contracts | Derivative equity contracts | Derivative credit contracts | Other derivative contracts | Other assets | Total |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| 69 | 1 471 | 112 | 41 | 986 | 36 | 2 041 | 5 895 |
| | | | | | | −32 | −557 |
| | | | | | | | |
| 20 | 7 | | −192 | −430 | 44 | −16 | −567 |
| 3 | | | | | | 124 | 155 |
| | | | | | 44 | 192 | 324 |
| | | | | | | | 0 |
| −18 | | | | −34 | | −214 | −317 |
| | −7 | | | −80 | −13 | −1 | −142 |
| 1 | 2 | | 828 | 37 | 40 | 41 | 972 |
| −1 | −1 473 | −112 | −41 | −256 | | −74 | −1 981 |
| | | | | | | 10 | 10 |
| 74 | 0 | 0 | 636 | 223 | 151 | 2 071 | 3 792 |

| Liabilities for life and health policy benefits | Derivative interest rate contracts | Derivative foreign exchange contracts | Derivative equity contracts | Derivative credit contracts | Other derivative contracts | Accrued expenses and other liabilities | Total |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| −341 | −1 075 | −66 | −170 | −1 075 | −3 489 | −2 331 | −8 547 |
| | | | 54 | | −45 | | 9 |
| | | | | | | | |
| 68 | | | 59 | 582 | 1 084 | | 1 793 |
| | | | | | | | 0 |
| | | | | | | | 0 |
| | −2 | | −19 | | −49 | | −70 |
| | 2 | | 96 | | | 813 | 911 |
| | | | | 7 | −90 | | −83 |
| | | −200 | −368 | −126 | −29 | | −723 |
| | 1 075 | 266 | 116 | 343 | 256 | | 2 056 |
| 1 | | | | −2 | | −107 | −108 |
| **−272** | **0** | **0** | −232 | −271 | −2 362 | −1 625 | −4 762 |

| **2013**<br>USD millions | Corporate debt securities | Commercial mortgage-backed securities | Other asset-backed securities |
|---|---|---|---|
| **Assets** | | | |
| Balance as of 1 January 2013 | 624 | 13 | |
| Realised/unrealised gains/losses: | | | |
| Included in net income | | | |
| Included in other comprehensive income | –11 | –1 | |
| Purchases | 14 | | 27 |
| Issuances | | | |
| Sales | –9 | | –22 |
| Settlements | –8 | | |
| Transfers into level 3 | | | |
| Transfers out of level 3 | | | |
| Impact of foreign exchange movements | | | |
| **Closing balance as of 30 June 2013** | **610** | **12** | **5** |
| | | | |
| **Liabilities** | | | |
| Balance as of 1 January 2013 | | | |
| Realised/unrealised gains/losses: | | | |
| Included in net income | | | |
| Included in other comprehensive income | | | |
| Purchases | | | |
| Issuances | | | |
| Sales | | | |
| Settlements | | | |
| Transfers into level 3 | | | |
| Transfers out of level 3 | | | |
| Impact of foreign exchange movements | | | |
| **Closing balance as of 30 June 2013** | | | |

| Equity securities held for proprietary investment purposes | Derivative equity contracts | Derivative credit contracts | Other derivative contracts | Other assets | Total |
|---|---|---|---|---|---|
| | | | | | |
| 74 | 636 | 223 | 151 | 2 071 | 3 792 |
| | | | | | |
| 1 | –131 | 78 | –130 | 40 | –142 |
| | | | | 18 | 6 |
| 2 | | 27 | 3 | 199 | 272 |
| | | | 104 | | 104 |
| –43 | | –146 | –51 | –361 | –632 |
| | | –4 | 17 | –4 | 1 |
| | | | | 38 | 38 |
| –5 | –3 | | | –1 | –9 |
| –2 | | | –1 | –9 | –12 |
| **27** | **502** | **178** | **93** | **1 991** | **3 418** |

| Liabilities for life and health policy benefits | Derivative equity contracts | Derivative credit contracts | Other derivative contracts | Accrued expenses and other liabilities | Total |
|---|---|---|---|---|---|
| | | | | | |
| –272 | –232 | –271 | –2 362 | –1 625 | –4 762 |
| | | | | | |
| 88 | 25 | –141 | 1 125 | | 1 097 |
| | | | | | 0 |
| | | –4 | | | –4 |
| | | | –36 | | –36 |
| | | 166 | 40 | | 206 |
| | –6 | | –57 | | –63 |
| | | | | | 0 |
| | | | | | 0 |
| –2 | | | | 108 | 106 |
| **–186** | **–213** | **–250** | **–1 290** | **–1 517** | **–3 456** |

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

The gains and losses relating to the assets and liabilities measured at fair value using significant unobservable inputs (level 3) for the six months ended 30 June 2012 and 2013 were as follows:

| USD millions | 2012 | **2013** |
|---|---|---|
| Gains/losses included in net income for the period | 314 | 955 |
| Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date | 199 | 808 |

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

Unobservable inputs for major level 3 assets and liabilities as of 31 December 2012 and 30 June 2013 were as follows:

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

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

| Fair value as of 31 December 2012 | Fair value as of **30 June 2013** | Valuation technique | Unobservable input | Range (weighted average) |
|---|---|---|---|---|
| 624 | **610** | | | |
| 168 | 178 | Discounted cash flow model | Illiquidity premium | 75 bps (n.a.) |
| 378 | 359 | Corporate spread matrix | Illiquidity premium | 19 bps – 195 bps (90 bps) |
| 72 | 69 | Discounted cash flow model | Illiquidity premium | 75 bps – 250 bps (130 bps) |
| 636 | **502** | | | |
| 636 | 502 | Proprietary option model | Correlation | –10% – 100% (45%)[1] |
| 223 | **178** | | | |
| 109 | 85 | Credit spreads derived based on a reciprocal of a reference instrument | Up-front credit default swap premium | 7% – 94% (69%) |
| 112 | 93 | Base correlation model | Correlation | 41% – 86% (64%)[1] |
| | | | | |
| –232 | **–213** | | | |
| –81 | –65 | Proprietary option model | Correlation | –10% – 100% (45%)[1] |
| –144 | –142 | Option model | Volatility | 100% |
| | | | Growth Rate | 6% (n.a.) |
| –271 | **–250** | | | |
| –86 | –66 | Credit spreads derived based on a reciprocal of a reference instrument | Up-front credit default swap premium | 7% – 94% (67%) |
| –171 | –184 | Base correlation model | Correlation | 41% – 86% (64%)[1] |
| –2 634 | **–1 476** | | | |
| –2 287 | –1 255 | Discounted cash flow model | Risk Margin | 4% (n.a.) |
| | | | Volatility | 4% – 42% |
| | | | Lapse | 0.5% – 24% |
| | | | Mortality adjustment | –2% – 0% |
| | | | Withdrawal rate | 0% – 90% |
| –170 | –146 | Discounted cash flow model | Lapse | 3% – 10% |
| | | | Mortality adjustment | 80% (n.a.) |

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

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

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

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

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

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

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

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

## Other assets measured at net asset value

Other assets measured at net asset value as of 31 December 2012 and 30 June 2013, respectively, were as follows:

| USD millions | 2012 Fair value | 2013 Fair value | Unfunded commitments | Redemption frequency (if currently eligible) | Redemption notice period |
|---|---|---|---|---|---|
| Private equity funds | 673 | 658 | 212 | non-redeemable | n.a. |
| Hedge funds | 1 140 | 1 112 | | redeemable[1] | 90 – 180 days[2] |
| Private equity direct | 96 | 58 | | non-redeemable | n.a. |
| Real estate funds | 223 | 227 | 100 | non-redeemable | n.a. |
| **Total** | 2 132 | **2 055** | **312** | | |

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

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

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

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

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

## Fair value option

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

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

### Equity securities trading

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

### 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 2012 and 30 June 2013 were as follows:

| USD millions | 2012 | 2013 |
|---|---|---|
| **Assets** | | |
| Equity securities held for proprietary investment purposes | 671 | 640 |
| of which at fair value pursuant to the fair value option | 509 | 514 |
| **Liabilities** | | |
| Liabilities for life and health policy benefits | –20 270 | –19 834 |
| of which at fair value pursuant to the fair value option | –272 | –186 |

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

Gains/losses included in earnings for items measured at fair value pursuant to election of the fair value option including foreign exchange impact for the six months ended 30 June 2012 and 2013 were as follows:

| USD millions | 2012 | **2013** |
|---|---|---|
| Equity securities held for proprietary investment purposes | 37 | 5 |
| Liabilities for life and health policy benefits | 28 | 85 |
| **Total** | 65 | **90** |

Fair value changes from equity securities trading are reported in "Net realised investment gains/losses – 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 2012 and 30 June 2013, were as follows:

| As of 31 December 2012<br>USD millions | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|---|---|---|---|
| **Assets** | | | |
| Policy loans | | 270 | 270 |
| Mortgage loans | | 656 | 656 |
| Other loans | | 2 787 | 2 787 |
| Investment real estate | | 2 531 | 2 531 |
| Total assets | | 6 244 | 6 244 |
| | | | |
| **Liabilities** | | | |
| Debt | –9 970 | –13 270 | –23 240 |
| **Total liabilities** | –9 970 | –13 270 | –23 240 |

| **As of 30 June 2013**<br>USD millions | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|---|---|---|---|
| **Assets** | | | |
| Policy loans | | 259 | 259 |
| Mortgage loans | | 650 | 650 |
| Other loans | | 2 670 | 2 670 |
| Investment real estate | | 2 465 | 2 465 |
| **Total assets** | | **6 044** | **6 044** |
| | | | |
| **Liabilities** | | | |
| Debt | –9 482 | –12 067 | –21 549 |
| **Total liabilities** | **–9 482** | **–12 067** | **–21 549** |

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

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

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

## 4 Derivative financial instruments

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

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

### Fair values and notional amounts of derivative financial instruments

As of 31 December 2012 and 30 June 2013, the fair values and notional amounts of the derivatives outstanding were as follows:

| As of 31 December 2012<br>USD millions | Notional amount<br>assets/liabilities | Fair value<br>assets | Fair value<br>liabilities | Carrying value<br>assets/liabilities |
|---|---|---|---|---|
| **Derivatives not designated as hedging instruments** | | | | |
| Interest rate contracts | 129 217 | 4 614 | –4 182 | 432 |
| Foreign exchange contracts | 25 739 | 441 | –785 | –344 |
| Equity contracts | 17 917 | 1 178 | –654 | 524 |
| Credit contracts | 33 204 | 616 | –683 | –67 |
| Other contracts | 23 129 | 291 | –2 393 | –2 102 |
| **Total** | 229 206 | 7 140 | –8 697 | –1 557 |
| **Derivatives designated as hedging instruments** | | | | |
| Interest rate contracts | 2828 | 820 | | 820 |
| Foreign exchange contracts | 1 609 | | –19 | –19 |
| **Total** | 4 437 | 820 | –19 | 801 |
| **Total derivative financial instruments** | 233 643 | 7 960 | –8 716 | –756 |
| **Amount offset** | | | | |
| Where a right of setoff exists | | –4 466 | 4 466 | |
| Due to cash collateral | | –1 178 | 524 | |
| **Total net amount of derivative financial instruments** | | 2 316 | –3 726 | –1 410 |

| **As of 30 June 2013**<br>USD millions | Notional amount<br>assets/liabilities | Fair value<br>assets | Fair value<br>liabilities | Carrying value<br>assets/liabilities |
|---|---|---|---|---|
| **Derivatives not designated as hedging instruments** | | | | |
| Interest rate contracts | 127 058 | 3 422 | –3 167 | 255 |
| Foreign exchange contracts | 21 692 | 342 | –981 | –639 |
| Equity contracts | 20 857 | 1 210 | –743 | 467 |
| Credit contracts | 25 930 | 217 | –381 | –164 |
| Other contracts | 23 307 | 203 | –1 332 | –1 129 |
| **Total** | **218 844** | **5 394** | **–6 604** | **–1 210** |
| **Derivatives designated as hedging instruments** | | | | |
| Interest rate contracts | 2 826 | 595 | | 595 |
| Foreign exchange contracts | 1 593 | | –35 | –35 |
| **Total** | **4 419** | **595** | **–35** | **560** |
| **Total derivative financial instruments** | **223 263** | **5 989** | **–6 639** | **–650** |
| **Amount offset** | | | | |
| Where a right of setoff exists | | –3 497 | 3 497 | |
| Due to cash collateral | | –859 | 767 | |
| **Total net amount of derivative financial instruments** | | **1 633** | **–2 375** | **–742** |

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 2012 and 30 June 2013.

### Non-hedging activities

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

| USD millions | For the three months ended 30 June 2012 | 2013 | For the six months ended 30 June 2012 | 2013 |
|---|---|---|---|---|
| **Derivatives not designated as hedging instruments** | | | | |
| Interest rate contracts[1] | 32 | –99 | –35 | –170 |
| Foreign exchange contracts[1] | 204 | –245 | –217 | –384 |
| Equity contracts[1] | 260 | –78 | –297 | –520 |
| Credit contracts | 37 | –121 | –112 | –112 |
| Other contracts | –474 | 425 | 363 | 1175 |
| **Total gain/loss recognised in income** | 59 | **–118** | –298 | **–11** |

[1] During 2012 the Group revised the amounts for interest, foreign exchange and equity contracts in the period presented. The changes reflect the reclassification of certain interest rate contracts to equity contracts and the exclusion of certain foreign exchange transactions which did not qualify as derivative instruments under ASC 815. The revision had no impact on net income and shareholder's equity of the Group.

### Hedging activities

The Group designates certain derivative financial instruments as hedging instruments. The designation of derivative financial instruments is primarily used for overall portfolio and risk management strategies. As of 30 June 2013, the following hedging relationships were outstanding:

#### Fair value hedges

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

| 2012<br>USD millions | For the three months ended 30 June<br>Gains/losses on derivatives | Gains/losses on hedged items | For the six months ended 30 June<br>Gains/losses on derivatives | Gains/losses on hedged items |
|---|---|---|---|---|
| **Fair value hedging relationships** | | | | |
| Interest rate contracts | 148 | –143 | 41 | –37 |
| Foreign exchange contracts | –74 | 73 | –28 | 17 |
| **Total gain/loss recognised in income** | 74 | –70 | 13 | –20 |

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

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

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

For the year ended 31 December 2012 and the six months ended 30 June 2013, the Group recorded an accumulated net unrealised foreign currency remeasurement gain of USD 100 million and a gain of USD 201 million, respectively, in shareholder's equity. These offset translation gains and losses on the hedged net investment.

**Maximum potential loss**
In consideration of the rights of setoff and the qualifying master netting arrangements with various counterparties, the maximum potential loss as of 31 December 2012 and 30 June 2013 was approximately USD 3 494 million and USD 2 492 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 it to maintain an investment-grade credit rating. If the Group's credit rating were downgraded or no longer rated, the counterparties could request immediate payment, guarantee or an ongoing full overnight collateralisation on derivative instruments in net liability positions.

The total fair value of derivative financial instruments containing credit risk-related contingent features amounted to USD 1 446 million and USD 1 668 million as of 31 December 2012 and 30 June 2013, respectively. For derivative financial instruments containing credit risk-related contingent features, the Group posted collateral of USD 524 million and USD 767 million as of 31 December 2012 and 30 June 2013, respectively. In the event of a reduction of the Group's credit rating to below investment grade, a fair value of USD 901 million in additional collateral would have had to be posted as of 30 June 2013. The total equals the amount that would have been needed to settle the instruments immediately as of 30 June 2013.

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

The following tables show the fair values and the maximum potential payout of the credit derivatives written/sold as of 31 December 2012 and 30 June 2013, categorised by the type of credit derivative and credit spreads, which were based on external market data. The fair values represent the gross carrying values, excluding the effects of netting under ISDA master agreements and cash collateral netting. The maximum potential payout is based on the notional values of the derivatives and represents the gross undiscounted future payments the Group would be required to make, assuming the default of all credit derivatives' underlyings.

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

The Group has purchased protection to manage the performance/payment risks related to credit derivatives and other credit risks. As of 31 December 2012 and 30 June 2013, the total purchased credit protection based on notional values was USD 16 689 million and USD 13 371 million, respectively, of which USD 8 220 million and USD 7 604 million, respectively, were related to identical underlyings for which the Group sold credit protection. For tranched indexes and baskets, only matching tranches of the respective index were determined as identical. In addition to the purchased credit protection, the Group manages the performance/payment risks through a correlation hedge, which is established with non-identical offsetting positions.

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

As of 31 December 2012 and 30 June 2013, the fair values and maximum potential payout of the written credit derivatives outstanding were as follows:

| As of 31 December 2012<br>USD millions | Total fair values of credit derivatives written/sold | Maximum potential payout (time to maturity)<br>0–5 years | 5–10 years | Over 10 years | Total maximum potential payout |
|---|---|---|---|---|---|
| **Credit Default Swaps** | | | | | |
| Credit spread in basis points | | | | | |
| 0 – 250 | 9 | 1 174 | | | 1 174 |
| 251 – 500 | –1 | 38 | | | 38 |
| 501 – 1 000 | –11 | 96 | | 34 | 130 |
| Greater than 1 000 | –91 | 213 | | 133 | 346 |
| **Total** | –94 | 1 521 | 0 | 167 | 1 688 |
| | | | | | |
| **Credit Index Products** | | | | | |
| Credit spread in basis points | | | | | |
| 0 – 250 | –63 | 14 400 | | | 14 400 |
| 251 – 500 | 30 | 427 | | | 427 |
| 501 – 1 000 | | | | | 0 |
| Greater than 1 000 | | | | | 0 |
| **Total** | –33 | 14 827 | 0 | 0 | 14 827 |
| | | | | | |
| **Total Return Swaps** | | | | | |
| Credit spread in basis points | | | | | |
| No credit spread available | 72 | 773 | | | 773 |
| **Total** | 72 | 773 | 0 | 0 | 773 |
| | | | | | |
| **Total credit derivatives written/sold** | –55 | 17 121 | 0 | 167 | 17 288 |

| **As of 30 June 2013**<br>USD millions | Total fair values of credit derivatives written/sold | Maximum potential payout (time to maturity)<br>0–5 years | 5–10 years | Over 10 years | Total maximum potential payout |
|---|---|---|---|---|---|
| **Credit Default Swaps** | | | | | |
| Credit spread in basis points | | | | | |
| 0 – 250 | 5 | 1 112 | | | 1 112 |
| 251 – 500 | 1 | 17 | | | 17 |
| 501 – 1 000 | –8 | 3 | | 32 | 35 |
| Greater than 1 000 | –66 | 93 | | 132 | 225 |
| **Total** | **–68** | **1 225** | **0** | **164** | **1 389** |
| | | | | | |
| **Credit Index Products** | | | | | |
| Credit spread in basis points | | | | | |
| 0 – 250 | 48 | 11 147 | | | 11 147 |
| 251 – 500 | 10 | 23 | | | 23 |
| 501 – 1 000 | | | | | 0 |
| Greater than 1 000 | | | | | 0 |
| **Total** | **58** | **11 170** | **0** | **0** | **11 170** |
| | | | | | |
| **Total Return Swaps** | | | | | |
| Credit spread in basis points | | | | | |
| No credit spread available | 52 | 341 | | | 341 |
| **Total** | **52** | **341** | **0** | **0** | **341** |
| | | | | | |
| **Total credit derivatives written/sold** | **42** | **12 736** | **0** | **164** | **12 900** |

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

As of 31 December 2012 and 30 June 2013, the DAC were as follows:

| 2012<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Total |
|---|---|---|---|---|
| Opening balance as of 1 January 2012 | 1 247 | 2 663 | 13 | 3 923 |
| Effect of change in Group structure[1] | | | –17 | –17 |
| Cumulative effect of adoption of ASU No. 2010-26 | | –35 | | –35 |
| Deferred | 2 119 | 399 | 23 | 2 541 |
| Effect of acquisitions/disposals and retrocessions | | | 2 | 2 |
| Amortisation | –2 266 | –367 | –28 | –2 661 |
| Effect of foreign currency translation | 3 | 53 | 2 | 58 |
| **Closing balance as of 31 December 2012** | 1 103 | 2 713 | –5 | 3 811 |

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

| **2013**<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Total |
|---|---|---|---|---|
| Opening balance as of 1 January 2013 | 1 103 | 2 713 | –5 | 3 811 |
| Deferred | 1 616 | 171 | –2 | 1 785 |
| Effect of acquisitions/disposals and retrocessions | | 59 | | 59 |
| Amortisation | –1 273 | –162 | 1 | –1 434 |
| Effect of foreign currency translation | –23 | –110 | | –133 |
| **Closing balance as of 30 June 2013** | **1 423** | **2 671** | **–6** | **4 088** |

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 2012 and 30 June 2013, the PVFP was as follows:

| | | | 2012 | | | **2013** |
|---|---|---|---|---|---|---|
| USD millions | Life & Health Reinsurance | Other | Total | Life & Health Reinsurance | Other | Total |
| Opening balance | 1 674 | 2 552 | 4 226 | 1 358 | 628 | 1 986 |
| Effect of change in Group structure[1] | | –2 552 | –2 552 | | | 0 |
| Effect of acquisitions/disposals and retrocessions | –206 | 615 | 409 | 297 | –30 | 267 |
| Amortisation | –201 | –18 | –219 | –77 | | –77 |
| Interest accrued on unamortised PVFP | 51 | 2 | 53 | 15 | 1 | 16 |
| Effect of foreign currency translation | 40 | | 40 | –59 | | –59 |
| Effect of change in unrealised gains/losses | | 29 | 29 | | 21 | 21 |
| **Closing balance** | 1 358 | 628 | 1 986 | **1 534** | **620** | **2 154** |

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

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

## 6 Debt and contingent capital instruments

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

The Group's debt as of 31 December 2012 and 30 June 2013 was as follows:

| USD millions | 2012 | **2013** |
|---|---|---|
| Senior financial debt | 3 753 | 2 617 |
| Senior operational debt | 2 798 | 3 647 |
| **Short-term debt – financial and operational debt** | 6 551 | **6 264** |
| | | |
| Senior financial debt | 4 952 | 4 722 |
| Senior operational debt | 1 900 | 822 |
| Subordinated financial debt | 4 302 | 4 968 |
| Subordinated operational debt | 5 328 | 5 018 |
| **Long-term debt – financial and operational debt** | 16 482 | **15 530** |
| | | |
| **Total carrying value** | 23 033 | **21 794** |
| **Total fair value** | 23 240 | **21 549** |

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

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

| | Three months ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|
| USD millions | 2012 | **2013** | 2012 | **2013** |
| Senior financial debt | 43 | 43 | 88 | 86 |
| Senior operational debt | 29 | 16 | 60 | 39 |
| Subordinated financial debt | 54 | 72 | 109 | 139 |
| Subordinated operational debt | 63 | 60 | 125 | 121 |
| **Total** | 189 | **191** | 382 | **385** |

Interest expenses on contingent capital instruments were USD 18 million and USD 14 million for the three months ended 30 June 2012 and 2013, respectively, and USD 21 million and USD 32 million for the six months ended 30 June 2012 and 2013, respectively.

### Long-term debt issued in 2013

In March 2013, Swiss Reinsurance Company Ltd issued subordinated contingent write-off loan notes with a scheduled maturity in 2024. The instrument has a face value of USD 750 million, with a fixed coupon of 6.375% per annum until the optional redemption date (1 September 2019). The full principal amount of the instrument is mandatorily written off if Swiss Reinsurance Company Ltd reports a Swiss Solvency Test (SST) ratio of less than 125% to the Swiss Financial Market Supervisory Authority (FINMA).

## 7 Insurance information

For the three months ended 30 June

### Premiums earned and fees assessed against policyholders

| 2012<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Total |
|---|---|---|---|---|
| **Premiums earned, thereof:** | | | | |
| Direct | | 25 | 20 | 45 |
| Reinsurance | 3 710 | 2 570 | 1 | 6 281 |
| Intra-group transactions (assumed and ceded) | 4 | | –4 | 0 |
| **Premiums earned before retrocession to external parties** | 3 714 | 2 595 | 17 | 6 326 |
| Reinsurance ceded to external parties | –883 | –457 | –9 | –1 349 |
| **Net premiums earned** | 2 831 | 2 138 | 8 | 4 977 |
| | | | | |
| **Fee income from policyholders, thereof:** | | | | |
| Direct | | | | 0 |
| Reinsurance | | 21 | 1 | 22 |
| Intra-group transactions (assumed and ceded) | | | | 0 |
| **Gross fee income before retrocession to external parties** | | 21 | 1 | 22 |
| Fee income ceded to external parties | | | | 0 |
| **Net fee income** | 0 | 21 | 1 | 22 |

For the three months ended 30 June

## Premiums earned and fees assessed against policyholders

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

For the six months ended 30 June

## Premiums earned and fees assessed against policyholders

| 2012<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Total |
|---|---|---|---|---|
| **Premiums earned, thereof:** | | | | |
| Direct | | 44 | 43 | 87 |
| Reinsurance | 7 695 | 5 134 | 3 | 12 832 |
| Intra-group transactions (assumed and ceded) | 10 | | –10 | 0 |
| **Premiums earned before retrocession to external parties** | 7 705 | 5 178 | 36 | 12 919 |
| Reinsurance ceded to external parties | –1 804 | –887 | –20 | –2 711 |
| **Net premiums earned** | 5 901 | 4 291 | 16 | 10 208 |

| | | | | |
|---|---|---|---|---|
| **Fee income from policyholders, thereof:** | | | | |
| Direct | | | | 0 |
| Reinsurance | | 41 | 1 | 42 |
| Intra-group transactions (assumed and ceded) | | | | 0 |
| **Gross fee income before retrocession to external parties** | | 41 | 1 | 42 |
| Fee income ceded to external parties | | | | 0 |
| **Net fee income** | 0 | 41 | 1 | 42 |

For the six months ended 30 June

## Premiums earned and fees assessed against policyholders

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

For the three months ended 30 June

## Claims and claim adjustment expenses

| 2012<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Total |
|---|---|---|---|---|
| **Claims paid, thereof:** | | | | |
| Gross claims paid to external parties | –2 629 | –2 042 | –19 | –4 690 |
| Intra-group transactions (assumed and ceded) | –1 | | 1 | 0 |
| **Claims before receivables from retrocession to external parties** | –2 630 | –2 042 | –18 | –4 690 |
| Receivables from retrocession to external parties | 469 | 456 | 6 | 931 |
| **Net claims paid** | –2 161 | –1 586 | –12 | –3 759 |
| | | | | |
| **Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:** | | | | |
| Gross - with external parties | 679 | –79 | 41 | 641 |
| Intra-group transactions (assumed and ceded) | 13 | | –13 | 0 |
| **Unpaid claims and claim adjustment expenses; life and health benefits before impact of retrocession to external parties** | 692 | –79 | 28 | 641 |
| Reinsurance ceded to external parties | 46 | 39 | –16 | 69 |
| **Net unpaid claims and claim adjustment expenses; life and health benefits** | 738 | –40 | 12 | 710 |
| | | | | |
| **Claims and claim adjustment expenses; life and health benefits** | –1 423 | –1 626 | 0 | –3 049 |

## Acquisition costs

| 2012<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Total |
|---|---|---|---|---|
| **Acquisition costs, thereof:** | | | | |
| Gross acquisition costs with external parties | –897 | –563 | –2 | –1 462 |
| Intra-group transactions (assumed and ceded) | –2 | | 2 | 0 |
| **Acquisition costs before impact of retrocession to external parties** | –899 | –563 | | –1 462 |
| Retrocession to external parties | 288 | 85 | 3 | 376 |
| **Net acquisition costs** | –611 | –478 | 3 | –1 086 |

For the three months ended 30 June

## Claims and claim adjustment expenses

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

## Acquisition costs

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

For the six months ended 30 June

### Claims and claim adjustment expenses

| 2012<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Total |
|---|---|---|---|---|
| **Claims paid, thereof:** | | | | |
| Gross claims paid to external parties | –5 087 | –3 940 | –24 | –9 051 |
| Intra-group transactions (assumed and ceded) | –2 | | 2 | 0 |
| **Claims before receivables from retrocession to external parties** | –5 089 | –3 940 | –22 | –9 051 |
| Receivables from retrocession to external parties | 835 | 895 | 7 | 1 737 |
| **Net claims paid** | –4 254 | –3 045 | –15 | –7 314 |
| | | | | |
| **Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:** | | | | |
| Gross - with external parties | 914 | –157 | –17 | 740 |
| Intra-group transactions (assumed and ceded) | –1 | | 1 | 0 |
| **Unpaid claims and claim adjustment expenses; life and health benefits before impact of retrocession to external parties** | 913 | –157 | –16 | 740 |
| Reinsurance ceded to external parties | 213 | 39 | 4 | 256 |
| **Net unpaid claims and claim adjustment expenses; life and health benefits** | 1 126 | –118 | –12 | 996 |
| | | | | |
| **Claims and claim adjustment expenses; life and health benefits** | –3 128 | –3 163 | –27 | –6 318 |

### Acquisition costs

| 2012<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Total |
|---|---|---|---|---|
| **Acquisition costs, thereof:** | | | | |
| Gross acquisition costs with external parties | –1 742 | –1 059 | –5 | –2 806 |
| Intra-group transactions (assumed and ceded) | –3 | | 3 | 0 |
| **Acquisition costs before impact of retrocession to external parties** | –1 745 | –1 059 | –2 | –2 806 |
| Retrocession to external parties | 577 | 145 | 4 | 726 |
| **Net acquisition costs** | –1 168 | –914 | 2 | –2 080 |

For the six months ended 30 June

### Claims and claim adjustment expenses

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

### Acquisition costs

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

### Reinsurance assets and liabilities

The reinsurance assets and liabilities as of 31 December 2012 and 30 June 2013 were as follows:

| 2012<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Consolidation | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Reinsurance recoverable | 5583 | 2447 | 191 | –46 | 8175 |
| Deferred acquisition costs | 1103 | 2713 | –5 | | 3811 |
| | | | | | |
| **Liabilities** | | | | | |
| Unpaid claims and claim adjustment expenses | 48465 | 9505 | 983 | –49 | 58904 |
| Life and health policy benefits | | 17439 | 2831 | | 20270 |
| Policyholder account balances | | 1466 | 5046 | | 6512 |

| **2013**<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Consolidation | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Reinsurance recoverable | 5034 | 1760 | 200 | –43 | 6951 |
| Deferred acquisition costs | 1423 | 2671 | –6 | | 4088 |
| | | | | | |
| **Liabilities** | | | | | |
| Unpaid claims and claim adjustment expenses | 46232 | 9122 | 966 | –46 | 56274 |
| Life and health policy benefits | | 16838 | 2996 | | 19834 |
| Policyholder account balances | | 1430 | 5089 | | 6519 |

### Reinsurance receivables

Reinsurance receivables as of 31 December 2012 and 30 June 2013 were as follows:

| USD millions | 2012 | **2013** |
|---|---|---|
| Premium receivables invoiced | 980 | 1345 |
| Receivables invoiced from ceded re/insurance business | 264 | 436 |
| Assets arising from the application of the deposit method of accounting and meeting the definition of financing receivables | 1320 | 1380 |
| Recognised allowance | –80 | –73 |

### Policyholder dividends

Policyholder dividends are recognised as an element of policyholder benefits. The amount of policyholder dividend expense for the three months ended 30 June 2012 and 2013 was USD 3 million and nil, respectively. For the six months ended 30 June 2012 and 2013, the policyholder dividend expense amounted to USD 7 million and nil, respectively.

## 8 Premiums written

For the three months ended 30 June

| 2012<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Consolidation | Total |
|---|---|---|---|---|---|
| **Gross premiums written, thereof:** | | | | | |
| Direct | | 54 | 17 | | 71 |
| Reinsurance | 3594 | 2485 | 1 | | 6080 |
| Intra-group transactions (assumed) | | | | | 0 |
| **Gross premiums written** | 3594 | 2539 | 18 | | 6151 |
| Intra-group transactions (ceded) | | | | | 0 |
| **Gross premiums written before retrocession to external parties** | 3594 | 2539 | 18 | | 6151 |
| Reinsurance ceded to external parties | –1030 | –454 | –9 | | –1493 |
| **Net premiums written** | 2564 | 2085 | 9 | 0 | 4658 |

| **2013**<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Consolidation | Total |
|---|---|---|---|---|---|
| **Gross premiums written, thereof:** | | | | | |
| Direct | | 124 | 222 | | 346 |
| Reinsurance | 3577 | 2613 | 48 | | 6238 |
| Intra-group transactions (assumed) | 6 | | –8 | 2 | 0 |
| **Gross premiums written** | 3583 | 2737 | 262 | 2 | 6584 |
| Intra-group transactions (ceded) | 8 | | –6 | –2 | 0 |
| **Gross premiums written before retrocession to external parties** | 3591 | 2737 | 256 | | 6584 |
| Reinsurance ceded to external parties | –534 | –325 | –8 | | –867 |
| **Net premiums written** | **3057** | **2412** | **248** | **0** | **5717** |

For the six months ended 30 June

| 2012<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Consolidation | Total |
|---|---|---|---|---|---|
| **Gross premiums written, thereof:** | | | | | |
| Direct | | 111 | 34 | | 145 |
| Reinsurance | 9489 | 5255 | 3 | | 14747 |
| Intra-group transactions (assumed) | 6 | | | –6 | 0 |
| **Gross premiums written** | 9495 | 5366 | 37 | –6 | 14892 |
| Intra-group transactions (ceded) | | | –6 | 6 | 0 |
| **Gross premiums written before retrocession to external parties** | 9495 | 5366 | 31 | | 14892 |
| Reinsurance ceded to external parties | –1669 | –880 | –17 | | –2566 |
| **Net premiums written** | 7826 | 4486 | 14 | 0 | 12326 |

| **2013**<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Consolidation | Total |
|---|---|---|---|---|---|
| **Gross premiums written, thereof:** | | | | | |
| Direct | | 365 | 258 | | 623 |
| Reinsurance | 10378 | 5255 | 88 | | 15721 |
| Intra-group transactions (assumed) | 10 | | –8 | –2 | 0 |
| **Gross premiums written** | 10388 | 5620 | 338 | –2 | 16344 |
| Intra-group transactions (ceded) | 8 | | –10 | 2 | 0 |
| **Gross premiums written before retrocession to external parties** | 10396 | 5620 | 328 | | 16344 |
| Reinsurance ceded to external parties | –757 | –742 | –30 | | –1529 |
| **Net premiums written** | **9639** | **4878** | **298** | **0** | **14815** |

## 9 Benefit plans

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

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

### Components of net periodic benefit cost
The components of pension and post-retirement cost for the six months ended 30 June 2012 and 2013 were as follows:

| 2012<br>USD millions | Swiss plans | Foreign plans | Other benefits | Total |
|---|---|---|---|---|
| Service cost (net of participant contributions) | 54 | 3 | 3 | 60 |
| Interest cost | 40 | 37 | 6 | 83 |
| Expected return on assets | –51 | –37 | | –88 |
| Amortisation of: | | | | |
| Net gain/loss | 21 | 6 | –4 | 23 |
| Prior service cost | | | –5 | –5 |
| Effect of settlement, curtailment and termination | 1 | 1 | | 2 |
| **Net periodic benefit cost** | 65 | 10 | 0 | 75 |

| **2013**<br>USD millions | Swiss plans | Foreign plans | Other benefits | Total |
|---|---|---|---|---|
| Service cost (net of participant contributions) | 58 | 4 | 3 | 65 |
| Interest cost | 36 | 34 | 5 | 75 |
| Expected return on assets | –51 | –37 | | –88 |
| Amortisation of: | | | | |
| Net gain/loss | 29 | 9 | –3 | 35 |
| Prior service cost | | | –5 | –5 |
| Effect of settlement, curtailment and termination | 1 | | | 1 |
| **Net periodic benefit cost** | **73** | **10** | **0** | **83** |

### Employer's contributions for 2013
For the six months ended 30 June 2013, the Group contributed USD 139 million to its defined benefit pension plans and USD 8 million to other post-retirement plans, compared to USD 85 million and USD 8 million, respectively, in the same period of 2012.

The expected 2013 contributions to the defined benefit pension plans and to the post-retirement benefit plans, revised as of 30 June 2013 for latest information, amount to USD 197 million and USD 15 million, respectively.

## 10 Information on business segments

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

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

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

**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.

Each segment's balance sheet is closely aligned to the segment's legal entity structure. The assignment of assets and liabilities for entities that span more than one segment are determined by considering local statutory requirements, legal and other constraints, the economic view of duration and currency requirements of the reinsurance business written, and the capacity of the segments to absorb risks. This consideration determined each segment's initial capital position under the new structure.

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

The accounting policies of the business segments are in line with those described in the summary of significant accounting policies (see Note 1 to the Group's annual consolidated financial statements).

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

| 2012<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Consolidation | Total |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Premiums earned | 2 831 | 2 138 | 8 | | 4 977 |
| Fee income from policyholders | | 21 | 1 | | 22 |
| Net investment income – non-participating | 428 | 367 | 10 | 5 | 810 |
| Net realised investment gains/losses – non-participating | 132 | 302 | 147 | | 581 |
| Net investment result – unit-linked and with-profit | | –40 | 1 | | –39 |
| Other revenues | 34 | 1 | | –5 | 30 |
| **Total revenues** | 3 425 | 2 789 | 167 | 0 | 6 381 |
| | | | | | |
| **Expenses** | | | | | |
| Claims and claim adjustment expenses | –1 423 | | 2 | 2 | –1 419 |
| Life and health benefits | | –1 626 | –2 | –2 | –1 630 |
| Return credited to policyholders | | 16 | 1 | | 17 |
| Acquisition costs | –611 | –478 | 3 | | –1 086 |
| Other expenses | –260 | –201 | –13 | | –474 |
| Interest expenses | –21 | –146 | –15 | | –182 |
| **Total expenses** | –2 315 | –2 435 | –24 | 0 | –4 774 |
| | | | | | |
| **Income before income tax expense** | 1 110 | 354 | 143 | 0 | 1 607 |
| Income tax expense | –295 | –94 | –5 | | –394 |
| **Net income before attribution of non-controlling interests** | 815 | 260 | 138 | 0 | 1 213 |
| | | | | | |
| Income attributable to non-controlling interests | –92 | | | | –92 |
| **Net income after attribution of non-controlling interests** | 723 | 260 | 138 | 0 | 1 121 |
| | | | | | |
| Interest on contingent capital instruments | –6 | –12 | | | –18 |
| **Net income attributable to common shareholder** | 717 | 248 | 138 | 0 | 1 103 |
| | | | | | |
| Claims ratio in % | 50.2 | | | | |
| Expense ratio in % | 30.8 | | | | |
| Combined ratio in % | 81.0 | | | | |
| Management expense ratio in % | | 8.0 | | | |
| Benefit ratio in % | | 73.8 | | | |

## Business segments – income statement

For the three months ended 30 June

| 2013<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Consolidation | Total |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Premiums earned | 3 170 | 2 483 | 250 | | 5 903 |
| Fee income from policyholders | | 16 | 24 | | 40 |
| Net investment income – non-participating | 281 | 367 | 135 | 7 | 790 |
| Net realised investment gains – non-participating | 90 | 60 | –66 | | 84 |
| Net investment result – unit-linked and with-profit | | –7 | | | –7 |
| Other revenues | 16 | | 2 | –7 | 11 |
| **Total revenues** | **3 557** | **2 919** | **345** | **0** | **6 821** |
| | | | | | |
| **Expenses** | | | | | |
| Claims and claim adjustment expenses | –2 241 | | –6 | | –2 247 |
| Life and health benefits | | –1 967 | –297 | | –2 264 |
| Return credited to policyholders | | 4 | –88 | | –84 |
| Acquisition costs | –636 | –461 | –3 | | –1 100 |
| Other expenses | –316 | –226 | –105 | | –647 |
| Interest expenses | –38 | –145 | –7 | | –190 |
| **Total expenses** | **–3 231** | **–2 795** | **–506** | **0** | **–6 532** |
| | | | | | |
| **Income before income tax expense** | **326** | **124** | **–161** | **0** | **289** |
| Income tax expense | 147 | 27 | 54 | | 228 |
| **Net income before attribution of non-controlling interests** | **473** | **151** | **–107** | **0** | **517** |
| | | | | | |
| Income attributable to non-controlling interests | –1 | | | | –1 |
| **Net income after attribution of non-controlling interests** | **472** | **151** | **–107** | **0** | **516** |
| | | | | | |
| Interest on contingent capital instruments | –4 | –10 | | | –14 |
| **Net income attributable to common shareholder** | **468** | **141** | **–107** | **0** | **502** |
| | | | | | |
| Claims ratio in % | 70.7 | | | | |
| Expense ratio in % | 30.0 | | | | |
| Combined ratio in % | 100.7 | | | | |
| Management expense ratio in % | | 7.9 | | | |
| Benefit ratio in % | | 79.6 | | | |

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

| 2012<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Consolidation | Total |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Premiums earned | 5 901 | 4 291 | 16 | | 10 208 |
| Fee income from policyholders | | 41 | 1 | | 42 |
| Net investment income – non-participating | 808 | 739 | 31 | 7 | 1 585 |
| Net realised investment gains – non-participating | 220 | 339 | 75 | | 634 |
| Net investment result – unit-linked and with-profit | | 86 | 1 | | 87 |
| Other revenues | 56 | 1 | | –7 | 50 |
| **Total revenues** | 6 985 | 5 497 | 124 | 0 | 12 606 |
| | | | | | |
| **Expenses** | | | | | |
| Claims and claim adjustment expenses | –3 128 | | –25 | 2 | –3 151 |
| Life and health benefits | | –3 163 | –2 | –2 | –3 167 |
| Return credited to policyholders | | –127 | | | –127 |
| Acquisition costs | –1 168 | –914 | 2 | | –2 080 |
| Other expenses | –606 | –360 | –7 | | –973 |
| Interest expenses | –43 | –294 | –39 | | –376 |
| **Total expenses** | –4 945 | –4 858 | –71 | 0 | –9 874 |
| | | | | | |
| **Income/loss before income tax expense** | 2 040 | 639 | 53 | 0 | 2 732 |
| Income tax expense/benefit | –540 | –169 | –13 | | –722 |
| **Net income/loss before attribution of non-controlling interests** | 1 500 | 470 | 40 | 0 | 2 010 |
| | | | | | |
| Income attributable to non-controlling interests | –115 | | | | –115 |
| **Net income/loss after attribution of non-controlling interests** | 1 385 | 470 | 40 | 0 | 1 895 |
| | | | | | |
| Interest on contingent capital instruments | –8 | –13 | | | –21 |
| **Net income/loss attributable to common shareholder** | 1 377 | 457 | 40 | 0 | 1 874 |
| | | | | | |
| Claims ratio in % | 53.0 | | | | |
| Expense ratio in % | 30.1 | | | | |
| Combined ratio in % | 83.1 | | | | |
| Management expense ratio in % | | 7.1 | | | |
| Benefit ratio in % | | 74.2 | | | |

## Business segments – income statement

For the six months ended 30 June

| 2013<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Consolidation | Total |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Premiums earned | 6 704 | 4 782 | 297 | | 11 783 |
| Fee income from policyholders | | 30 | 55 | | 85 |
| Net investment income – non-participating | 554 | 697 | 270 | 12 | 1 533 |
| Net realised investment gains – non-participating | 157 | 166 | 201 | | 524 |
| Net investment result – unit-linked and with-profit | | 92 | | | 92 |
| Other revenues | 31 | | 2 | –12 | 21 |
| **Total revenues** | **7 446** | **5 767** | **825** | **0** | **14 038** |
| | | | | | |
| **Expenses** | | | | | |
| Claims and claim adjustment expenses | –3 722 | | –14 | | –3 736 |
| Life and health benefits | | –3 701 | –385 | | –4 086 |
| Return credited to policyholders | | –107 | –174 | | –281 |
| Acquisition costs | –1 298 | –776 | 1 | | –2 073 |
| Other expenses | –637 | –443 | –182 | | –1 262 |
| Interest expenses | –78 | –296 | –11 | | –385 |
| **Total expenses** | **–5 735** | **–5 323** | **–765** | **0** | **–11 823** |
| | | | | | |
| **Income before income tax expense** | **1 711** | **444** | **60** | **0** | **2 215** |
| Income tax expense | –224 | –58 | 15 | | –267 |
| **Net income before attribution of non-controlling interests** | **1 487** | **386** | **75** | **0** | **1 948** |
| | | | | | |
| Income attributable to non-controlling interests | –1 | | | | –1 |
| **Net income after attribution of non-controlling interests** | **1 486** | **386** | **75** | **0** | **1 947** |
| | | | | | |
| Interest on contingent capital instruments | –9 | –23 | | | –32 |
| **Net income attributable to common shareholder** | **1 477** | **363** | **75** | **0** | **1 915** |
| | | | | | |
| Claims ratio in % | 55.5 | | | | |
| Expense ratio in % | 28.9 | | | | |
| Combined ratio in % | 84.4 | | | | |
| Management expense ratio in % | | 8.0 | | | |
| Benefit ratio in % | | 79.1 | | | |

## Business segments – total assets

As of 31 December

| 2012<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Consolidation | Total |
|---|---|---|---|---|---|
| Total assets[1] | 93 459 | 63 914 | 18 120 | –7 559 | 167 934 |

[1] The Group updated its balance sheet presentation of deferred tax assets and liabilities. Deferred tax assets and liabilities are presented on a gross basis as per the first quarter 2013. The comparative period has been adjusted accordingly and is consistent with the relevant income tax disclosure in the notes to the financial statements in the prior year.

## Business segments – total assets

As of 30 June

| **2013**<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Consolidation | Total |
|---|---|---|---|---|---|
| Total assets | **93 176** | **60 108** | **17 659** | **–6 325** | **164 618** |

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

For the three months ended 30 June

| 2012<br>USD millions | Property | Casualty | Specialty | Total |
|---|---|---|---|---|
| **Premiums earned** | 1 151 | 1 200 | 480 | 2 831 |
| **Expenses** | | | | |
| Claims and claim adjustment expenses | –601 | –649 | –173 | –1 423 |
| Acquisition costs | –171 | –336 | –104 | –611 |
| Other expenses | –136 | –73 | –51 | –260 |
| **Total expenses before interest expenses** | –908 | –1 058 | –328 | –2 294 |
| **Underwriting result** | 243 | 142 | 152 | 537 |
| Net investment income | | | | 428 |
| Net realised investment gains/losses | | | | 132 |
| Other revenues | | | | 34 |
| Interest expenses | | | | –21 |
| **Income before income tax expenses** | | | | 1 110 |
| Claims ratio in % | 52.2 | 54.1 | 36.0 | 50.2 |
| Expense ratio in % | 26.7 | 34.1 | 32.3 | 30.8 |
| Combined ratio in % | 78.9 | 88.2 | 68.3 | 81.0 |

| **2013**<br>USD millions | Property | Casualty | Specialty | Total |
|---|---|---|---|---|
| **Premiums earned** | **1 395** | **1 247** | **528** | **3 170** |
| **Expenses** | | | | |
| Claims and claim adjustment expenses | –1 153 | –856 | –232 | –2 241 |
| Acquisition costs | –219 | –301 | –116 | –636 |
| Other expenses | –161 | –102 | –53 | –316 |
| **Total expenses before interest expenses** | **–1 533** | **–1 259** | **–401** | **–3 193** |
| **Underwriting result** | **–138** | **–12** | **127** | **–23** |
| Net investment income | | | | 281 |
| Net realised investment gains/losses | | | | 90 |
| Other revenues | | | | 16 |
| Interest expenses | | | | –38 |
| **Income before income tax expenses** | | | | **326** |
| Claims ratio in % | 82.7 | 68.7 | 43.9 | 70.7 |
| Expense ratio in % | 27.2 | 32.3 | 32.0 | 30.0 |
| Combined ratio in % | 109.9 | 101.0 | 75.9 | 100.7 |

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

| 2012<br>USD millions | Property | Casualty | Specialty | Total |
|---|---|---|---|---|
| **Premiums earned** | 2 537 | 2 386 | 978 | 5 901 |
| | | | | |
| **Expenses** | | | | |
| Claims and claim adjustment expenses | –1 228 | –1 492 | –408 | –3 128 |
| Acquisition costs | –352 | –612 | –204 | –1 168 |
| Other expenses | –312 | –177 | –117 | –606 |
| **Total expenses before interest expenses** | –1 892 | –2 281 | –729 | –4 902 |
| | | | | |
| **Underwriting result** | 645 | 105 | 249 | 999 |
| | | | | |
| Net investment income | | | | 808 |
| Net realised investment gains/losses | | | | 220 |
| Other revenues | | | | 56 |
| Interest expenses | | | | –43 |
| **Income before income tax expenses** | | | | 2 040 |
| | | | | |
| Claims ratio in % | 48.4 | 62.5 | 41.7 | 53.0 |
| Expense ratio in % | 26.2 | 33.1 | 32.8 | 30.1 |
| Combined ratio in % | 74.6 | 95.6 | 74.5 | 83.1 |

| **2013**<br>USD millions | Property | Casualty | Specialty | Total |
|---|---|---|---|---|
| **Premiums earned** | **3 053** | **2 571** | **1 080** | **6 704** |
| | | | | |
| **Expenses** | | | | |
| Claims and claim adjustment expenses | –1 770 | –1 539 | –413 | –3 722 |
| Acquisition costs | –368 | –696 | –234 | –1 298 |
| Other expenses | –329 | –215 | –93 | –637 |
| **Total expenses before interest expenses** | **–2 467** | **–2 450** | **–740** | **–5 657** |
| | | | | |
| **Underwriting result** | **586** | **121** | **340** | **1 047** |
| | | | | |
| Net investment income | | | | 554 |
| Net realised investment gains/losses | | | | 157 |
| Other revenues | | | | 31 |
| Interest expenses | | | | –78 |
| **Income before income tax expenses** | | | | **1 711** |
| | | | | |
| Claims ratio in % | 58.0 | 59.9 | 38.2 | 55.5 |
| Expense ratio in % | 22.8 | 35.4 | 30.3 | 28.9 |
| Combined ratio in % | 80.8 | 95.3 | 68.5 | 84.4 |

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

For the three months ended 30 June 2012

| 2012<br>USD millions | Life | Health | Total |
|---|---|---|---|
| **Revenues** | | | |
| Premiums earned | 1 444 | 694 | 2 138 |
| Fee income from policyholders | 21 | | 21 |
| Net investment income – non-participating | 254 | 113 | 367 |
| Net investment income – unit-linked and with-profit | 3 | | 3 |
| Net realised investment gains/losses – unit-linked and with-profit | –43 | | –43 |
| Net realised investment gains/losses – insurance-related derivatives | 26 | –4 | 22 |
| Other revenues | 1 | | 1 |
| **Total revenues before non-participating realised gains/losses** | 1 706 | 803 | 2 509 |
| | | | |
| **Expenses** | | | |
| Life and health benefits | –1 134 | –492 | –1 626 |
| Return credited to policyholders | 16 | | 16 |
| Acquisition costs | –338 | –140 | –478 |
| Other expenses | –146 | –55 | –201 |
| **Total expenses before interest expenses** | –1 602 | –687 | –2 289 |
| | | | |
| **Operating income** | 104 | 116 | 220 |
| | | | |
| Net realised investment gains/losses – non-participating and excluding insurance-related derivatives | | | 280 |
| Interest expenses | | | –146 |
| **Income before income tax expenses** | | | **354** |
| | | | |
| Management expense ratio in % | 8.5 | 6.8 | 8.0 |
| Benefit ratio[1] in % | 75.3 | 70.9 | 73.8 |

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

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

For the three months ended 30 June 2013

| 2013<br>USD millions | Life | Health | Total |
|---|---|---|---|
| **Revenues** | | | |
| Premiums earned | 1 681 | 802 | 2 483 |
| Fee income from policyholders | 16 | | 16 |
| Net investment income – non-participating | 232 | 135 | 367 |
| Net investment income – unit-linked and with-profit | 4 | | 4 |
| Net realised investment gains/losses – unit-linked and with-profit | –11 | | –11 |
| Net realised investment gains/losses – insurance-related derivatives | –74 | 1 | –73 |
| Other revenues | | | 0 |
| **Total revenues before non-participating realised gains/losses** | **1 848** | **938** | **2 786** |
| | | | |
| **Expenses** | | | |
| Life and health benefits | –1 358 | –609 | –1 967 |
| Return credited to policyholders | 4 | | 4 |
| Acquisition costs | –354 | –107 | –461 |
| Other expenses | –172 | –54 | –226 |
| **Total expenses before interest expenses** | **–1 880** | **–770** | **–2 650** |
| | | | |
| **Operating income** | **–32** | **168** | **136** |
| | | | |
| Net realised investment gains/losses – non-participating and excluding insurance-related derivatives | | | 133 |
| Interest expenses | | | –145 |
| **Income before income tax expenses** | | | **124** |
| | | | |
| Management expense ratio in % | 8.9 | 5.8 | 7.9 |
| Benefit ratio[1] in % | 81.4 | 75.9 | 79.6 |

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

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

For the six months ended 30 June 2012

| 2012<br>USD millions | Life | Health | Total |
|---|---|---|---|
| **Revenues** | | | |
| Premiums earned | 2 957 | 1 334 | 4 291 |
| Fee income from policyholders | 41 | | 41 |
| Net investment income – non-participating | 502 | 237 | 739 |
| Net investment income – unit-linked and with-profit | 6 | | 6 |
| Net realised investment gains/losses – unit-linked and with-profit | 80 | | 80 |
| Net realised investment gains/losses – insurance-related derivatives | –57 | –2 | –59 |
| Other revenues | 1 | | 1 |
| **Total revenues before non-participating realised gains/losses** | 3 530 | 1 569 | 5 099 |
| | | | |
| **Expenses** | | | |
| Life and health benefits | –2 188 | –975 | –3 163 |
| Return credited to policyholders | –127 | | –127 |
| Acquisition costs | –667 | –247 | –914 |
| Other expenses | –274 | –86 | –360 |
| **Total expenses before interest expenses** | –3 256 | –1 308 | –4 564 |
| | | | |
| **Operating income** | 274 | 261 | 535 |
| | | | |
| Net realised investment gains/losses – non-participating and excluding insurance-related derivatives | | | 398 |
| Interest expenses | | | –294 |
| **Income before income tax expenses** | | | **639** |
| | | | |
| Management expense ratio in % | 7.8 | 5.5 | 7.1 |
| Benefit ratio[1] in % | 74.6 | 73.1 | 74.2 |

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

**Life & Health Reinsurance business segment – by line of business**
For the six months ended 30 June 2013

| 2013<br>USD millions | Life | Health | Total |
|---|---|---|---|
| **Revenues** | | | |
| Premiums earned | 3 221 | 1 561 | 4 782 |
| Fee income from policyholders | 30 | | 30 |
| Net investment income – non-participating | 443 | 254 | 697 |
| Net investment income – unit-linked and with-profit | 6 | | 6 |
| Net realised investment gains/losses – unit-linked and with-profit | 86 | | 86 |
| Net realised investment gains/losses – insurance-related derivatives | –81 | 3 | –78 |
| Other revenues | | | 0 |
| **Total revenues before non-participating realised gains/losses** | **3 705** | **1 818** | **5 523** |
| | | | |
| **Expenses** | | | |
| Life and health benefits | –2 483 | –1 218 | –3 701 |
| Return credited to policyholders | –107 | | –107 |
| Acquisition costs | –565 | –211 | –776 |
| Other expenses | –330 | –113 | –443 |
| **Total expenses before interest expenses** | **–3 485** | **–1 542** | **–5 027** |
| | | | |
| **Operating income** | **220** | **276** | **496** |
| | | | |
| Net realised investment gains/losses – non-participating and excluding insurance-related derivatives | | | 244 |
| Interest expenses | | | –296 |
| **Income before income tax expenses** | | | **444** |
| | | | |
| Management expense ratio in % | 8.9 | 6.2 | 8.0 |
| Benefit ratio[1] in % | 79.6 | 78.0 | 79.1 |

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

## 11 Variable interest entities

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

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

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

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

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

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

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

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

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

As of 30 June 2013, the total assets of the insurance-linked and credit-linked securitisation vehicles in which the Group holds variable interests but is not the primary beneficiary were USD 2 683 million.

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

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

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

The total assets of the debt financing vehicles in which the Group is the primary beneficiary were USD 6 405 million as of 30 June 2013.

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

As of 30 June 2013, the total assets of investment vehicles in which the Group holds variable interests but is not the primary beneficiary were USD 2 410 million.

## Other

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

As of 30 June 2013, the total assets of other VIEs in which the Group holds variable interests but is not the primary beneficiary were USD 1 216 million. The total assets of the vehicles in which the Group is the primary beneficiary were USD 829 million.

The Group did not provide financial or other support to any VIEs during 2013 that it was not previously contractually required to provide.

## Consolidated VIEs

The following table shows the total assets and liabilities on the Group's balance sheet relating to VIEs of which the Group is the primary beneficiary as of 31 December 2012 and 30 June 2013:

| | | 2012 | | 2013 |
|---|---|---|---|---|
| USD millions | Carrying value | Whereof restricted: | Carrying value | Whereof restricted: |
| Fixed income securities available-for-sale | 6 896 | 6 896 | 5 830 | 5 830 |
| Short-term investments | 610 | 610 | 406 | 406 |
| Other invested assets | 258 | 258 | 326 | 326 |
| Cash and cash equivalents | 177 | 177 | 158 | 158 |
| Accrued investment income | 44 | 44 | 48 | 48 |
| Other assets | 19 | 1 | 466 | 447 |
| **Total assets** | 8 004 | 7 986 | **7 234** | **7 215** |

| | Carrying value | Whereof limited recourse: | Carrying value | Whereof limited recourse: |
|---|---|---|---|---|
| Short-term debt | 504 | 504 | 459 | 459 |
| Accrued expenses and other liabilities | 76 | 76 | 269 | 269 |
| Long-term debt | 5 328 | 5 328 | 5 008 | 5 008 |
| **Total liabilities** | 5 908 | 5 908 | **5 736** | **5 736** |

### Non-consolidated VIEs

The following table shows the total assets and liabilities in the Group's balance sheet related to VIEs in which the Group held a variable interest but was not the primary beneficiary as of 31 December 2012 and 30 June 2013:

| USD millions | 2012 | **2013** |
|---|---|---|
| Fixed income securities: | | |
| Available-for-sale | 72 | 51 |
| Trading | 12 | 13 |
| Other invested assets | 1 138 | 1 082 |
| **Total assets** | 1 222 | **1 146** |
| | | |
| Short-term debt | 399 | 394 |
| Accrued expenses and other liabilities | 385 | 405 |
| **Total liabilities** | 784 | **799** |

The following table shows the Group's assets, liabilities and maximum exposure to loss related to VIEs in which the Group held a variable interest but was not the primary beneficiary as of 31 December 2012 and 30 June 2013:

| | | | | 2012 | | | | **2013** |
|---|---|---|---|---|---|---|---|---|
| USD millions | Total assets | Total liabilities | Maximum exposure to loss | Difference between exposure and liabilities | Total assets | Total liabilities | Maximum exposure to loss | Difference between exposure and liabilities |
| Insurance-linked/credit-linked securitisations | 212 | | 842 | 842 | 122 | | 402 | 402 |
| Swaps in trusts | 149 | 240 | –[1] | – | 163 | 263 | –[1] | – |
| Investment vehicles | 829 | | 829 | 829 | 835 | | 835 | 835 |
| Other | 32 | 544 | 1 622 | 1 078 | 26 | 536 | 1 641 | 1 105 |
| **Total** | 1 222 | 784 | –[1] | – | **1 146** | **799** | **–[1]** | **–** |

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

The assets and liabilities for the swaps in trusts represent the positive and negative fair values of the derivatives the Group has entered into with the trusts. Liabilities of USD 536 million recognised for the "Other" category relate mainly to collateral received.

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# Note on risk factors

**General impact of adverse market conditions**

Bank funding and capital markets continue to be affected by economic concerns and euro area stability issues, most recently as a result of negotiations over the terms of the bail-out of the Cypriot financial sector and political developments in Portugal triggered by public discontent over austerity measures. It remains unclear whether European Union leaders will be able to deliver on proposals for a banking union and recapitalisation of banks through direct equity injections and whether these proposals will be sufficient to adequately address the eurozone sovereign debt crisis. At the same time, there remains continued need for structural reforms in a number of economies and a lack of consensus over the virtue and efficacy of austerity-led versus growth-led reforms. Uncertainty around economic growth can also be compounded by domestic political concerns in various EU member states, including upcoming elections and proposed referendums on EU participation.

The uncertainty around the future of the euro and the volatility in the financial and credit markets could increase the severity and duration of economic recession, cause more economic turmoil in the near term, cause further disruptions in the global financial markets and impact foreign currency exchange rates. These uncertainties could be exacerbated by the uncertainty over the pace and extent of future economic growth in emerging markets. These developments in turn could have an adverse impact on the investment results of SRZ ("Swiss Re") and its subsidiaries' (collectively, the "Group"), its ability to access the capital markets and the bank funding market, the ability of counterparties to meet their obligations to the Group and the short-term outlook for the life insurance industry, particularly in North America and Europe, with a corresponding negative impact on the Group's Life & Health business.

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

**Regulatory changes**

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

Although early regulatory efforts were focused primarily on banking institutions, there is a noticeable trend to extend the scope of proposals beyond banks 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, Swiss Re is subject to the Swiss Solvency Test, and will be subject to Solvency II, which was expected to be transposed into law in June 2013 and become binding on insurers in January 2014, but which could be delayed to as late as 2016. In July 2012, the EIOPA published the results of its consultation with insurance and reinsurance stakeholders on guidelines for Own Risk and Solvency Assessments ("ORSA") for Solvency II, as well as other draft proposals with regard to the Supervisory Reporting & Public Disclosure in the Solvency II framework. While the so-called "stabilized draft" of the ORSA guidelines is not expected to result in significant changes, there remains significant uncertainty regarding the implementation process for Solvency II. In the United States, as a possible step towards federal oversight of insurance, the US Congress created the Federal Insurance Office within the Department of Treasury and, more recently, as a result of the Solvency Modernization Initiative of the National Association of Insurance Commissioners, we are experiencing greater US scrutiny of our global operations and more extensive reporting obligations. In addition, provisions of the Wall Street Reform and Consumer Protection Act of 2010, as well as provisions in the proposed European Market Infrastructure Regulation and proposed changes to the Markets in Financial Instruments Directive (MiFID), in respect of derivatives could have a significant impact on the Group.

Other changes remain focused principally on banking institutions, but some could have direct applicability to insurance or reinsurance operations and others could have a general impact on the regulatory landscape for financial institutions, which might indirectly impact our capital requirements and/or required reserve levels or have other direct or indirect effects on the Group. Changes are particularly likely to impact financial institutions designated as "systemically important", a designation which is expected to result in enhanced regulatory supervision and heightened capital, liquidity and diversification requirements under evolving reforms. There is an emerging focus on classifying certain insurance companies as systemically important as well. The Group could be designated as a global systemically important financial institution. Separately, the International Association of Insurance Supervisors, an international body that represents insurance regulators and supervisors, undertook a consultation on a methodology for identifying global systemically important insurers and on a framework for supervision of internationally active insurance groups. The Group could be subject to one or both of the resulting regimes as well, once implemented. Designations as any of the foregoing systemically important institutions could occur by mid-2014.

The Group cannot predict which legislative and regulatory initiatives ultimately will be enacted or promulgated, what the scope and content of these initiatives ultimately will be, when they will be effective and what the implications will be for the industry, in general, and for the Group, in particular. Certain of these initiatives could have a material impact on the Group's business.

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

## Market risk

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

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

## Credit risk

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

**Liquidity risks**

The Group's business requires, and its clients expect, that it has sufficient capital and sufficient liquidity to meet its reinsurance obligations, and that this would continue to be the case following the occurrence of any event or series of events, including extreme catastrophes, that would trigger insurance or reinsurance coverage obligations. The Group's uses of funds include obligations arising in its reinsurance business (including claims and other payments as well as insurance provision repayments due to portfolio transfers, securitisations and commutations), which may include large and unpredictable claims (including catastrophe claims), funding of capital requirements and operating costs, payment of principal and interest on outstanding indebtedness and funding of acquisitions. The Group also enters into contracts or trading arrangements that could give rise to significant short-term funding obligations and, in connection with the Group's trading operations, it could be subject to unexpected calls to deliver collateral or unwind trading positions at a net cost to it. The Group also has unfunded capital commitments in its private equity and hedge fund investments, which could result in funding obligations at a time when it is subject to liquidity constraints. In addition, the Group has potential collateral requirements in connection with a number of reinsurance arrangements, the amounts of which may be material and the meeting of which could require the Group to liquidate cash equivalents or other securities. The Group manages liquidity and funding risks by focusing on the liquidity stress that is likely to result from extreme capital markets scenarios or from extreme loss events, or combinations of the two. Generally, the ability to meet liquidity needs could be adversely impacted by factors that the Group cannot control, such as market dislocations or interruptions, adverse economic conditions, severe disruption in the financial and worldwide credit markets and the related increased constraints on the availability of credit; changes in interest rates, foreign exchange rates and credit spreads, or by perceptions among market participants of the extent of the Group's liquidity needs.

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

**Counterparty risks**
The Group's general exposure to counterparty risk was heightened during the credit crisis, and this risk could still be exacerbated to the extent defaults, or concerns about possible defaults, by certain market participants trigger more systemic concerns about liquidity. Losses due to defaults by counterparties, including issuers of investment securities (which include structured securities) or derivative instrument counterparties, could adversely affect the Group. In addition, trading counterparties, counterparties under swaps and other derivative contracts, and financial intermediaries may default on their obligations due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons, which could also have a material adverse effect on the Group.

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

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

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

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

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

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

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

## Use of models; accounting matters

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

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

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

## Risks related to the Swiss Re corporate structure

Following the realignment of the corporate structure of Swiss Re Ltd in 2012, the asset base, liquidity position, capital profile and/or other characteristics of the Group of relevance to its counterparties have changed. Most importantly, the Group is now a wholly owned subsidiary of Swiss Re Ltd. Furthermore, the Group represents only two of the four operating segments of the Swiss Re Ltd group. With a changed legal entity profile, the Reinsurance business unit and its constituent subsidiaries are impacted differently than under the Group's historical structure, including, without limitation, in respect of legal and regulatory requirements (including as to capital and liquidity), ratings considerations, and lender and other counterparty considerations.

# Cautionary note on forward-looking statements

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

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

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

- the lowering or loss of financial strength or other ratings of one or more Group companies, and developments adversely affecting the Group's ability to achieve improved ratings;
- the cyclicality of the reinsurance industry;
- uncertainties in estimating reserves;
- uncertainties in estimating future claims for purposes of financial reporting, particularly with respect to large natural catastrophes, as significant uncertainties may be involved in estimating losses from such events and preliminary estimates may be subject to change as new information becomes available;
- the frequency, severity and development of insured claim events;
- acts of terrorism and acts of war;
- mortality, morbidity and longevity experience;
- policy renewal and lapse rates;
- extraordinary events affecting the Group's clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- current, pending and future legislation and regulation affecting the Group or its ceding companies 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.

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