Swiss Re

# Swiss Reinsurance Company Consolidated 2012 Annual 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.

The new Swiss Re corporate structure was reflected in the Group financial statements beginning with the first quarter of 2012. During the first half of 2012, Swiss Reinsurance Company Ltd transfered Corporate Solutions and Admin Re® entities through a dividend in-kind to Swiss Re Ltd. Following these transfers, the Corporate Solutions and Admin Re® entities are no longer be subsidiaries of Swiss Reinsurance Company Ltd and are instead subsidiaries of Swiss Re Ltd.

# Income statement

For the years ended 31 December

| USD millions | Note | 2011 | 2012 |
|---|---|---|---|
| **Revenues** | | | |
| Premiums earned | 9 | 21 300 | **21 496** |
| Fee income from policyholders | 9 | 876 | **122** |
| Net investment income – non-participating | 2 | 4 626 | **3 124** |
| Net realised investment gains – non-participating (total impairments for the years ended 31 December were 435 in 2011 and 197 in 2012, of which 254 and 149, respectively, were recognised in earnings) | 2 | 1 655 | **879** |
| Net investment result – unit-linked and with-profit | 2 | –403 | **223** |
| Other revenues | | 51 | **80** |
| **Total revenues** | | 28 105 | **25 924** |
| | | | |
| **Expenses** | | | |
| Claims and claim adjustment expenses | 9 | –8 810 | **–6 337** |
| Life and health benefits | 9 | –8 414 | **–6 952** |
| Return credited to policyholders | | –61 | **–439** |
| Acquisition costs | 9 | –4 021 | **–4 132** |
| Other expenses | | –3 115 | **–2 511** |
| Interest expenses | | –851 | **–748** |
| **Total expenses** | | –25 272 | **–21 119** |
| | | | |
| **Income before income tax expense** | | 2 833 | **4 805** |
| Income tax expense/benefit | 11 | –83 | **–1 122** |
| **Net income before attribution of non-controlling interests** | | 2 750 | **3 683** |
| | | | |
| Income attributable to non-controlling interests | | –172 | **–136** |
| **Net income after attribution of non-controlling interests** | | 2 578 | **3 547** |
| | | | |
| Interest on contingent capital instruments | | 0 | **–56** |
| **Net income attributable to common shareholder** | | 2 578 | **3 491** |

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

# Statement of comprehensive income

For the years ended 31 December

| USD millions | 2011 | **2012** |
|---|---|---|
| Net income before attribution of non-controlling interests | 2 750 | **3 683** |
| Other comprehensive income, net of tax: | | |
| Change in unrealised gains/losses (tax: –1 326 in 2011 and –322 in 2012) | 3 181 | **927** |
| Change in other-than-temporary impairment (tax: –24 in 2011 and –38 in 2012) | 51 | **74** |
| Change in foreign currency translation (tax: –42 in 2011 and 43 in 2012) | –182 | **707** |
| Change in adjustment for pension benefits (tax: 83 in 2011 and 61 in 2012) | –253 | **–180** |
| **Total comprehensive income before attribution of non-controlling interests** | 5 547 | **5 211** |
| | | |
| Interest on contingent capital instruments | | **–56** |
| Comprehensive income attributable to non-controlling interests | –172 | **–136** |
| **Total comprehensive income attributable to common shareholder** | 5 375 | **5 019** |

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

# Balance sheet

As of 31 December

## Assets

| USD millions | Note | 2011 | 2012 |
|---|---|---|---|
| **Investments** | 2, 3, 4 | | |
| Fixed income securities: | | | |
| Available-for-sale, at fair value (including 7 034 in 2011 and 9 256 in 2012 subject to securities lending and repurchase agreements) (amortised cost: 86 984 in 2011 and 62 762 in 2012) | | 93 770 | **66 827** |
| Trading (including 620 in 2011 and 196 in 2012 subject to securities lending and repurchase agreements) | | 3 453 | **1 795** |
| Equity securities: | | | |
| Available-for-sale, at fair value (including 45 in 2011 and 0 in 2012 subject to securities lending and repurchase agreements) (cost: 1 907 in 2011 and 2 263 in 2012) | | 1 960 | **2 538** |
| Trading | | 571 | **671** |
| Policy loans, mortgages and other loans | | 8 325 | **3 713** |
| Investment real estate | | 645 | **772** |
| Short-term investments, at amortised cost which approximates fair value (including 87 in 2011 and 3 454 in 2012 subject to securities lending and repurchase agreements) | | 13 660 | **16 103** |
| Other invested assets | | 19 821 | **12 383** |
| Investments for unit-linked and with-profit business (including fixed income securities trading: 4 095 in 2011 and 0 in 2012, equity securities trading: 16 182 in 2011 and 841 in 2012) | | 22 349 | **841** |
| **Total investments** | | 164 554 | **105 643** |
| | | | |
| Cash and cash equivalents (including 36 in 2011 and 75 in 2012 subject to securities lending) | | 11 298 | **8 662** |
| Accrued investment income | | 1 226 | **743** |
| Premiums and other receivables | | 11 441 | **10 157** |
| Reinsurance recoverable on unpaid claims and policy benefits | 9 | 11 837 | **8 175** |
| Funds held by ceding companies | | 9 064 | **14 427** |
| Deferred acquisition costs | 5, 9 | 3 923 | **3 811** |
| Acquired present value of future profits | 5 | 4 226 | **1 986** |
| Goodwill | | 4 051 | **4 075** |
| Income taxes recoverable | | 703 | **417** |
| Other assets | | 5 797 | **4 971** |
| | | | |
| **Total assets** | | 228 120 | **163 067** |

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

## Liabilities and equity

| USD millions | Note | 2011 | **2012** |
|---|---|---|---|
| **Liabilities** | | | |
| Unpaid claims and claim adjustment expenses | | 64 878 | **58 904** |
| Liabilities for life and health policy benefits | 3 | 39 044 | **20 270** |
| Policyholder account balances | | 34 162 | **6 512** |
| Unearned premiums | | 8 299 | **7 535** |
| Funds held under reinsurance treaties | | 2 436 | **3 275** |
| Reinsurance balances payable | | 3 962 | **3 666** |
| Income taxes payable | | 440 | **498** |
| Deferred and other non-current taxes | | 2 853 | **2 996** |
| Short-term debt | 7 | 4 101 | **6 551** |
| Accrued expenses and other liabilities | | 20 213 | **13 436** |
| Long-term debt | 7 | 16 541 | **16 482** |
| **Total liabilities** | | 196 929 | **140 125** |
| | | | |
| **Equity** | | | |
| Contingent capital instruments | 7 | 0 | **1 102** |
| Common stock, CHF 0.10 par value | | | |
| 2011: 370 706 931; 2012: 344 052 565 shares authorised and issued[1] | | 35 | **32** |
| Additional paid-in capital | | 8 958 | **8 875** |
| Treasury shares, net of tax | | –1 032 | **0** |
| Shares in Swiss Re Ltd, net of tax | | –102 | **–144** |
| | | | |
| Accumulated other comprehensive income: | | | |
| Net unrealised investment gains/losses, net of tax | | 4 223 | **3 059** |
| Other-than-temporary impairment, net of tax | | –118 | **–27** |
| Cumulative translation adjustments, net of tax | | –3 924 | **–3 180** |
| Accumulated adjustment for pension and post-retirement benefits, net of tax | | –775 | **–928** |
| Total accumulated other comprehensive income | | –594 | **–1 076** |
| | | | |
| Retained earnings | | 22 229 | **14 129** |
| **Shareholder's equity** | | 29 494 | **22 918** |
| | | | |
| Non-controlling interests | | 1 697 | **24** |
| **Total equity** | | 31 191 | **22 942** |
| | | | |
| **Total liabilities and equity** | | 228 120 | **163 067** |

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

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

# Statement of shareholder's equity

For the years ended 31 December

| USD millions | 2011 | 2012 |
|---|---|---|
| **Contingent capital instruments** | | |
| Balance as of 1 January | 0 | **0** |
| Issued | | **1 102** |
| Balance as of period end | 0 | **1 102** |
| **Common shares** | | |
| Balance as of 1 January | 35 | **35** |
| Issue/cancellation of common shares | | **–3** |
| Balance as of period end | 35 | **32** |
| **Additional paid-in capital** | | |
| Balance as of 1 January | 10 530 | **8 958** |
| Contingent capital instruments' issuance cost | | **–18** |
| Share-based compensation | –87 | **–29** |
| Realised gains/losses on treasury shares | –421 | **–36** |
| Sale of Swiss Re Specialised Investments Holdings (UK) Ltd[1] | –29 | |
| Dividends on common shares[2] | –1 035 | |
| Balance as of period end | 8 958 | **8 875** |
| **Treasury shares, net of tax** | | |
| Balance as of 1 January | –1 483 | **–1 032** |
| Purchase of treasury shares | –168 | |
| Issuance of treasury shares, including share-based compensation to employees | 619 | |
| Cancellation of treasury shares[3] | | **1 032** |
| Balance as of period end | –1 032 | **0** |
| **Shares in Swiss Re Ltd, net of tax** | | |
| Balance as of 1 January | 0 | **–102** |
| Change of shares in Swiss Re Ltd[3] | –102 | **–42** |
| Balance as of period end | –102 | **–144** |
| **Net unrealised gains/losses, net of tax** | | |
| Balance as of 1 January | 1 042 | **4 223** |
| Effect of change in Group structure[4] | | **–2 091** |
| Other changes during the period | 3 181 | **927** |
| Balance as of period end | 4 223 | **3 059** |
| **Other-than-temporary impairment, net of tax** | | |
| Balance as of 1 January | –169 | **–118** |
| Effect of change in Group structure[4] | | **17** |
| Other changes during the period | 51 | **74** |
| Balance as of period end | –118 | **–27** |
| **Foreign currency translation, net of tax** | | |
| Balance as of 1 January | –3 742 | **–3 924** |
| Effect of change in Group structure[4] | | **37** |
| Other changes during the period | –182 | **707** |
| Balance as of period end | –3 924 | **–3 180** |
| **Adjustment for pension and other post-retirement benefits, net of tax** | | |
| Balance as of 1 January | –522 | **–775** |
| Effect of change in Group structure[4] | | **27** |
| Change during the period | –253 | **–180** |
| Balance as of period end | –775 | **–928** |

| | | |
|---|---|---|
| **Retained earnings** | | |
| Balance as of 1 January | 19 651 | **22 229** |
| Effect of change in Group structure[4] | | **–8 536** |
| Net income after attribution of non-controlling interests | 2 578 | **3 547** |
| Interest on contingent capital instruments, net of tax | | **–56** |
| Dividends on common shares | | **–2 636** |
| Cumulative effect of adoption of ASU 2010-26[5], net of tax | | **–24** |
| Cancellation of treasury shares[3] | | **–1 029** |
| Effect of transfer of Aurora National Life Assurance Company[6] | | **191** |
| Effect of new reinsurance agreements[7] | | **443** |
| Balance as of period end | 22 229 | **14 129** |
| **Shareholder's equity** | 29 494 | **22 918** |
| **Non-controlling interests** | | |
| Balance as of 1 January | 1 564 | **1 697** |
| Effect of change in Group structure[4] | | **–414** |
| Change during the period | –39 | **–1 935** |
| Income attributable to non-controlling interests | 172 | **136** |
| Effect of transfer of Aurora National Life Assurance Company[6] | | **540** |
| Balance as of period end | 1 697 | **24** |
| **Total equity** | 31 191 | **22 942** |

[1] On 3 May 2011, Swiss Reinsurance Company Ltd sold its subsidiary Swiss Re Specialised Investments Holdings (UK) Limited to Swiss Re Ltd. As the transaction has been accounted for in a manner similar to a transaction between entities under common control, the difference between the proceeds received and the book value was accounted for as a capital transaction.
[2] Dividends to shareholders were paid in the form of a withholding tax-exempt repayment of legal reserves from capital contributions.
[3] 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". The comparative period is presented accordingly.
[4] Please refer to Note 1 "Organisation and summary of significant accounting policies".
[5] The Group adopted a new accounting pronouncement, ASU 2010-26 "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts" as of 1 January 2012, which required the release of USD 24 million of deferred acquisition costs against retained earnings. Refer to Note 5 for more details on the adoption of ASU 2010-26.
[6] Please refer to Note 19 "Related parties" for more details.
[7] 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

For the years ended 31 December

| USD millions | 2011 | 2012 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income attributable to common shareholder | 2 578 | **3 491** |
| Add net income attributable to non-controlling interests | 172 | **136** |
| | | |
| Adjustments to reconcile net income to net cash provided/used by operating activities: | | |
| Depreciation, amortisation and other non-cash items | 3 112 | **3 305** |
| Net realised investment gains/losses | –409 | **–1 069** |
| Change in: | | |
| Technical provisions, net | –4 093 | **–5 047** |
| Funds held by ceding companies and other reinsurance balances | –1 501 | **1 291** |
| Reinsurance recoverable on unpaid claims and policy benefits | 275 | **–179** |
| Other assets and liabilities, net | –20 | **–40** |
| Income taxes payable/recoverable | –546 | **1 195** |
| Income from equity-accounted investees, net of dividends received | –225 | **–340** |
| Trading positions, net | 2 880 | **–1 350** |
| Securities purchased/sold under agreement to resell/repurchase, net | –785 | **844** |
| **Net cash provided/used by operating activities** | 1 438 | **2 237** |
| | | |
| **Cash flows from investing activities** | | |
| Fixed income securities: | | |
| Sales and maturities | 142 952 | **95 954** |
| Purchases | –145 148 | **–94 683** |
| Net purchase/sale/maturities of short-term investments | 6 952 | **–4 259** |
| Equity securities: | | |
| Sales | 2 351 | **1 228** |
| Purchases | –3 173 | **–1 868** |
| Cash paid/received for acquisitions/disposal and reinsurance transactions, net[1] | 80 | **–483** |
| Net purchases/sales/maturities of other investments | –454 | **1 105** |
| **Net cash provided/used by investing activities** | 3 560 | **–3 006** |
| | | |
| **Cash flows from financing activities** | | |
| Issuance/repayment of long-term debt | –181 | **931** |
| Issuance/repayment of short-term debt | –9 044 | **532** |
| Proceeds from the issuance of contingent capital instruments, net of issuance cost | | **1 084** |
| Purchase/sale of shares in Swiss Re Ltd | –270 | **–133** |
| Dividends paid to shareholders/parent[2] | –1 035 | **–2 636** |
| **Net cash provided/used by financing activities** | –10 530 | **–222** |
| | | |
| **Total net cash provided/used** | –5 532 | **–991** |
| Effect of foreign currency translation | –98 | **42** |
| **Change in cash and cash equivalents** | –5 630 | **–949** |
| Cash and cash equivalents as of 1 January | 16 928 | **11 298** |
| Effect of change in Group structure[3] | | **–2 138** |
| Effect of transfer of Aurora National Life Assurance Company[4] | | **451** |
| **Cash and cash equivalents as of 31 December** | 11 298 | **8 662** |

[1] New California Holdings, Inc. was acquired for USD 548 million in cash. Swiss Re Private Equity Partners AG, Swiss Re's private equity fund-of-fund business, has been sold to BlackRock, Inc. for USD 65 million in cash. Swiss Re continues to be invested as a limited partner in the funds. Please refer to Note 6 "Acquisitions and Disposals" for further information.
[2] In 2011, Swiss Reinsurance Company paid dividends to its shareholders, and in 2012 to its parent company, Swiss Re Ltd.
[3] Please refer to Note 1 "Organisation and summary of significant accounting policies".
[4] Please refer to Note 19 "Related parties" for more details.

Interest paid was USD 1 099 million and USD 887 million for the years ended 31 December 2011 and 2012, respectively.

Tax paid was USD 706 million and USD 54 million for the years ended 31 December 2011 and 2012, respectively.

Effective 1 January 2012, Swiss Reinsurance Company Ltd transferred its shares in Swiss Re Corporate Solutions Ltd and Swiss Re Life Capital Ltd through a dividend-in-kind to Swiss Re Ltd. Please refer to Note 1 "Organisation and summary of significant accounting policies".

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

# Notes to the Group financial statements

## 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.

**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.

On 27 April 2012, Swiss Reinsurance Company Ltd transferred the shares of Swiss Re Corporate Solutions and Swiss Re Life Capital through a dividend in-kind to Swiss Re Ltd. Following the transfer, Swiss Re Corporate Solutions and Swiss Re Life Capital ceased to be subsidiaries of Swiss Reinsurance Company Ltd and, therefore, the Corporate Solutions Business Unit and Admin Re® Business Unit are no longer part of the Swiss Reinsurance Company Group. Swiss Re Corporate Solutions and Swiss Re Life Capital instead became subsidiaries of Swiss Re Ltd. Risks and benefits related to these entities passed to Swiss Re Ltd as of 1 January 2012. Consequently these financial statements were prepared as if the Corporate Solutions Business Unit and the Admin Re® Business Unit had been transferred to Swiss Re Ltd as of 1 January 2012. As the assets and liabilities, as well as the business and operations, of the Corporate Solutions Business Unit and the Admin Re® Business Unit were reflected in the Swiss Reinsurance Company Group's financial statements for the year-end 2011, but not for the year-end 2012, period-to-period comparisons are significantly impacted by the transfers.

Effective 25 June 2012 and prior to the sale of Admin Re® US to Jackson National Life Insurance Company (Jackson National) by the Swiss Re Group, reinsurance and other obligations under a modified coinsurance agreement were transferred from an affiliated company to the Swiss Reinsurance Company Group's balance sheet. Consequently, from the second quarter of 2012 Aurora National Life Assurance Company was consolidated by the Group. Please refer to Note 6 for more details.

Furthermore, in connection with the completion of the sale of Admin Re® US to Jackson National by the Swiss Re Group, certain blocks of business were assumed by the Swiss Reinsurance Company Group mainly by way of retrocession effective 1 July 2012.

On 4 September 2012, the Group completed the sale of Swiss Re Private Equity Partners AG to BlackRock, Inc. The sale resulted in a reduction in non-controlling interests of USD 1 400 million related to private equity funds. The Group continues to be invested as a limited partner in the funds. Please refer to Note 6 for further information.

**Principles of consolidation**
The Group's financial statements include the consolidated financial statements of SRZ and its subsidiaries. Voting entities which SRZ directly or indirectly controls through holding a majority of the voting rights are consolidated in the Group's accounts. Variable interest entities (VIEs) are consolidated when the Group is the primary beneficiary. The Group is the primary beneficiary when it has power over the activities that impact the VIE's economic performance and at the same time has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Companies which the Group does not control, but over which it directly or indirectly exercises significant influence, are accounted for using the equity method and are included in other invested assets. The Group's share of net profit or loss in investments accounted for under the equity method is included in net investment income. Equity and net income of these companies are adjusted as necessary to be in line with the Group's accounting policies. The results of consolidated subsidiaries and investments accounted for using the equity method are included in the financial statements for the period commencing from the date of acquisition.

**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.

**Foreign currency remeasurements and translation**
Transactions denominated in foreign currencies are remeasured to the respective subsidiary's functional currency at average quarterly exchange rates. Monetary assets and liabilities are remeasured to the functional currency at closing exchange rates, whereas non-monetary assets and liabilities are remeasured to the functional currency at historical rates. Remeasurement gains and losses on monetary assets and liabilities and trading securities are reported in earnings. Remeasurement gains and losses on available-for-sale securities, investments in consolidated subsidiaries and investments accounted for using the equity method are reported in shareholder's equity.

For consolidation purposes, assets and liabilities of subsidiaries with functional currencies other than US dollars are translated from the functional currency to US dollars at closing rates. Revenues and expenses are translated at average exchange rates. Translation adjustments are reported in shareholder's equity.

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

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

For assets or derivative structures at fair value, the Group uses market prices or inputs derived from market prices. A separate internal price verification process, independent of the trading function, provides an additional control over the market prices or market input used to determine the fair values of such assets. Although management considers that appropriate values have been ascribed to such assets, there is always a level of uncertainty and judgment over these valuations. Subsequent valuations could differ significantly from the results of the process described above. The Group may become aware of counterparty valuations, either directly through the exchange of information or indirectly, for example, through collateral demands. Any implied differences are considered in the independent price verification process and may result in adjustments to initially indicated valuations. As of 31 December 2012, the Group had not provided any collateral on financial instruments in excess of its own market value estimates.

**Investments**
The Group's investments in fixed income and equity securities are classified as available-for-sale (AFS) or trading. Fixed income securities AFS and equity securities AFS are carried at fair value, based on quoted market prices, with the difference between original cost and fair value being recognised in shareholder's equity. Trading fixed income and equity securities are carried at fair value with unrealised gains and losses being recognised in earnings.

The cost of equity securities AFS is reduced to fair value, with a corresponding charge to realised investment losses if the decline in value, expressed in functional currency terms, is other-than-temporary. Subsequent recoveries of previously recognised impairments are not recognised in earnings.

For debt securities AFS which are other-than-temporary impaired and there is not an intention to sell, the impairment is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. The estimated credit loss amount is recognised in earnings, with the remainder of the loss amount recognised in other comprehensive income. In cases where there is an intention or requirement to sell, the accounting of the other-than-temporary impairment is the same as for equity securities AFS described above.

Interest on fixed income securities is recorded in net investment income when earned and is adjusted for the amortisation of any purchase premium or discount. Dividends on equity securities are recorded on the basis of the ex-dividend date. Realised gains and losses on sales are included in earnings and are calculated using the specific identification method.

Policy loans, mortgages and other loans are carried at amortised cost. Interest income is recognised in accordance with the effective yield method.

Investment in real estate that the Group intends to hold for the production of income is carried at depreciated cost, net of any write-downs for impairment in value. Impairment in value is recognised if the sum of the estimated future undiscounted cash flows from the use of the real estate is lower than its carrying value. Impairment in value, depreciation and other related charges or credits are included in net investment income. Investment in real estate held for sale is carried at the lower of cost or fair value, less estimated selling costs, and is not depreciated. Reductions in the carrying value of real estate held for sale are included in realised investment losses.

Short-term investments are carried at amortised cost, which approximates fair value. The Group considers highly liquid investments with a remaining maturity at the date of acquisition of one year or less, but greater than three months, to be short-term investments.

Other invested assets include affiliated companies, equity accounted companies, derivative financial instruments, collateral receivables, securities purchased under agreement to resell, and investments without readily determinable fair value (including limited partnership investments). Investments in limited partnerships where the Group's interest equals or exceeds 3% are accounted for using the equity method. Investments in limited partnerships where the Group's interest is below 3% and equity investments in corporate entities which are not publicly traded are accounted for at estimated fair value with changes in fair value recognised as unrealised gains/losses in shareholder's equity.

The Group enters into security lending arrangements under which it loans certain securities in exchange for collateral and receives securities lending fees. The Group's policy is to require collateral, consisting of cash or securities, equal to at least 102% of the carrying value of the securities loaned. In certain arrangements, the Group may accept collateral of less than 102% if the structure of the overall transaction offers an equivalent level of security. Cash received as collateral is recognised along with an obligation to return the cash. Securities received as collateral that can be sold or repledged are also recognised along with an obligation to return those securities. Security lending fees are recognised over the term of the related loans.

**Derivative financial instruments and hedge accounting**

The Group uses a variety of derivative financial instruments including swaps, options, forwards and exchange-traded financial futures for the Group's trading and hedging strategy in line with the overall risk management strategy. Derivative financial instruments are primarily used as a means of managing exposure to price, foreign currency and/or interest rate risk on planned or anticipated investment purchases, existing assets or existing liabilities and also to lock in attractive investment conditions for funds which become available in the future. The Group recognises all of its derivative instruments on the balance sheet at fair value. Derivatives that are not designated as hedging instruments are adjusted to fair value through earnings.

If the derivative is designated as a hedge of the fair value of assets or liabilities, changes in the fair value of the derivative are recognised in earnings, together with changes in the fair value of the related hedged item. If the derivative is designated as a hedge of the variability in expected future cash flows related to a particular risk, changes in the fair value of the derivative are reported in other comprehensive income until the hedged item is recognised in earnings. The ineffective portion of the hedge is recognised in earnings. When hedge accounting is discontinued on a cash flow hedge, the net gain or loss remains in accumulated other comprehensive income and is reclassified to earnings in the period in which the formerly hedged transaction is reported in earnings. When the Group discontinues hedge accounting because it is no longer probable that a forecasted transaction will occur within the required time period, the derivative continues to be carried on the balance sheet at fair value, and gains and losses that were previously recorded in accumulated other comprehensive income are recognised in earnings.

The Group recognises separately derivatives that are embedded within other host instruments if the economic characteristics and risks are not clearly and closely related to the economic characteristics and risks of the host instrument and if it meets the definition of a derivative if it were stand-alone.

Derivative financial instrument assets are generally included in other invested assets and derivative financial instrument liabilities are generally included in accrued expenses and other liabilities.

The Group also designates non-derivative monetary financial instruments as a hedge of the foreign currency exposure of its net investment in certain foreign operations. From the inception of the hedging relationship, remeasurement gains and losses on the designated non-derivative monetary financial instruments and translation gains and losses on the hedged net investment are reported as translation gains and losses in shareholder's equity.

**Cash and cash equivalents**
Cash and cash equivalents include cash on hand, short-term deposits, certain short-term investments in money market funds, and highly liquid debt instruments with a remaining maturity at the date of acquisition of three months or less.

**Deferred acquisition costs**
Acquisition costs, which vary with, and are primarily related to, the production of new insurance and reinsurance business, are deferred to the extent they are deemed recoverable from future gross profits. Deferred acquisition costs consist principally of commissions. Deferred acquisition costs for short-duration contracts are amortised in proportion to premiums earned. Future investment income is considered in determining the recoverability of deferred acquisition costs for short-duration contracts. Deferred acquisition costs for long-duration contracts are amortised over the life of underlying contracts. Deferred acquisition costs for universal-life and similar products are amortised based on the present value of estimated gross profits. Estimated gross profits are updated quarterly.

**Business combinations**
The Group applies the purchase method of accounting for business combinations. This method allocates the cost of the acquired entity to the assets and liabilities assumed based on their estimated fair values at the date of acquisition.

Admin Re® blocks of business can be acquired in different legal forms, either through an acquisition of an entity's share capital or through a reinsurance transaction. The Group's policy is to treat these transactions consistently regardless of the form of acquisition. Accordingly, the Group records the acquired assets and liabilities directly to the balance sheet. Premiums, life and health benefits and other income statement items are not recorded in the income statement on the date of the acquisition.

The underlying liabilities and assets acquired are subsequently accounted for according to the relevant GAAP guidance, including specific guidance applicable to subsequent accounting for assets and liabilities recognised as part of the purchase method of accounting, including present value of future profit, goodwill and other intangible assets.

**Acquired present value of future profits**
The acquired present value of future profits (PVFP) of business in force is recorded in connection with the acquisition of life and/or health business. The initial value is determined actuarially by discounting estimated future gross profits as a measure of the value of business acquired. The resulting asset is amortised on a constant yield basis over the expected revenue recognition period of the business acquired, generally over periods ranging up to 30 years, with the accrual of interest added to the unamortised balance at the earned rate. For universal-life and similar products, PVFP is amortised in line with estimated gross profits, and estimated gross profits are updated quarterly. The carrying value of PVFP is reviewed periodically for indicators of impairment in value. Adjustments to reflect impairment in value are recognised in earnings during the period in which the determination of impairment is made or to other comprehensive income for shadow loss recognition.

**Goodwill**
The excess of the purchase price of acquired businesses over the estimated fair value of net assets acquired is recorded as goodwill, which is reviewed periodically for indicators of impairment in value. Adjustments to reflect impairment in value are recognised in earnings in the period in which the determination of impairment is made.

**Other assets**
Other assets include deferred expenses on retroactive reinsurance, prepaid reinsurance premiums, receivables related to investing activities, real estate for own use, property, plant and equipment, accrued income, certain intangible assets and prepaid assets.

The excess of estimated liabilities for claims and claim adjustment expenses payable over consideration received in respect of retroactive property and casualty reinsurance contracts is recorded as a deferred expense. The deferred expense on retroactive reinsurance contracts is amortised through earnings over the expected claims-paying period.

Real estate for own use, property, plant and equipment are carried at depreciated cost.

**Capitalised software costs**
External direct costs of materials and services incurred to develop or obtain software for internal use, payroll and payroll-related costs for employees directly associated with software development and interest cost incurred while developing software for internal use are capitalised and amortised on a straight-line basis through earnings over the estimated useful life.

**Deferred income taxes**
Deferred income tax assets and liabilities are recognised based on the difference between financial statement carrying amounts and the corresponding income tax bases of assets and liabilities using enacted income tax rates and laws. A valuation allowance is recorded against deferred tax assets when it is deemed more likely than not that some or all of the deferred tax asset may not be realised.

**Unpaid claims and claim adjustment expenses**
Liabilities for unpaid claims and claim adjustment expenses for property and casualty reinsurance contracts are accrued when insured events occur and are based on the estimated ultimate cost of settling the claims, using reports and individual case estimates received from ceding companies. A provision is also included for claims incurred but not reported, which is developed on the basis of past experience adjusted for current trends and other factors that modify past experience. The establishment of the appropriate level of reserves is an inherently uncertain process involving estimates and judgments made by management, and therefore there can be no assurance that ultimate claims and claim adjustment expenses will not exceed the loss reserves currently established. These estimates are regularly reviewed, and adjustments for differences between estimates and actual payments for claims and for changes in estimates are reflected in income in the period in which the estimates are changed or payments are made.

The Group does not discount liabilities arising from prospective property and casualty insurance and reinsurance contracts, including liabilities which are discounted for US statutory reporting purposes. Liabilities arising from property and casualty insurance and reinsurance contracts acquired in a business combination are initially recognised at fair value in accordance with the purchase method of accounting.

Experience features which are directly linked to a reinsurance asset or liability are classified in a manner that is consistent with the presentation of that asset or liability.

**Liabilities for life and health policy benefits**
Liabilities for life and health policy benefits from reinsurance business are generally calculated using the net level premium method, based on assumptions as to investment yields, mortality, withdrawals, lapses and policyholder dividends. Assumptions are set at the time the contract is issued or, in the case of contracts acquired by purchase, at the purchase date. The assumptions are based on projections from past experience, making allowance for possible adverse deviation. Interest assumptions for life and health (re)insurance benefits liabilities range from 0.4% to 12%. Assumed mortality rates are generally based on experience multiples applied to the actuarial select and ultimate tables based on industry experience. Liabilities for policy benefits are increased with a charge to earnings if it is determined that future cash flows, including investment income, are insufficient to cover future benefits and expenses. Where assets backing liabilities for policy benefits are held at available for sale these liabilities for policyholder benefits are increased by a shadow adjustment, with a charge to other comprehensive income, where future cash flows at market rates are insufficient to cover future benefits and expenses.

The liability for accident and health policy benefits consists of active life reserves and the estimated present value of the remaining ultimate net costs of incurred claims. The active life reserves include unearned premiums and additional reserves. The additional reserves are computed on the net level premium method using assumptions for future investment yield, mortality and morbidity experience. The assumptions are based on projections of past experience and include provisions for possible adverse deviation.

**Policyholder account balances**
Policyholder account balances relate to universal life-type contracts and investment contracts. Interest crediting rates for policyholder account balances range from 3% to 9%.

Universal life-type contracts are long-duration insurance contracts, providing either death or annuity benefits, with terms that are not fixed and guaranteed.

Investment contracts are long-duration contracts that do not incorporate significant insurance risk, ie there is no mortality and morbidity risk, or the mortality and morbidity risk associated with the insurance benefit features offered in the contract is of insignificant amount or remote probability. Amounts received as payment for investment contracts are reported as policyholder account balances. Related assets are included in general account assets except for investments for unit-lined and with-profit business, which are presented in a separate line item on the face of the balance sheet.

Amounts assessed against policyholders for mortality, administration and surrender are shown as fee income. Amounts credited to policyholders are shown as interest credited to policyholders. Investment income and realised investment gains and losses allocable to policyholders are included in net investment income and net realised investment gains/losses except for unit-linked and with-profit business which is presented in a separate line item on the face of the income statement.

**Funds held assets and liabilities**
Funds held assets and liabilities include amounts retained by the ceding company or the Group for business written on a funds withheld basis, and amounts arising from the application of the deposit method of accounting to insurance and reinsurance contracts that do not indemnify the ceding company or the Group against loss or liability relating to insurance risk.

Under the deposit method of accounting, the deposit asset or liability is initially measured based on the consideration paid or received. For contracts that transfer neither significant timing nor underwriting risk, and contracts that transfer only significant timing risk, changes in estimates of the timing or amounts of cash flows are accounted for by recalculating the effective yield. The deposit is then adjusted to the amount that would have existed had the new effective yield been applied since the inception of the contract. The revenue and expense recorded for such contracts is included in net investment income. For contracts that transfer only significant underwriting risk, once a loss is incurred, the deposit is adjusted by the present value of the incurred loss. At each subsequent balance sheet date, the portion of the deposit attributable to the incurred loss is recalculated by discounting the estimated future cash flows. The resulting changes in the carrying amount of the deposit are recognised in claims and claim adjustment expenses.

**Shadow adjustments**
Shadow adjustments are recognized in other comprehensive income reflecting the offset of adjustments to deferred acquisition costs and PVFP, typically related to universal life-type contracts, and policyholder liabilities. The purpose is to reflect the fact that certain amounts recorded as unrealised investment gains and losses within shareholder's equity will ultimately accrue to policyholders and not the shareholder.

Shadow loss recognition testing becomes relevant in low interest rate environments. The test considers whether the hypothetical sale of AFS securities and the reinvestment of proceeds at lower yields would lead to negative operational earnings in future periods and thereby causing a loss recognition event. For shadow loss recognition testing, the group uses current market yields to determine best estimate GAAP reserves rather than using locked in or current book yields. If the unlocked best estimate GAAP reserves based on current market rates are in excess reserves based on locked in or current book yields, then a shadow loss recognition reserve is recognized. Shadow loss recognition is recognized in other comprehensive income and does not impact net income. In addition, shadow losses recognized can reverse up to the amount of losses recognized due to a loss recognition event.

**Premiums**
Property and casualty reinsurance premiums are recorded when written and include an estimate for written premiums receivable at period end. Premiums earned are generally recognised in income over the contract period in proportion to the amount of reinsurance provided. Unearned premiums consist of the unexpired portion of reinsurance provided. Life reinsurance premiums are earned when due. Related policy benefits are recorded in relation to the associated premium or gross profits so that profits are recognised over the expected lives of the contracts.

Life and health reinsurance premiums for group coverages are generally earned over the term of the coverage. For group contracts that allow experience adjustments to premiums, such premiums are recognised as the related experience emerges.

**Reinsurance ceded**
The Group uses retrocession arrangements to increase its aggregate underwriting capacity, to diversify its risk and to reduce the risk of catastrophic loss on reinsurance assumed. The ceding of risks to retrocessionaires does not relieve the Group of its obligations to its ceding companies. The Group regularly evaluates the financial condition of its retrocessionaires and monitors the concentration of credit risk to minimise its exposure to financial loss from retrocessionaires' insolvency. Premiums and losses ceded under retrocession contracts are reported as reductions of premiums earned and claims and claim adjustment expenses. Amounts recoverable for ceded short- and long-duration contracts, including universal life-type and investment contracts, are reported as assets in the balance sheet.

The Group provides reserves for uncollectible amounts on reinsurance balances ceded, based on management's assessment of the collectability of the outstanding balances.

**Receivables**
Premium and claims receivables which have been invoiced are accounted for at face value. Together with assets arising from the application of the deposit method of accounting that meet the definition of financing receivables they are regularly assessed for impairment. Evidence of impairment is the age of the receivable and/or any financial difficulties of the counterparty. Allowances are set up on the net balance, meaning all balances related to the same counterparty are considered. The amount of the allowance is set up in relation to the time a receivable has been due and financial difficulties of the debtor, and can be as high as the outstanding net balance.

**Pensions and other post-retirement benefits**
The Group accounts for its pension and other post-retirement benefit costs using the accrual method of accounting. Amounts charged to expense are based on periodic actuarial determinations.

**Share-based payment transactions**
The Group has a long-term incentive plan, a fixed option plan, a restricted share plan, and an employee participation plan. These plans are described in more detail in Note 13. The Group accounts for share-based payment transactions with employees using the fair value method. Under the fair value method, the fair value of the awards is recognised in earnings over the vesting period.

For share-based compensation plans which are settled in cash, compensation costs are recognised as liabilities, whereas for equity-settled plans, compensation costs are recognised as an accrual to additional paid-in capital within shareholder's equity.

**Treasury shares**
Treasury shares are reported at cost in shareholder's equity. Treasury shares also include stand-alone derivative instruments indexed to the Swiss Re Ltd shares that meet the requirements for classification in shareholder's equity.

**Subsequent events**
Subsequent events for the current reporting period have been evaluated up to 14 March 2013. This is the date on which the financial statements are available to be issued.

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

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

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

In June 2011, the FASB issued "Presentation of Comprehensive Income" (ASU 2011-05), an update to Topic 220 – Comprehensive Income. In December 2011, an amendment of ASU 2011-05 was issued, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05" (ASU 2011-12). Amended ASU 2011-05 requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity is eliminated. The Group has adopted this guidance as of 1 January 2012 by adjusting its presentation of net income and other comprehensive income accordingly.

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

## 2 Investments

### Investment income

Net investment income by source (excluding unit-linked and with-profit business) was as follows:

| USD millions | 2011 | **2012** |
|---|---|---|
| Fixed income securities | 3 474 | 1 888 |
| Equity securities | 78 | 74 |
| Policy loans, mortgages and other loans | 770 | 94 |
| Investment real estate | 134 | 134 |
| Short-term investments | 103 | 93 |
| Other current investments | –173 | 24 |
| Share in earnings of equity-accounted investees | 276 | 452 |
| Cash and cash equivalents | 100 | 66 |
| Net result from deposit-accounted contracts | 145 | 142 |
| Deposits with ceding companies | 339 | 544 |
| **Gross investment income** | 5 246 | 3 511 |
| Investment expenses | –515 | –378 |
| Interest charged for funds held | –105 | –9 |
| **Net investment income – non-participating** | 4 626 | **3 124** |

Dividends received from investments accounted for using the equity method were USD 51 million and USD 112 million for 2011 and 2012, respectively.

### Realised gains and losses

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

| USD millions | 2011 | **2012** |
|---|---|---|
| Fixed income securities available-for-sale: | | |
| Gross realised gains | 2 608 | 1 935 |
| Gross realised losses | –612 | –336 |
| Equity securities available-for-sale: | | |
| Gross realised gains | 96 | 154 |
| Gross realised losses | –234 | –67 |
| Other-than-temporary impairments | –254 | –149 |
| Net realised investment gains/losses on trading securities | 575 | 58 |
| Change in net unrealised investment gains/losses on trading securities | 71 | 65 |
| Other investments: | | |
| Net realised/unrealised gains/losses | –866 | –195 |
| Net realised/unrealised gains/losses on insurance-related derivatives | –67 | –164 |
| Foreign exchange gains/losses | 338 | –422 |
| **Net realised investment gains/losses – non-participating** | 1 655 | **879** |

Proceeds from sales of fixed income securities available-for-sale amounted to USD 115 775 million and USD 90 338 million 2011 and 2012, respectively. Sales of equity securities available-for-sale were USD 2 389 million and USD 1 230 million for 2011 and 2012, 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 USD –403 million and USD 223 million for 2011 and 2012, respectively, mainly originating from gains/losses on equity securities. In 2011, net investment result on unit-linked and with-profit business included results related to the former Admin Re® segment. Following the carve-out effective on 1 January 2012 this business is no longer included in the Group results.

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

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

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

A reconciliation of other-than-temporary impairment related to credit losses recognised in earnings was as follows:

| USD millions | 2011 | **2012** |
|---|---|---|
| Balance as of 1 January | 829 | 515 |
| Effect of change in Group structure[1] | | –122 |
| Credit losses for which an other-than-temporary impairment was not previously recognised | 141 | 10 |
| Reductions for securities sold during the period | –418 | –145 |
| 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 | 54 | 46 |
| Impact of increase in cash flows expected to be collected | –85 | –49 |
| Impact of foreign exchange movements | –6 | 5 |
| **Balance as of 31 December** | 515 | **260** |

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

**Investments available-for-sale**

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

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

| **2012**<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** |

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 were as follows:

| USD millions | 2011 | **2012** |
|---|---|---|
| Debt securities issued by governments and government agencies | 2957 | 1432 |
| Corporate debt securities | 214 | 177 |
| Mortgage- and asset-backed securities | 282 | 186 |
| **Fixed income securities trading – non-participating** | 3453 | **1795** |
| **Equity securities trading – non-participating** | 571 | **671** |

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

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

| | | 2011 | | **2012** |
|---|---|---|---|---|
| USD millions | Unit-linked | With-profit | Unit-linked | With-profit |
| Fixed income securities trading | 2354 | 1741 | | |
| Equity securities trading | 15231 | 951 | 841 | |
| Investment real estate | 828 | 510 | | |
| Short-term investments | 734 | | | |
| **Total investments for unit-linked and with-profit business** | 19147 | 3202 | **841** | **0** |

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

The amortised cost or cost and estimated fair values of investments in fixed income securities AFS by remaining maturity are shown below. Fixed maturity investments are assumed not to be called for redemption prior to the stated maturity date. As of 31 December 2011 and 2012, USD 10274 million and USD 8536 million, respectively, of fixed income securities AFS were callable.

| | | 2011 | | **2012** |
|---|---|---|---|---|
| USD millions | Amortised cost or cost | Estimated fair value | Amortised cost or cost | Estimated fair value |
| Due in one year or less | 3020 | 3040 | 1885 | 1902 |
| Due after one year through five years | 19696 | 20156 | 16536 | 16978 |
| Due after five years through ten years | 17955 | 19072 | 11769 | 12603 |
| Due after ten years | 38594 | 43977 | 27170 | 29763 |
| Mortgage- and asset-backed securities with no fixed maturity | 7719 | 7525 | 5402 | 5581 |
| **Total fixed income securities available-for-sale** | 86984 | 93770 | **62762** | **66827** |

**Assets pledged**

As of 31 December 2012, investments with a carrying value of USD 8414 million were on deposit with regulatory agencies in accordance with local requirements. As of 31 December 2012, investments with a carrying value of USD 11 021 million were placed on deposit or pledged to secure certain reinsurance liabilities, including pledged investments in subsidiaries.

As of 31 December 2011 and 2012, securities of USD 7823 million and USD 12981 million, respectively, were pledged as collateral in securities lending transactions and repurchase agreements. The associated liabilities of USD 8681 million and USD 4237 million, respectively, were recognised in accrued expenses and other liabilities.

A real estate portfolio with a carrying value of USD 258 million serves as collateral for short-term senior operational debt of USD 710 million.

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

As of 31 December 2011 and 2012, the fair value of the government and corporate bond securities received as collateral was USD 4241 million and USD 4339 million, respectively. Of this, the amount that was sold or repledged as of 31 December 2011 and 2012 was nil and USD 1 205 million respectively. The sources of the collateral are reverse repurchase agreements and derivative transactions.

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

The following table shows the fair value and unrealised losses of the Group's fixed income securities, aggregated by investment category and length of time that individual securities were in a continuous unrealised loss position as of 31 December 2011 and 2012. As of 31 December 2011 and 2012, USD 144 million and USD 26 million, respectively, of the gross unrealised loss on equity securities AFS relates to declines in value for less than 12 months and USD 4 million and USD 17 million, respectively, to declines in value for more than 12 months.

| 2011<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 | 337 | 1 | | | 337 | 1 |
| US Agency securitised products | 500 | 3 | | | 500 | 3 |
| States of the United States and political subdivisions of the states | 37 | 1 | 40 | 5 | 77 | 6 |
| United Kingdom | 2 832 | 50 | 47 | 1 | 2 879 | 51 |
| Canada | 79 | 1 | 2 | 1 | 81 | 2 |
| Germany | 1 027 | 50 | 10 | 1 | 1 037 | 51 |
| France | 1 133 | 52 | 4 | | 1 137 | 52 |
| Other | 1 210 | 44 | 142 | 13 | 1 352 | 57 |
| Total | 7 155 | 202 | 245 | 21 | 7 400 | 223 |
| Corporate debt securities | 2 760 | 145 | 700 | 133 | 3 460 | 278 |
| Residential mortgage-backed securities | 829 | 111 | 702 | 153 | 1 531 | 264 |
| Commercial mortgage-backed securities | 812 | 123 | 342 | 56 | 1 154 | 179 |
| Other asset-backed securities | 662 | 15 | 184 | 54 | 846 | 69 |
| **Total** | 12 218 | 596 | 2 173 | 417 | 14 391 | 1 013 |

| **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** |

**Mortgages, loans and real estate**

As of 31 December 2011 and 2012, the carrying values of investments in mortgages, policy and other loans, and real estate (excluding unit-linked and with-profit business) were as follows:

| USD millions | 2011 | **2012** |
|---|---|---|
| Policy loans | 3 664 | 270 |
| Mortgage loans | 1 336 | 656 |
| Other loans | 3 325 | 2 787 |
| Investment real estate | 645 | 772 |

The fair value of the real estate as of 31 December 2011 and 2012 was USD 2 215 million and USD 2 531 million, respectively. The carrying value of policy loans, mortgages and other loans approximates fair value.

As of 31 December 2011 and 2012, the Group's investment in mortgages and other loans included USD 270 million and USD 282 million, respectively, of loans due from employees, and USD 357 million and USD 390 million, respectively, due from officers. These loans generally consist of mortgages offered at variable and fixed interest rates.

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

Depreciation expense related to income-producing properties was USD 21 million and USD 24 million for 2011 and 2012, respectively. Accumulated depreciation on investment real estate totalled USD 460 million and USD 549 million as of 31 December 2011 and 2012, respectively.

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

## 3 Fair value disclosures

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

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

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

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

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

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

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

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

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

The fair values of assets are adjusted to incorporate the counterparty risk of non-performance. Similarly, the fair values of liabilities reflect the risk of non-performance of the Group, captured by the Group's credit spread. These valuation adjustments from assets and liabilities measured at fair value using significant unobservable inputs are recognised in net realised gains and losses. For the year ended 31 December 2012, these adjustments were not material. Whenever the underlying assets or liabilities are reported in a specific business segment, the valuation adjustment is allocated accordingly. Valuation adjustments not attributable to any business segment are reported in Group items.

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

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

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

Values of residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and other asset-backed securities (Other ABS) are obtained both from third-party pricing vendors and through quoted prices, some of which may be based on the prices of comparable securities with similar structural and collateral features. Values of certain ABS for which there are no significant observable inputs are developed using benchmarks to similar transactions or indices. For both RMBS and CMBS, cash flows are derived based on the transaction-specific information, which incorporates priority in the capital structure, and are generally adjusted to reflect benchmark yields, market prepayment data, collateral performance (default rates and loss severity) for specific vintage and geography, credit enhancements, and ratings. For certain RMBS and CMBS with low levels of market liquidity, judgments may be required to determine comparable securities based on the loan type and deal-specific performance. CMBS terms may also incorporate lock-out periods that restrict borrowers from prepaying the loans or provide disincentives to prepay and therefore reduce prepayment risk of these securities, 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 private equity and hedge funds are generally valued utilising net asset values (NAV), subject to adjustments, as deemed necessary, for restrictions on redemption (lock-up periods and amount limitations on redemptions).

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

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

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

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

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

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

**Governance around level 3 fair valuation**

The Swiss Re Group's Senior Risk 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 Senior Risk Committee delegates the responsibility for implementation and overseeing of consistent application of the Group's pricing and valuation policies to the Pricing and Valuation Committee, which is a management control committee. Key functions of the Pricing and Valuation Committee include: oversight over the entire valuation process, approval of internal valuation methodologies, approval of external pricing vendors, monitoring of the independent price verification (IPV) process and resolution of significant or complex valuation issues.

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

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

| As of 31 December 2011<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 | 20 383 | 75 701 | 1 139 | | 97 223 |
| Debt securities issued by US government and government agencies | 20 383 | 2 170 | | | 22 553 |
| US Agency securitised products | | 4 018 | | | 4 018 |
| Debt securities issued by non-US governments and government agencies | | 39 047 | | | 39 047 |
| Corporate debt securities | | 22 357 | 1 111 | | 23 468 |
| Residential mortgage-backed securities | | 2 031 | 4 | | 2 035 |
| Commercial mortgage-backed securities | | 3 962 | 8 | | 3 970 |
| Other asset-backed securities | | 2 116 | 16 | | 2 132 |
| Fixed income securities backing unit-linked and with-profit life and health policies | | 4 095 | | | 4 095 |
| Equity securities | 18 161 | 483 | 69 | | 18 713 |
| Equity securities backing unit-linked and with-profit life and health policies | 16 173 | 9 | | | 16 182 |
| Equity securities held for proprietary investment purposes | 1 988 | 474 | 69 | | 2 531 |
| Derivative financial instruments | 50 | 7 010 | 2 646 | –7 252 | 2 454 |
| Interest rate contracts[2] | | 4 147 | 1 471 | | 5 618 |
| Foreign exchange contracts | 3 | 866 | 112 | | 981 |
| Derivative equity contracts[2] | 40 | 1 400 | 41 | | 1 481 |
| Credit contracts | | 391 | 986 | | 1 377 |
| Other contracts | 7 | 206 | 36 | | 249 |
| Other assets | 2 773 | 1 860 | 2 041 | | 6 674 |
| **Total assets at fair value** | 41 367 | 89 149 | 5 895 | –7 252 | 129 159 |
| | | | | | |
| **Liabilities** | | | | | |
| Derivative financial instruments | –33 | –4 902 | –5 875 | 5 950 | –4 860 |
| Interest rate contracts[2] | –16 | –3 439 | –1 075 | | –4 530 |
| Foreign exchange contracts | –4 | –764 | –66 | | –834 |
| Derivative equity contracts[2] | –6 | –376 | –170 | | –552 |
| Credit contracts | | –238 | –1 075 | | –1 313 |
| Other contracts | –7 | –85 | –3 489 | | –3 581 |
| Liabilities for life and health policy benefits | | | –341 | | –341 |
| Accrued expenses and other liabilities | –2 926 | –3 546 | –2 331 | | –8 803 |
| **Total liabilities at fair value** | –2 959 | –8 448 | –8 547 | 5 950 | –14 004 |

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

[2] During 2012 the Group revised the classification of certain derivative instruments from interest rate contracts to equity contracts and the 2011 figures have been revised accordingly. The revision has no impact on net income and shareholder's equity of the Group.

| **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 | | | | | |
| 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.

### Transfers between level 1 and level 2

Transfers between level 1 and level 2 for the year ended 31 December 2012 were as follows:

| **2012**<br>USD millions | Quoted prices in active markets for identical assets and liabilities (Level 1) | Significant other observable inputs (Level 2) |
|---|---|---|
| **Assets** | | |
| Transfer into[1] | 278 | 2 583 |
| Transfer out of[1] | –160 | –1 590 |
| | | |
| **Liabilities** | | |
| Transfer into[1] | | –1 933 |
| Transfer out of[1] | | 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 as of 1 January 2012. Yield curves for instruments with maturities above 20 years were deemed observable and related positions were therefore reclassified from level 3 to level 2. The inputs of one level 2 position were assessed to be unobservable, the respective assets and liabilities were therefore shifted to level 3.

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

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

| | | | | | |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Balance as of 1 January 2011 | | | | | |
| Realised/unrealised gains/losses: | | | | | |
| Included in net income | | | | | |
| Included in other comprehensive income | | | | | |
| Purchases | | | | | |
| 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 2011** | | | | | |

[1] Transfers are recognised at the date of the event or change in circumstances that caused the transfers.
[2] During 2012 the Group has revised the classification of certain derivative instruments from interest rate contracts to equity contracts and the 2011 figures have been revised accordingly. The revision has no impact on net income and shareholder's equity of the Group.

| Equity securities held for proprietary investment purposes | Derivative interest rate contracts[2] | Derivative foreign exchange contracts | Derivative equity contracts[2] | Derivative credit contracts | Other derivative contracts | Other assets | Total |
|---:|---:|---:|---:|---:|---:|---:|---:|
| | | | | | | | |
| 203 | 839 | 162 | 0 | 1 214 | 202 | 1 411 | 5 912 |
| | | | | | | | |
| 38 | 851 | –63 | 1 | –77 | –48 | 39 | 716 |
| 4 | | | | | | 20 | 12 |
| 21 | 206 | 95 | 11 | 163 | | 1 136 | 1 930 |
| | | | | | | | |
| –196 | –397 | –85 | –1 | –239 | –134 | –501 | –2 471 |
| | 13 | | | –23 | 20 | –1 | –153 |
| 1 | | | 41 | | | 9 | 305 |
| | –41 | | –11 | –52 | | –70 | –335 |
| –2 | | 3 | | | –4 | –2 | –21 |
| 69 | 1 471 | 112 | 41 | 986 | 36 | 2 041 | 5 895 |

| Liabilities for life and health policy benefits | Derivative interest rate contracts[2] | Derivative foreign exchange contracts | Derivative equity contracts[2] | Derivative credit contracts | Other derivative contracts | Accrued expenses and other liabilities | Total |
|---:|---:|---:|---:|---:|---:|---:|---:|
| | | | | | | | |
| –271 | –825 | –72 | –56 | –1 007 | –2 572 | –2 349 | –7 152 |
| | | | | | | | |
| –69 | –413 | 13 | 2 | –158 | –771 | | –1 396 |
| | | | | | | | |
| | | | | | | | |
| | | –7 | | | | | –7 |
| | 46 | | | 90 | 8 | | 144 |
| | 1 | | | 1 | –154 | | –152 |
| | | | –116 | | | | –116 |
| | 116 | | | | | | 116 |
| –1 | | | | –1 | | 18 | 16 |
| –341 | –1 075 | –66 | –170 | –1 075 | –3 489 | –2 331 | –8 547 |

| **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[1] | –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[2] | 18 | | 5 | |
| Transfers out of level 3[2] | –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[1] | | | | |
| Realised/unrealised gains/losses: | | | | |
| Included in net income | | | | |
| Included in other comprehensive income | | | | |
| Purchases | | | | |
| Issuances | | | | |
| Sales | | | | |
| Settlements | | | | |
| Transfers into level 3[2] | | | | |
| Transfers out of level 3[2] | | | | |
| Impact of foreign exchange movements | | | | |
| **Closing balance as of 31 December 2012** | | | | |

[1] Please refer to Note 1 "Organisation and summary of significant accounting policies".
[2] Transfers are recognised at the date of the event or change in circumstances that caused the transfer. With the introduction of ASU No. 2011-4 the Group has reassessed the observability of fair value inputs 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 |
| | | | | | | | |
| –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 |
| | | | | | | | |
| | | | | | | | |
| | –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** |

**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 years ended 31 December 2011 and 2012 were as follows:

| USD millions | 2011 | **2012** |
|---|---|---|
| Gains/losses included in net income for the period | –680 | 1 226 |
| Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date | –1 286 | 983 |

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

Unobservable inputs for major level 3 assets and liabilities for the year ended 31 December 2012 were as follows:

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

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

| Fair value as of **31 December 2012** | Valuation technique | Unobservable input | Range (weighted average) |
|---:|---:|---:|---:|
| | | | |
| **624** | | | |
| 168 | Discounted cash flow model | Illiquidity premium | 75 bps (na) |
| 378 | Corporate spread matrix | Illiquidity premium | 15 bps – 277 bps (100 bps) |
| 72 | Discounted cash flow model | Illiquidity premium | 75 bps – 250 bps (129 bps) |
| | | | |
| **636** | | | |
| 636 | Proprietary option model | Correlation | –30% – 100% (35%)[1] |
| | | | |
| **223** | | | |
| 109 | Credit spreads derived based on a reciprocal of a reference instrument | Up-front credit default swap premium | 23% – 96% (73%) |
| 112 | Base correlation model | Correlation | 27% – 81% (54%)[1] |
| | | | |
| | | | |
| **–232** | | | |
| –81 | Proprietary option model | Correlation | –30% – 100% (35%)[1] |
| –144 | Option model | Volatility | 120% – 155% (137%)[1] |
| | | Growth rate | 4% (n.a.) |
| | | | |
| **–271** | | | |
| –86 | Credit spreads derived based on a reciprocal of a reference instrument | Up-front credit default swap premium | 23% – 96% (73 %) |
| –171 | Base correlation model | Correlation | 27% – 81% (54%)[1] |
| | | | |
| **–2 634** | | | |
| –2 287 | Discounted cash flow model | Risk margin | 4% (n.a.) |
| | | Volatility | 4% – 47% |
| | | Lapse | 0.5% – 14% |
| | | Mortality adjustment | –2% – 0% |
| | | Withdrawal rate | 0% – 90% |
| –170 | 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 (ie: increase (decrease) in mortality, respectively) in isolation would result in a decrease (increase) in fair value of the Group's liability. For the latter, significant increase (decrease) in the mortality adjustment rate in isolation would result in an increase (decrease) in fair value of the Group's liability.

The significant unobservable inputs underlying the fair valuation of an embedded derivative bifurcated from the Group's 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 2011 and 2012, respectively, were as follows:

| USD millions | 2011 Fair value | **2012** Fair value | Unfunded commitments | Redemption frequency (if currently eligible) | Redemption notice period |
|---|---|---|---|---|---|
| Private equity funds | 679 | 673 | 266 | non-redeemable | na |
| Hedge funds | 1 030 | 1 140 | | redeemable[1] | 90 – 180 days[2] |
| Private equity direct | 171 | 96 | | non-redeemable | na |
| Real estate funds | 172 | 223 | 82 | non-redeemable | na |
| **Total** | 2 052 | **2 132** | **348** | | |

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

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

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

Private equity and real estate funds generally have limitations imposed on the amount of redemptions from the fund during the redemption period due to illiquidity of the underlying investments. Fees may apply for redemptions or transferring of interest to other parties. Distributions are expected to be received from these funds as the underlying assets are liquidated over the life of the fund, which is generally from 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 AFS 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 2011 and 2012 were as follows:

| USD millions | 2011 | **2012** |
|---|---|---|
| **Assets** | | |
| Equity securities trading | 571 | 671 |
| of which at fair value pursuant to the fair value option | 455 | 509 |
| **Liabilities** | | |
| Liabilities for life and health policy benefits | –39 044 | –20 270 |
| of which at fair value pursuant to the fair value option | –341 | –272 |

**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 were as follows:

| USD millions | 2011 | **2012** |
|---|---|---|
| Equity securities trading | –20 | 54 |
| Liabilities for life and health policy benefits | –71 | 71 |
| **Total** | –91 | **125** |

Fair value changes from equity securities trading are reported in "Net realised investment gains/losses". Fair value changes from the GMDB reserves are shown in "Life and health benefits".

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

Assets and liabilities not measured at fair value but for which the fair value is disclosed for the year ended 31 December 2012, were as follows:

| **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) | 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** |

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

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

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

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## 4 Derivative financial instruments

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

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

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

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

| As of 31 December 2011<br>USD millions | Notional amount assets/liabilities | Fair value assets | Fair value liabilities | Carrying value assets/liabilities |
|---|---|---|---|---|
| **Derivatives not designated as hedging instruments** | | | | |
| Interest rate contracts[1] | 145 712 | 4 739 | –4 526 | 213 |
| Foreign exchange contracts | 28 714 | 981 | –766 | 215 |
| Equity contracts[1] | 17 332 | 1 481 | –552 | 929 |
| Credit contracts | 45 241 | 1 377 | –1 313 | 64 |
| Other contracts | 24 039 | 249 | –3 581 | –3 332 |
| **Total** | 261 038 | 8 827 | –10 738 | –1 911 |
| | | | | |
| **Derivatives designated as hedging instruments** | | | | |
| Interest rate contracts | 2 914 | 879 | –4 | 875 |
| Foreign exchange contracts | 2 077 | | –68 | –68 |
| **Total** | 4 991 | 879 | –72 | 807 |
| | | | | |
| **Total derivative financial instruments** | 266 029 | 9 706 | –10 810 | –1 104 |
| | | | | |
| **Amount offset** | | | | |
| Where a right of setoff exists | | –5 756 | 5 756 | |
| Due to cash collateral | | –1 496 | 194 | |
| **Total net amount of derivative financial instruments** | | 2 454 | –4 860 | –2 406 |

| **As of 31 December 2012**<br>**USD millions** | Notional amount assets/liabilities | Fair value assets | Fair value liabilities | Carrying value assets/liabilities |
|---|---|---|---|---|
| **Derivatives not designated as hedging instruments** | | | | |
| Interest rate contracts[1] | 129 217 | 4 614 | –4 182 | 432 |
| Foreign exchange contracts | 25 739 | 441 | –785 | –344 |
| Equity contracts[1] | 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 | 2 828 | 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** |

[1] During 2012 the Group revised the classification of certain derivative instruments from interest rate contracts to equity contracts and the 2011 figures have been revised accordingly. The revision has no impact on net income and shareholder's equity of the Group.

The notional amounts of derivative financial instruments give an indication of the Group's volume of derivative activity. The fair value assets are included in "Other invested assets" and the fair value liabilities are included in "Accrued expenses and other liabilities". The fair value amounts that were not offset were nil as of 31 December 2011 and 2012.

### Non-hedging activities

The Group primarily uses derivative financial instruments for risk management and trading strategies. Gains and losses of derivative financial instruments not designated as hedging instruments are recorded in "Net realised investment gains/losses" in the income statement. For the years ended 31 December 2011 and 2012, the gains and losses of derivative financial instruments not designated as hedging instruments were as follows:

| USD millions | 2011 | **2012** |
|---|---|---|
| **Derivatives not designated as hedging instruments** | | |
| Interest rate contracts[1] | –37 | –123 |
| Foreign exchange contracts[1] | 250 | –547 |
| Equity contracts[1] | 198 | –775 |
| Credit contracts | –219 | –77 |
| Other contracts | –799 | 1 085 |
| **Total gain/loss recognised in income** | –607 | **–437** |

[1] During 2012 the Group revised the 2011 amounts for interest, foreign exchange and equity contracts in the periods 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 has 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 31 December 2011 and 2012, the following hedging relationships were outstanding:

#### Fair value hedges

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

| | | 2011 | | **2012** |
|---|---|---|---|---|
| USD millions | Gains/losses on derivatives | Gains/losses on hedged items | Gains/losses on derivatives | Gains/losses on hedged items |
| **Fair value hedging relationships** | | | | |
| Interest rate contracts | 406 | –398 | –26 | 33 |
| Foreign exchange contracts | –69 | 74 | –24 | 11 |
| **Total gain/loss recognised in income** | 337 | –324 | **–50** | **44** |

#### 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 years ended 31 December 2011 and 2012, the Group recorded an accumulated net unrealised foreign currency remeasurement gain of USD 397 million and a gain of USD 100 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 2011 and 2012 was approximately USD 3 950 million and USD 3 494 million, respectively. The maximum potential loss is based on the positive market replacement cost assuming non-performance of all counterparties, excluding cash collateral.

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

The total fair value of derivative financial instruments containing credit risk-related contingent features amounted to USD 1 538 million and USD 1 446 million as of 31 December 2011 and 2012, respectively. For derivative financial instruments containing credit risk-related contingent features, the Group posted collateral of USD 194 million and USD 524 million as of 31 December 2011 and 2012, respectively. In the event of a reduction of the Group's credit rating to below investment grade, a fair value of USD 922 million additional collateral would have had to be posted as of 31 December 2012. The total equals the amount needed to settle the instruments immediately as of 31 December 2011 and 2012, respectively.

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

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

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

The Group has purchased protection to manage the performance/payment risks related to credit derivatives. As of 31 December 2011 and 2012, the total purchased credit protection based on notional values was USD 26 367 million and USD 16 689 million, respectively, of which USD 8 159 million and USD 8 220 million, respectively, were related to identical underlyings for which the Group sold credit protection. For tranched indexes and baskets, only matching tranches of the respective index were determined as identical. In addition to the purchased credit protection, the Group manages the performance/payment risks through a correlation hedge, which is established with non-identical offsetting positions.

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

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

| As of 31 December 2011<br>USD millions | Total fair values of credit derivatives written/sold | Maximum potential payout (time to maturity) 0–5 years | 5–10 years | Over 10 years | Total maximum potential payout |
|---|---|---|---|---|---|
| **Credit Default Swaps** | | | | | |
| Credit spread in basis points | | | | | |
| 0 – 250[1] | 40 | 1 563 | 40 | | 1 603 |
| 251 – 500 | –40 | 95 | | 143 | 238 |
| 501 – 1 000 | –17 | 145 | | 37 | 182 |
| Greater than 1 000[1] | –98 | 144 | 5 | 143 | 292 |
| **Total** | –115 | 1 947 | 45 | 323 | 2 315 |
| | | | | | |
| **Credit Index Products** | | | | | |
| Credit spread in basis points | | | | | |
| 0 – 250[1] | –409 | 14 089 | 1 786 | 17 | 15 892 |
| 251 – 500 | –57 | | 106 | | 106 |
| 501 – 1 000 | –47 | 12 | 71 | | 83 |
| Greater than 1 000[1] | –289 | 10 | 116 | 352 | 478 |
| **Total** | –802 | 14 111 | 2 079 | 369 | 16 559 |
| | | | | | |
| **Total Return Swaps** | | | | | |
| Credit spread in basis points | | | | | |
| No credit spread available | 100 | 997 | | | 997 |
| **Total** | 100 | 997 | 0 | 0 | 997 |
| | | | | | |
| **Total credit derivatives written/sold** | –817 | 17 055 | 2 124 | 692 | 19 871 |

[1] During 2012 the Group revised the classification of certain written credit derivatives from credit default swaps to credit index products and the 2011 figures have been revised accordingly. The revision has no impact on net income and shareholder's equity of the Group.

| **As of 31 December 2012**<br>USD millions | Total fair values of credit derivatives written/sold | Maximum potential payout (time to maturity) 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** |

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

For the years ended 31 December, the DAC were as follows:

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

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

| **2012**<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".

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

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

For the years ended 31 December, the PVFP was as follows:

| USD millions | Life & Health Reinsurance 2011 | Other[1] 2011 | Total 2011 | Life & Health Reinsurance 2012 | Other 2012 | Total 2012 |
|---|---|---|---|---|---|---|
| Opening balance | 1 736 | 2 829 | 4 565 | 1 674 | 2 552 | 4 226 |
| Effect of change in Group structure[2] | | | | | –2 552 | –2 552 |
| Effect of acquisitions/disposals and retrocessions | 112 | 135 | 247 | –206 | 615 | 409 |
| Amortisation | –218 | –413 | –631 | –201 | –18 | –219 |
| Interest accrued on unamortised PVFP | 54 | 177 | 231 | 51 | 2 | 53 |
| Effect of foreign currency translation | –10 | –10 | –20 | 40 | | 40 |
| Effect of change in unrealised gains/losses | | –166 | –166 | | 29 | 29 |
| **Closing balance** | 1 674 | 2 552 | 4 226 | **1 358** | **628** | **1 986** |

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

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

The percentage of PVFP which is expected to be amortised in each of the next five years is 8%, 8%, 7%, 7% and 6%.

## 6 Acquisitions and disposals

**Disposal of Swiss Re Private Equity Partners AG**
The sale of Swiss Re Private Equity Partners AG, the management company of Swiss Re's private equity fund-of-fund business, to BlackRock, Inc. was completed on 4 September 2012. As a result of the transaction, the Group recognised a gain of USD 38 million. The sale resulted in a reduction in non-controlling interests of USD 1 400 million related to private equity funds. The Group continues to be invested as a limited partner in the funds and recognises its share in the funds at the reported net asset value, accounting for them under the equity method of accounting.

**Acquisition of New California Holdings, Inc.**
In 2000, Swiss Re and the shareholders of New California Holdings, Inc. entered into a put/call agreement for the acquisition of New California Holdings, Inc., which is the parent company of Aurora National Life Assurance Company. The latter was already fully consolidated by the Group as a variable interest entity (VIE) from 1 January, 2010 due to an update to Topic 810 – Consolidation, because the majority of the mortality, investment and expense risk was passed on to the Group via a modified coinsurance agreement. As the modified coinsurance agreement only covered 95% of Aurora's business, the Group reported a non-controlling interest from the consolidation of this VIE. Please refer also to Note 13.

On 29 August, 2012, the Group closed the acquisition of New California Holdings, Inc., which was immediately merged into its subsidiary Aurora National Life Assurance Company. The only significant balance sheet item of New California Holdings, Inc. was its investment in Aurora National Life Assurance Company. Therefore the impact on the Group's balance sheet and income statement from this acquisition is not material, considering the consolidation of Aurora National Life Assurance Company as a VIE in prior reporting periods.

New California Holdings, Inc. was acquired for USD 548 million in cash. As of the acquisition date, the Group also fully owns Aurora National Life Assurance Company and consequently no longer reports any non-controlling interest related to this entity.

## 7 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 was as follows:

| USD millions | 2011 | **2012** |
|---|---|---|
| Senior financial debt | 279 | 3 753 |
| Senior operational debt | 3 822 | 2 798 |
| **Short-term debt – financial and operational debt** | 4 101 | **6 551** |
| | | |
| Senior financial debt | 2 976 | 4 952 |
| Senior operational debt | 4 854 | 1 900 |
| Subordinated financial debt | 3 587 | 4 302 |
| Subordinated operational debt | 5 124 | 5 328 |
| **Long-term debt – financial and operational debt** | 16 541 | **16 482** |
| | | |
| **Total carrying value** | 20 642 | **23 033** |
| **Total fair value** | 19 996 | **23 240** |

### Maturity of long-term debt

As of 31 December, long-term debt as reported above had the following maturities:

| USD millions | 2011 | **2012** |
|---|---|---|
| Due in 2013 | 1 605 | 0[1] |
| Due in 2014 | 1 735 | 1 959 |
| Due in 2015 | 691 | 708 |
| Due in 2016 | 2 304 | 2 136 |
| Due in 2017 | 1 403 | 1 428 |
| Due after 2017 | 8 803 | 10 251 |
| **Total carrying value** | 16 541 | **16 482** |

[1] Balance was reclassified to short-term debt.

**Senior long-term debt**

| Maturity | Instrument | Issued in | Currency | Nominal in millions | Interest rate | Book value in USD millions |
|---|---|---|---|---|---|---|
| 2014 | Senior loan | 2012 | GBP | 120 | 2.41% | 196 |
| 2014 | EMTN | 2009 | EUR | 600 | 7.00% | 818 |
| 2014 | EMTN | 2010 | CHF | 250 | 1.75% | 273 |
| 2014 | EMTN | 2009 | CHF | 500 | 3.25% | 551 |
| 2014 | EMTN | 2009 | CHF | 50 | 2.94% | 55 |
| 2015 | EMTN | 2001 | CHF | 150 | 4.00% | 164 |
| 2015 | EMTN | 2010 | CHF | 500 | 2.00% | 544 |
| 2016 | Credit-linked note | 2007 | USD | 46 | 1M Libor | 46 |
| 2017 | EMTN | 2011 | CHF | 600 | 2.13% | 651 |
| 2019 | Senior notes[1] | 1999 | USD | 400 | 6.45% | 515 |
| 2022 | Senior notes | 2012 | USD | 250 | 2.88% | 248 |
| 2026 | Senior notes[1] | 1996 | USD | 600 | 7.00% | 886 |
| 2030 | Senior notes[1] | 2000 | USD | 350 | 7.75% | 579 |
| 2042 | Senior notes | 2012 | USD | 500 | 4.25% | 488 |
| Various | Payment undertaking agreements | various | USD | 610 | various | 838 |
| **Total senior debt as of 31 December 2012** | | | | | | **6 852** |
| Total senior debt as of 31 December 2011 | | | | | | 7 830 |

[1] Assumed in the acquisition of Insurance Solutions.

**Subordinated long-term debt**

| Maturity | Instrument | Issued in | Currency | Nominal in millions | Interest rate | first call in | Book value in USD millions |
|---|---|---|---|---|---|---|---|
| 2042 | Subordinated fixed-to-floating rate loan note | 2012 | EUR | 500 | 6.63% | 2022 | 649 |
| 2047 | Subordinated private placement (amortising, limited recourse) | 2007 | GBP | 1 381 | 4.90% | | 2 245 |
| 2057 | Subordinated private placement (amortising, limited recourse) | 2007 | GBP | 1 897 | 4.76% | | 3 083 |
| | Subordinated perpetual loan note | 2006 | EUR | 1 000 | 5.25% | 2016 | 1 315 |
| | Subordinated perpetual loan note | 2006 | USD | 752 | 6.85% | 2016 | 752 |
| | Subordinated perpetual loan note | 2007 | GBP | 500 | 6.30% | 2019 | 810 |
| | 2 subordinated perpetual loan notes | 2007 | AUD | 750 | various | 2017 | 776 |
| **Total subordinated debt as of 31 December 2012** | | | | | | | **9 630** |
| Total subordinated debt as of 31 December 2011 | | | | | | | 8 711 |

**Interest expense on long-term debt and contingent capital instruments**
Interest expense on long-term debt for the years ended 31 December was as follows:

| USD millions | 2011 | **2012** |
|---|---|---|
| Senior financial debt | 80 | 161 |
| Senior operational debt | 283 | 109 |
| Subordinated financial debt | 230 | 238 |
| Subordinated operational debt | 256 | 251 |
| **Total** | 849 | **759** |

Interest expense on contingent capital instruments for the year ended 31 December 2012 was USD 56 million.

**Long-term debt issued in 2012**
In February 2012, Swiss Re Europe Holdings S.A., a subsidiary of Swiss Reinsurance Company Ltd, entered into a loan agreement, maturing in 2014, with an affiliated company. The loan has a face value of GBP 120 million and a fixed coupon of 2.41%. In December 2012, the Group revised the classification of this debt from short-term to long-term.

In July 2012, Swiss Reinsurance Company Ltd issued a 30-year subordinated fixed-to-floating rate loan note which is callable after 10 years. The instrument has a face value of EUR 500 million, with a fixed coupon of 6.625% per annum until the first optional redemption date (1 September 2022).

In December 2012, Swiss Re Treasury (US) Corporation, a subsidiary of Swiss Reinsurance Company Ltd, issued two tranches of senior notes, maturing in 2022 and 2042, respectively. The 2022 notes have a face value of USD 250 million, with a fixed coupon of 2.875%. The 2042 notes have a face value of USD 500 million, with a fixed coupon of 4.25%. The notes are guaranteed by Swiss Reinsurance Company Ltd.

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

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

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

## 8 Unpaid claims and claim adjustment expenses

The liability for unpaid claims and claim adjustment expenses as of 31 December is analysed as follows:

| USD millions | 2011 | **2012** |
|---|---|---|
| Non-Life | 53 827 | 48 650 |
| Life & Health | 11 051 | 10 254 |
| **Total** | 64 878 | **58 904** |

A reconciliation of the opening and closing reserve balances for non-life unpaid claims and claim adjustment expenses for the period is presented as follows:

| USD millions | 2011 | **2012** |
|---|---|---|
| Balance as of 1 January | 53 345 | 53 827 |
| Reinsurance recoverable | –5 717 | –6 610 |
| Deferred expense on retroactive reinsurance | –401 | –320 |
| Effect of change in Group structure[1] | | –2 675 |
| **Net balance as of 1 January** | 47 227 | **44 222** |
| Incurred related to: | | |
| Current year | 10 322 | 7 638 |
| Prior year | –1 735 | –1 460 |
| Amortisation of deferred expense on retroactive reinsurance and impact of commutations | 73 | 64 |
| Total incurred | 8 660 | 6 242 |
| Paid related to: | | |
| Current year | –1 694 | –1 598 |
| Prior year | –7 899 | –7 191 |
| Total paid | –9 593 | –8 789 |
| Foreign exchange | –441 | 798 |
| Effect of acquisitions, disposals, new retroactive reinsurance and other items | 1 044 | 246 |
| **Net balance as of 31 December** | 46 897 | **42 719** |
| Reinsurance recoverable | 6 610 | 5 702 |
| Deferred expense on retroactive reinsurance | 320 | 229 |
| **Balance as of 31 December** | 53 827 | **48 650** |

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

The Group does not discount liabilities arising from prospective property and casualty insurance and reinsurance contracts, including liabilities which are discounted for US statutory reporting purposes. Liabilities arising from property and casualty insurance and reinsurance contracts acquired in a business combination are initially recognised at fair value in accordance with the purchase method of accounting.

**Prior-year development**
In 2012, claims development on prior years was driven by favourable experience in all lines except motor. For property, releases on earlier years more than offset increases for some of the large 2011 claims, mainly the floods in Thailand and the earthquakes in New Zealand. For liability favourable experience across all regions more than offset increases for asbestos and environmental losses. For motor, the unfavourable experience is attributed to various issues in Europe and Americas. Accident & health saw releases from a large commutation partly offset by small increases in losses driven by exposures in the US. For special lines, there was favourable development in most regions and most lines.

In 2011, claims development on prior years was driven by favourable experience in property, liability, credit and other specialty lines. Some reserve strengthening was absorbed in the overall number, on US Workers' Compensation business, UK Motor business and an increase for US asbestos and environmental losses.

The adverse development cover with Berkshire Hathaway, which covers losses from 2008 or earlier, remains in place but had no impact on the result for 2011 or 2012, as it was already recognised at the minimum commutation value at year-end 2010 and remains recognised at that value.

**US asbestos and environmental claims exposure**
The Group's obligation for claims payments and claims settlement charges also includes obligations for long-latent injury claims arising out of policies written prior to 1986 as well as business acquired subsequently through reinsurance arrangements with affiliated companies within the Swiss Re Group, but outside Swiss Reinsurance Company Consolidated, in particular in the area of US asbestos and environmental liability.

At the end of 2012, the Group carried net reserves for US asbestos and environmental hazards equal to USD 1 763 million. During 2012, the Group incurred positive ultimate loss development of USD 12 million and paid net against these liabilities USD 144 million.

Estimating ultimate asbestos and environmental liabilities is particularly complex for a number of reasons relating in part to the long period between exposure and manifestation of claims, and in part to other factors, which include risks and lack of predictability inherent in complex litigation, changes in projected costs to resolve, and in the projected number of, asbestos and environmental claims, the effect of bankruptcy protection, insolvencies, and changes in the legal, legislative and regulatory environment. As a result, the Group believes that projection of exposures for asbestos and environmental claims is subject to far less predictability relative to non-environmental and non-asbestos exposures. Management believes that its reserves for asbestos and environmental claims are appropriately established based upon known facts and the current state of the law. However, reserves are subject to revision as new information becomes available and as claims develop. Additional liabilities may arise for amounts in excess of reserves, and the Group's estimate of claims and claim adjustment expenses may change. Any such additional liabilities or increases in estimates cannot be reasonably estimated in advance but could result in charges that could be material to operating results.

The Group maintains an active commutation strategy to reduce exposure. When commutation payments are made, the traditional "survival ratio" is artificially reduced by premature payments which should not imply a reduction in reserve adequacy.

## 9 Insurance information

For the year ended 31 December

### Premiums earned and fees assessed against policyholders

| 2011<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other[1] | Total |
|---|---|---|---|---|
| **Premiums earned, thereof:** | | | | |
| Direct | | 27 | 2 975 | 3 002 |
| Reinsurance | 13 076 | 10 073 | 641 | 23 790 |
| Intra-group transactions (assumed and ceded) | –116 | 109 | 7 | 0 |
| **Premiums earned before retrocession to external parties** | 12 960 | 10 209 | 3 623 | 26 792 |
| Reinsurance ceded to external parties | –2 825 | –1 892 | –775 | –5 492 |
| **Net premiums earned** | 10 135 | 8 317 | 2 848 | 21 300 |

| | | | | |
|---|---|---|---|---|
| **Fee income from policyholders, thereof:** | | | | |
| Direct | | | 650 | 650 |
| Reinsurance | | 83 | 155 | 238 |
| Intra-group transactions (assumed and ceded) | | 16 | –16 | 0 |
| **Gross fee income before retrocession to external parties** | | 99 | 789 | 888 |
| Fee income ceded to external parties | | –12 | | –12 |
| **Net fee income** | 0 | 87 | 789 | 876 |

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

For the year ended 31 December

**Premiums earned and fees assessed against policyholders**

| 2012<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Total |
|---|---|---|---|---|
| **Premiums earned, thereof:** | | | | |
| Direct | | 179 | 83 | 262 |
| Reinsurance | 16 319 | 10 756 | 99 | 27 174 |
| Intra-group transactions (assumed and ceded) | 17 | | –17 | 0 |
| **Premiums earned before retrocession to external parties** | 16 336 | 10 935 | 165 | 27 436 |
| Reinsurance ceded to external parties | –4 007 | –1 885 | –48 | –5 940 |
| **Net premiums earned** | **12 329** | **9 050** | **117** | **21 496** |
| | | | | |
| **Fee income from policyholders, thereof:** | | | | |
| Direct | | | 11 | 11 |
| Reinsurance | | 72 | 39 | 111 |
| Intra-group transactions (assumed and ceded) | | | | 0 |
| **Gross fee income before retrocession to external parties** | | 72 | 50 | 122 |
| Fee income ceded to external parties | | | | 0 |
| **Net fee income** | **0** | **72** | **50** | **122** |

For the year ended 31 December

### Claims and claim adjustment expenses

| 2011<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other[1] | Consolidation | Total |
|---|---|---|---|---|---|
| **Claims paid, thereof:** | | | | | |
| Gross claims paid to external parties | –9 285 | –8 147 | –5 210 | | –22 642 |
| Intra-group transactions (assumed and ceded) | –1 214 | –121 | 1 335 | | 0 |
| **Claims before receivables from retrocession to external parties** | –10 499 | –8 268 | –3 875 | | –22 642 |
| Receivables from retrocession to external parties | 1 545 | 1 991 | 653 | | 4 189 |
| **Net claims paid** | –8 954 | –6 277 | –3 222 | 0 | –18 453 |
| | | | | | |
| **Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:** | | | | | |
| Gross – with external parties | –486 | 36 | 1 164 | 15 | 729 |
| Intra-group transactions (assumed and ceded) | 1 500 | 67 | –1 567 | | 0 |
| **Unpaid claims and claim adjustment expenses; life and health benefits before impact of retrocession to external parties** | 1 014 | 103 | –403 | 15 | 729 |
| Reinsurance ceded to external parties | 559 | –106 | 47 | | 500 |
| **Net unpaid claims and claim adjustment expenses; life and health benefits** | 1 573 | –3 | –356 | 15 | 1 229 |
| | | | | | |
| **Claims and claim adjustment expenses; life and health benefits** | –7 381 | –6 280 | –3 578 | 15 | –17 224 |

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

### Acquisition costs

| 2011<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other[1] | Consolidation | Total |
|---|---|---|---|---|---|
| **Acquisition costs, thereof:** | | | | | |
| Gross acquisition costs with external parties | –2 745 | –2 024 | –604 | –7 | –5 380 |
| Intra-group transactions (assumed and ceded) | 7 | –27 | 20 | | 0 |
| **Acquisition costs before impact of retrocession to external parties** | –2 738 | –2 051 | –584 | –7 | –5 380 |
| Retrocession to external parties | 890 | 306 | 163 | | 1 359 |
| **Net acquisition costs** | –1 848 | –1 745 | –421 | –7 | –4 021 |

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

For the year ended 31 December

**Claims and claim adjustment expenses**

| 2012<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Consolidation | Total |
|---|---|---|---|---|---|
| **Claims paid, thereof:** | | | | | |
| Gross claims paid to external parties | –10 408 | –8 468 | –255 | | –19 131 |
| Intra-group transactions (assumed and ceded) | –8 | –3 | 11 | | 0 |
| **Claims before receivables from retrocession to external parties** | –10 416 | –8 471 | –244 | | –19 131 |
| Receivables from retrocession to external parties | 1 664 | 2 210 | 22 | | 3 896 |
| **Net claims paid** | **–8 752** | **–6 261** | **–222** | **0** | **–15 235** |
| | | | | | |
| **Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:** | | | | | |
| Gross – with external parties | 1 888 | –136 | –43 | | 1 709 |
| Intra-group transactions (assumed and ceded) | –23 | 8 | 15 | | 0 |
| **Unpaid claims and claim adjustment expenses; life and health benefits before impact of retrocession to external parties** | 1 865 | –128 | –28 | | 1 709 |
| Reinsurance ceded to external parties | 581 | –398 | 54 | | 237 |
| **Net unpaid claims and claim adjustment expenses; life and health benefits** | **2 446** | **–526** | **26** | **0** | **1 946** |
| | | | | | |
| **Claims and claim adjustment expenses; life and health benefits** | **–6 306** | **–6 787** | **–196** | **0** | **–13 289** |

**Acquisition costs**

| 2012<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Consolidation | Total |
|---|---|---|---|---|---|
| **Acquisition costs, thereof:** | | | | | |
| Gross acquisition costs with external parties | –3 559 | –2 071 | –38 | | –5 668 |
| Intra-group transactions (assumed and ceded) | –3 | | 3 | | 0 |
| **Acquisition costs before impact of retrocession to external parties** | –3 562 | –2 071 | –35 | | –5 668 |
| Retrocession to external parties | 1 246 | 284 | 6 | | 1 536 |
| **Net acquisition costs** | **–2 316** | **–1 787** | **–29** | **0** | **–4 132** |

### Reinsurance assets and liabilities

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

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

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

| **2012**<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Consolidation | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Reinsurance recoverable | 5 583 | 2 447 | 191 | –46 | 8 175 |
| Deferred acquisition costs | 1 103 | 2 713 | –5 | | 3 811 |
| | | | | | |
| **Liabilities** | | | | | |
| Unpaid claims and claim adjustment expenses | 48 465 | 9 505 | 983 | –49 | 58 904 |
| Life and health policy benefits | | 17 439 | 2 831 | | 20 270 |
| Policyholder account balances | | 1 466 | 5 046 | | 6 512 |

### Reinsurance receivables

Reinsurance receivables as of 31 December were as follows:

| USD millions | 2011 | **2012** |
|---|---|---|
| Premium receivables invoiced | 1 681[1] | 980 |
| Receivables from ceded re/insurance business | 747[1] | 264 |
| Assets arising from the application of the deposit method of accounting and meeting the definition of financing receivables | 707 | 1 320 |
| Recognised allowance | –132 | –80 |

[1] During 2012 the Group revised its classification of reinsurance receivables and, as a result, the notional amounts of some receivables that were previously classified as premium receivables invoiced are now classified as receivables from ceded re/insurance business. The 2011 figures have been revised accordingly.

### Policyholder dividends

Policyholder dividends are recognised as an element of policyholder benefits. The amount of policyholder dividend expense in 2011 and 2012 was USD 134 million and USD 9 million, respectively.

## 10 Premiums written

For the years ended 31 December

| 2011<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other[1] | Consolidation | Total |
|---|---|---|---|---|---|
| **Gross premiums written, thereof:** | | | | | |
| Direct | | 27 | 3 082 | | 3 109 |
| Reinsurance | 14 810 | 10 136 | 609 | | 25 555 |
| Intra-group transactions (assumed) | 401 | 109 | 553 | –1 063 | 0 |
| **Gross premiums written** | 15 211 | 10 272 | 4 244 | –1 063 | 28 664 |
| Intra-group transactions (ceded) | –553 | | –510 | 1 063 | 0 |
| **Gross premiums written before retrocession to external parties** | 14 658 | 10 272 | 3 734 | | 28 664 |
| Reinsurance ceded to external parties | –3 017 | –1 882 | –897 | | –5 796 |
| **Net premiums written** | 11 641 | 8 390 | 2 837 | 0 | 22 868 |

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

| **2012**<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Consolidation | Total |
|---|---|---|---|---|---|
| **Gross premiums written, thereof:** | | | | | |
| Direct | | 387 | 104 | | 491 |
| Reinsurance | 15 841 | 10 715 | 94 | | 26 650 |
| Intra-group transactions (assumed) | 24 | | | –24 | 0 |
| **Gross premiums written** | 15 865 | 11 102 | 198 | –24 | 27 141 |
| Intra-group transactions (ceded) | | | –24 | 24 | 0 |
| **Gross premiums written before retrocession to external parties** | 15 865 | 11 102 | 174 | | 27 141 |
| Reinsurance ceded to external parties | –3 458 | –1 871 | –59 | | –5 388 |
| **Net premiums written** | **12 407** | **9 231** | **115** | **0** | **21 753** |

## 11 Income taxes

The Group is generally subject to corporate income taxes based on the taxable net income in various jurisdictions in which the Group operates. The components of the income tax charge were:

| USD millions | 2011 | **2012** |
|---|---|---|
| Current taxes | 112 | 465 |
| Deferred taxes | –29 | 657 |
| **Income tax expense** | 83 | **1 122** |

**Tax rate reconciliation**

The following table reconciles the expected tax expense at the Swiss statutory tax rate to the actual tax expense in the accompanying income statement:

| USD millions | 2011 | **2012** |
|---|---|---|
| Income tax at the Swiss statutory tax rate of 21.0% | 596 | 1 009 |
| Increase (decrease) in the income tax charge resulting from: | | |
| Foreign income taxed at different rates | 138 | 163 |
| Impact of foreign exchange movements | –38 | 3 |
| Tax exempt income/dividends received deduction | –45 | –26 |
| Change in valuation allowance | –143 | –184 |
| Tax effects of losses not recognized | | 60 |
| Basis differences in subsidiaries | –368 | –207 |
| Change in statutory tax rates | –122 | –44 |
| Change in liability for unrecognised tax benefits including interest and penalties | 99 | 145 |
| Other, net | –34 | 203 |
| **Total** | 83 | **1 122** |

For 2012, the Group reported a tax expense of USD 1 122 million. This represents an effective tax rate of 23.4%, compared to an effective tax rate of 2.9% in the prior year. The increase in the tax rate was primarily due to lower tax benefits in the year from reductions in tax basis in subsidiaries based on write-downs in the value required in local statutory statements, changes in local country tax rates and tax effects of losses not recognized.

**Deferred and other non-current taxes**

The components of deferred and other non-current taxes were as follows:

| USD millions | 2011 | 2012 |
|---|---|---|
| **Deferred tax assets** | | |
| Income accrued/deferred | 599 | 415 |
| Technical provisions | 1531 | 533 |
| Pension provisions | 292 | 335 |
| Benefit on loss carryforwards | 3 965 | 3 312 |
| Currency translation adjustments | 481 | 474 |
| Other | 1 378 | 830 |
| **Gross deferred tax asset** | 8 246 | 5 899 |
| Valuation allowance | –1 337 | –1 032 |
| **Total** | 6 909 | **4 867** |
| | | |
| **Deferred tax liabilities** | | |
| Present value of future profits | –1 082 | –360 |
| Income accrued/deferred | –629 | –581 |
| Bond amortisation | –139 | –187 |
| Deferred acquisition costs | –687 | –676 |
| Technical provisions | –2 446 | –1 979 |
| Unrealised gains on investments | –1932 | –1 107 |
| Untaxed realised gains | –373 | –490 |
| Foreign exchange provisions | –418 | –288 |
| Other | –800 | –716 |
| **Total** | –8 506 | **–6 384** |
| | | |
| **Deferred income taxes** | –1 597 | **–1 517** |
| | | |
| **Liability for unrecognised tax benefits including interest and penalties** | –1 256 | **–1 479** |
| | | |
| **Deferred and other non-current taxes** | –2 853 | **–2 996** |

As of 31 December 2012, the aggregate amount of temporary differences associated with investment in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised amount to approximately USD 4 240 million. In the remote scenario in which these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

As of 31 December 2012, the Group had USD 10 497 million net operating tax loss carryforwards, expiring as follows: USD 3 million in 2017, USD 6 500 million in 2018 and beyond and USD 3 994 million never expire.

The Group also had capital loss carryforwards of USD 34 million, expiring as follows: USD 19 million in 2014, and USD 15 million never expire.

Net operating tax losses of USD 945 million and capital tax losses of USD 136 million were utilised or expired during the period ended 31 December 2012.

Income taxes paid in 2012 and 2011 were USD 54 million and USD 707 million, respectively.

**Unrecognised tax benefits**

A reconciliation of the opening and closing amount of gross unrecognised tax benefits (excluding interest and penalties) is as follows:

| USD millions | 2011 | **2012** |
|---|---|---|
| Balance as of 1 January | 980 | 1 047 |
| Effect of change in Group structure[1] | | –13 |
| Additions based on tax positions of current year | 373 | 240 |
| Reductions for tax positions of current year | | –24 |
| Additions for tax positions of prior years | 9 | 88 |
| Reductions for tax positions of prior years | –219 | –132 |
| Settlements | –1 | –8 |
| Lapse of statute of limitations | –95 | 16 |
| **Balance as of 31 December** | 1 047 | **1 214** |

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

The amount of gross unrecognised tax benefits within the tabular reconciliation that, if recognised, would affect the effective tax rate were approximately USD 726 million and USD 856 million at 31 December 2011 and 2012, respectively.

Interest and penalties related to unrecognised tax benefits are recorded in income tax expense. Such benefit for the period ending 31 December 2012 was USD 56 million (USD 6 million for the period ending 31 December 2011). As of 31 December 2011 and 2012, USD 209 million and USD 265 million, respectively, were accrued for the payment of interest (net of tax benefits) and penalties. The accrued interest balance as of 31 December 2012 is included within the deferred and other non-current taxes section reflected above and in the statement of financial position.

The balance of gross unrecognised tax benefits as of 31 December 2012 presented in the table above is less than the liability for unrecognised tax benefits reflected in the deferred and other non-current taxes section due to the removal of interest expense (USD 265 million).

During the year, certain tax positions and audits in Switzerland and Germany were effectively settled.

The Group continually evaluates proposed adjustments by taxing authorities. The Group believes that it is reasonably possible (more than remote and less than likely) that the balance of unrecognised tax benefits could increase or decrease over the next 12 months due to settlements or expiration of statutes of limitation. However, quantification of an estimated range cannot be made at this time.

The following table summarises jurisdictions and tax years that remain subject to examination:

| Jurisdiction | Tax years |
|---|---|
| Australia | 2006 – 2012 |
| Belgium | 2010 – 2012 |
| Brazil | 2008 – 2012 |
| Canada | 2007 – 2012 |
| China | 2003 – 2012 |
| Denmark | 2008 – 2012 |
| France | 2008 – 2012 |
| Germany | 2001 – 2012 |
| Hong Kong | 1994 – 2012 |
| India | 2005 – 2012 |
| Ireland | 2010 – 2012 |
| Israel | 2008 – 2012 |
| Italy | 2008 – 2012 |
| Japan | 2008 – 2012 |
| Korea | 2008 – 2012 |
| Luxembourg | 2008 – 2012 |
| Malaysia | 1996 – 2012 |
| Mexico | 2007 – 2012 |
| Netherlands | 2010 – 2012 |
| New Zealand | 2006 – 2012 |
| Singapore | 2007 – 2012 |
| Slovakia | 2007 – 2012 |
| South Africa | 2004 – 2005; 2009 – 2012 |
| Spain | 2008 – 2012 |
| Switzerland | 2005 – 2012 |
| United Kingdom | 2008, 2011 – 2012 |
| United States | 2009 – 2012 |

## 12 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 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.

The measurement date of these plans is 31 December for each year presented.

| 2011<br>USD millions | Swiss plan | Foreign plans | Other benefits | Total |
|---|---|---|---|---|
| Benefit obligation as of 1 January | 3 202 | 1 902 | 330 | 5 434 |
| Service cost | 113 | 10 | 5 | 128 |
| Interest cost | 91 | 102 | 13 | 206 |
| Amendments | –39 | | | –39 |
| Actuarial gains/losses | 118 | 31 | 32 | 181 |
| Benefits paid | –163 | –69 | –15 | –247 |
| Employee contribution | 25 | | | 25 |
| Acquisitions/disposals/additions | | | | 0 |
| Effect of curtailment and termination benefits | 1 | | | 1 |
| Effect of foreign currency translation | –20 | –24 | –2 | –46 |
| **Benefit obligation as of 31 December** | 3 328 | 1 952 | 363 | 5 643 |
| | | | | |
| Fair value of plan assets as of 1 January | 3 104 | 1 778 | | 4 882 |
| Actual return on plan assets | –71 | 73 | | 2 |
| Company contribution | 91 | 58 | 15 | 164 |
| Benefits paid | –163 | –69 | –15 | –247 |
| Employee contribution | 25 | | | 25 |
| Acquisitions/disposals/additions | 1 | | | 1 |
| Effect of curtailment and termination benefits | | | | 0 |
| Effect of foreign currency translation | –4 | –26 | | –30 |
| **Fair value of plan assets as of 31 December** | 2 983 | 1 814 | 0 | 4 797 |
| **Funded status** | –345 | –138 | –363 | –846 |

| 2012<br>USD millions | Swiss plan | Foreign plans | Other benefits | Total |
|---|---|---|---|---|
| Benefit obligation as of 1 January | 3328 | 1952 | 363 | 5643 |
| Service cost | 106 | 6 | 6 | 118 |
| Interest cost | 78 | 75 | 13 | 166 |
| Amendments | | 2 | | 2 |
| Actuarial gains/losses | 231 | 188 | 23 | 442 |
| Benefits paid | –158 | –62 | –15 | –235 |
| Employee contribution | 25 | | | 25 |
| Acquisitions/disposals/additions | | –370 | –9 | –379 |
| Effect of curtailment and termination benefits | 1 | –56 | | –55 |
| Effect of foreign currency translation | 80 | 39 | 1 | 120 |
| **Benefit obligation as of 31 December** | **3691** | **1774** | **382** | **5847** |
| | | | | |
| Fair value of plan assets as of 1 January | 2983 | 1814 | | 4797 |
| Actual return on plan assets | 205 | 141 | | 346 |
| Company contribution | 88 | 56 | 15 | 159 |
| Benefits paid | –158 | –62 | –15 | –235 |
| Employee contribution | 25 | | | 25 |
| Acquisitions/disposals/additions | | –357 | | –357 |
| Effect of curtailment and termination benefits | 1 | –56 | | –55 |
| Effect of foreign currency translation | 69 | 33 | | 102 |
| **Fair value of plan assets as of 31 December** | **3213** | **1569** | **0** | **4782** |
| **Funded status** | **–478** | **–205** | **–382** | **–1065** |

Amounts recognised in the balance sheet, as of 31 December 2011 and 2012, respectively, were as follows:

| 2011<br>USD millions | Swiss plan | Foreign plans | Other benefits | Total |
|---|---|---|---|---|
| Non-current assets | | 78 | | 78 |
| Current liabilities | | –2 | –16 | –18 |
| Non-current liabilities | –345 | –214 | –347 | –906 |
| **Net amount recognised** | –345 | –138 | –363 | –846 |

| 2012<br>USD millions | Swiss plan | Foreign plans | Other benefits | Total |
|---|---|---|---|---|
| Non-current assets | | 37 | | 37 |
| Current liabilities | | –3 | –16 | –19 |
| Non-current liabilities | –478 | –239 | –366 | –1083 |
| **Net amount recognised** | **–478** | **–205** | **–382** | **–1065** |

Amounts recognised in accumulated other comprehensive income, gross of tax, as of 31 December were as follows:

| 2011<br>USD millions | Swiss plan | Foreign plans | Other benefits | Total |
|---|---|---|---|---|
| Net gain/loss | 951 | 271 | –100 | 1 122 |
| Prior service cost/credit | –1 | | –111 | –112 |
| **Total** | 950 | 271 | –211 | 1 010 |

| 2012<br>USD millions | Swiss plan | Foreign plans | Other benefits | Total |
|---|---|---|---|---|
| Net gain/loss | 1 035 | 343 | –68 | 1 310 |
| Prior service cost/credit | –1 | 2 | –99 | –98 |
| **Total** | **1 034** | **345** | **–167** | **1 212** |

**Components of net periodic benefit cost**

The components of pension and post-retirement cost for the years ended 31 December 2011 and 2012, respectively, were as follows:

| 2011<br>USD millions | Swiss plan | Foreign plans | Other benefits | Total |
|---|---|---|---|---|
| Service cost (net of participant contributions) | 113 | 10 | 5 | 128 |
| Interest cost | 91 | 102 | 13 | 206 |
| Expected return on assets | –128 | –106 | | –234 |
| Amortisation of: | | | | |
| Net gain/loss | 37 | 17 | –11 | 43 |
| Prior service cost | 6 | | –11 | –5 |
| Effect of settlement, curtailment and termination | 1 | | –2 | –1 |
| **Net periodic benefit cost** | 120 | 23 | –6 | 137 |

| 2012<br>USD millions | Swiss plan | Foreign plans | Other benefits | Total |
|---|---|---|---|---|
| Service cost (net of participant contributions) | 106 | 6 | 6 | 118 |
| Interest cost | 78 | 75 | 13 | 166 |
| Expected return on assets | –100 | –75 | | –175 |
| Amortisation of: | | | | |
| Net gain/loss | 42 | 13 | –8 | 47 |
| Prior service cost | | | –11 | –11 |
| Effect of settlement, curtailment and termination | 1 | 10 | | 11 |
| **Net periodic benefit cost** | **127** | **29** | **0** | **156** |

Other changes in plan assets and benefit obligations recognised in other comprehensive income for the years ended 31 December were as follows:

| 2011<br>USD millions | Swiss plan | Foreign plans | Other benefits | Total |
|---|---|---|---|---|
| Net gain/loss | 317 | 64 | 32 | 413 |
| Prior service cost/credit | –39 | | | –39 |
| Amortisation of: | | | | |
| Net gain/loss | –37 | –17 | 11 | –43 |
| Prior service cost | –6 | | 11 | 5 |
| Effect of settlement, curtailment and termination | | | | 0 |
| Exchange rate gain/loss recognised during the year | | –1 | | –1 |
| **Total recognised in other comprehensive income, gross of tax** | 235 | 46 | 54 | 335 |
| **Total recognised in net periodic benefit cost and other comprehensive income, gross of tax** | 355 | 69 | 48 | 472 |

| 2012<br>USD millions | Swiss plan | Foreign plans | Other benefits | Total |
|---|---|---|---|---|
| Net gain/loss | 126 | 122 | 23 | 271 |
| Prior service cost/credit | | 2 | | 2 |
| Amortisation of: | | | | |
| Net gain/loss | –42 | –13 | 8 | –47 |
| Prior service cost | | | 11 | 11 |
| Effect of settlement, curtailment and termination | | –10 | | –10 |
| Effect of change in Group structure[1] | | –38 | | –38 |
| Exchange rate gain/loss recognised during the year | | 11 | 2 | 13 |
| **Total recognised in other comprehensive income, gross of tax** | **84** | **74** | **44** | **202** |
| **Total recognised in net periodic benefit cost and other comprehensive income, gross of tax** | **211** | **103** | **44** | **358** |

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

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortised from accumulated other comprehensive income into net periodic benefit cost in 2013 are USD 72 million and USD 1 million, respectively. The estimated net gain and prior service credit for the other defined post-retirement benefits that will be amortised from accumulated other comprehensive income into net periodic benefit cost in 2013 are USD 5 million and USD 11 million, respectively.

The accumulated benefit obligation (the current value of accrued benefits excluding future salary increases) for pension benefits was USD 5 185 million and USD 5 350 million as of 31 December 2011 and 2012, respectively.

Pension plans with an accumulated benefit obligation in excess of plan assets as of 31 December were as follows:

| USD millions | 2011 | **2012** |
|---|---|---|
| Projected benefit obligation | 4 275 | 4 650 |
| Accumulated benefit obligation | 4 235 | 4 582 |
| Fair value of plan assets | 3 717 | 3 937 |

### Principal actuarial assumptions

| | Swiss plan | | Foreign plans weighted average | | Other benefits weighted average | |
|---|---|---|---|---|---|---|
| | 2011 | **2012** | 2011 | **2012** | 2011 | **2012** |
| **Assumptions used to determine obligations at the end of the year** | | | | | | |
| Discount rate | 2.4% | 2.0% | 4.9% | 4.1% | 3.5% | 3.1% |
| Rate of compensation increase | 2.3% | 2.3% | 2.2% | 2.1% | 3.9% | 3.4% |
| **Assumptions used to determine net periodic pension costs for the year ended** | | | | | | |
| Discount rate | 2.8% | 2.4% | 5.4% | 4.9% | 4.0% | 3.5% |
| Expected long-term return on plan assets | 4.0% | 3.3% | 6.0% | 5.1% | | |
| Rate of compensation increase | 2.3% | 2.3% | 2.5% | 2.2% | 4.1% | 3.9% |
| **Assumed medical trend rates at year end** | | | | | | |
| Medical trend – initial rate | | | | | 6.3% | 6.2% |
| Medical trend – ultimate rate | | | | | 4.7% | 4.5% |
| Year that the rate reaches the ultimate trend rate | | | | | 2015 | 2019 |

The expected long-term rates of return on plan assets are based on long-term expected inflation, interest rates, risk premiums and targeted asset category allocations. The estimates take into consideration historical asset category returns.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one percentage point change in assumed healthcare cost trend rates would have had the following effects for 2012:

| USD millions | 1 percentage point increase | 1 percentage point decrease |
|---|---|---|
| Effect on total of service and interest cost components | 1 | –1 |
| Effect on post-retirement benefit obligation | 28 | –24 |

### Plan asset allocation by asset category

The actual asset allocation by major asset category for defined benefit pension plans as of the respective measurement dates in 2011 and 2012, is as follows:

| | Swiss plan allocation | | | Foreign plans allocation | | |
|---|---|---|---|---|---|---|
| | 2011 | **2012** | **Target allocation** | 2011 | **2012** | **Target allocation** |
| **Asset category** | | | | | | |
| Equity securities | 27% | 27% | 25% | 36% | 35% | 35% |
| Debt securities | 44% | 45% | 48% | 54% | 56% | 60% |
| Real estate | 20% | 19% | 21% | 2% | 1% | 1% |
| Other | 9% | 9% | 6% | 8% | 8% | 4% |
| **Total** | 100% | **100%** | **100%** | 100% | **100%** | **100%** |

Actual asset allocation is determined by a variety of current economic and market conditions and considers specific asset class risks.

Equity securities include Swiss Re common stock of USD 3 million (0.1% of total plan assets) and USD 5 million (0.1% of total plan assets) as of 31 December 2011 and 2012, respectively.

The Group's pension plan investment strategy is to match the maturity profiles of the assets and liabilities in order to reduce the future volatility of pension expense and funding status of the plans. This involves balancing investment portfolios between equity and fixed income securities. Tactical allocation decisions that reflect this strategy are made on a quarterly basis.

### Assets measured at fair value

For a description of the different fair value levels and valuation techniques see Note 3 Fair value disclosures.

Certain items reported as pension plan assets at fair value in the table below are not within the scope of Note 3, namely two positions: real estate and an insurance contract.

Real estate positions classified as level 1 and level 2 are exchange traded real estate funds where a market valuation is readily available. Real estate reported on level 3 is property owned by the pension funds. These positions are accounted for at the capitalised income value. The capitalisation based on sustainable recoverable earnings is conducted at interest rates that are determined individually for each property, based on the property's location, age and condition. If properties are intended for disposal, the estimated selling costs and taxes are recognised in provisions. Sales gains or losses are allocated to income from real estate when the contract is concluded.

The fair value of the insurance contract is based on the fair value of the assets backing the contract.

Other assets classified within level 3 mainly consist of private equity investments valued with the same methodology as mentioned in Note 3.

As of 31 December, the fair values of pension plan assets by level of input were as follows:

| 2011<br>USD millions | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Fixed income securities: | | 2 355 | | 2 355 |
| Debt securities issued by the US government and government agencies | | 40 | | 40 |
| Debt securities issued by non-US governments and government agencies | | 1 140 | | 1 140 |
| Corporate debt securities | | 1 116 | | 1 116 |
| Residential mortgage-backed securities | | 50 | | 50 |
| Commercial mortgage-backed securities | | 5 | | 5 |
| Other asset-backed securities | | 4 | | 4 |
| Equity securities: | | | | |
| Equity securities held for proprietary investment purposes | 804 | 650 | | 1 454 |
| Derivative financial instruments | –47 | | | –47 |
| Real estate | 51 | 41 | 549 | 641 |
| Other assets | 2 | 48 | 119 | 169 |
| **Total assets at fair value** | 810 | 3 094 | 668 | 4 572 |
| Cash | 225 | | | 225 |
| **Total plan assets** | 1 035 | 3 094 | 668 | 4 797 |

| 2012<br>USD millions | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Fixed income securities: | | 2 383 | | 2 383 |
| Debt securities issued by the US government and government agencies | | 62 | | 62 |
| Debt securities issued by non-US governments and government agencies | | 788 | | 788 |
| Corporate debt securities | | 1 474 | | 1 474 |
| Residential mortgage-backed securities | | 49 | | 49 |
| Commercial mortgage-backed securities | | 5 | | 5 |
| Other asset-backed securities | | 5 | | 5 |
| Equity securities: | | | | |
| Equity securities held for proprietary investment purposes | 866 | 547 | | 1 413 |
| Derivative financial instruments | 3 | | | 3 |
| Real estate | 50 | 20 | 572 | 642 |
| Other assets | | 48 | 125 | 173 |
| **Total assets at fair value** | **919** | **2 998** | **697** | **4 614** |
| Cash | 168 | | | 168 |
| **Total plan assets** | **1 087** | **2 998** | **697** | **4 782** |

**Assets measured at fair value using significant unobservable inputs (Level 3)**
For the years ended 31 December, the reconciliation of fair value of pension plan assets using significant unobservable inputs were as follows:

| 2011<br>USD millions | Real estate | Other assets | Total |
|---|---|---|---|
| Balance as of 1 January | 539 | 113 | 652 |
| Realised/unrealised gains/losses: | | | |
| Relating to assets still held at the reporting date | 6 | –9 | –3 |
| Relating to assets sold during the period | | 1 | 1 |
| Purchases, issuances and settlements | 7 | 16 | 23 |
| Transfers in and/or out of Level 3 | | | 0 |
| Impact of foreign exchange movements | –3 | –2 | –5 |
| **Closing balance as of 31 December** | 549 | 119 | 668 |

| 2012<br>USD millions | Real estate | Other assets | Total |
|---|---|---|---|
| Balance as of 1 January | 549 | 119 | 668 |
| Realised/unrealised gains/losses: | | | |
| Relating to assets still held at the reporting date | 1 | –13 | –12 |
| Relating to assets sold during the period | | 3 | 3 |
| Purchases, issuances and settlements | 10 | 15 | 25 |
| Transfers in and/or out of Level 3 | | | 0 |
| Impact of foreign exchange movements | 12 | 1 | 13 |
| **Closing balance as of 31 December** | **572** | **125** | **697** |

**Expected contributions and estimated future benefit payments**
The employer contributions expected to be made in 2013 to the defined benefit pension plans are USD 186 million and to the post-retirement benefit plan are USD 16 million.

As of 31 December 2012, the projected benefit payments, which reflect expected future service, not adjusted for transfers in and for employees' voluntary contributions, are as follows:

| USD millions | Swiss plan | Foreign plans | Other benefits | Total |
|---|---|---|---|---|
| 2013 | 155 | 59 | 16 | 230 |
| 2014 | 157 | 62 | 17 | 236 |
| 2015 | 155 | 64 | 18 | 237 |
| 2016 | 161 | 66 | 18 | 245 |
| 2017 | 164 | 69 | 19 | 252 |
| Years 2018–2022 | 858 | 383 | 108 | 1349 |

**Defined contribution pension plans**
The Group sponsors a number of defined contribution plans to which employees and the Group make contributions. The accumulated balances are paid as a lump sum at the earlier of retirement, termination, disability or death. The amount expensed in 2011 and in 2012 was USD 58 million and USD 65 million, respectively.

## 13 Share-based payments

Group Compensation awards settled in equity are settled in Swiss Re Ltd shares.

As of 31 December 2011 and 2012, the Group had the share-based compensation plans described below.

Total compensation cost for share-based compensation plans recognised in net income was USD 52 million and USD 64 million in 2011 and 2012, respectively. The related tax benefit was USD 16 million and USD 15 million, respectively.

**Stock option plans**

Stock option plans include a fixed-option plan and an additional grant to certain members of executive management. No options were granted under these plans from 2007 onwards. Under the fixed-option plan, the exercise price of each option is equal to the market price of the shares on the date of the grant. Options issued vest at the end of the fourth year and have a maximum life of ten years.

A summary of the activity of the Group's stock option plans is as follows:

| **2012** | Weighted average exercise price in CHF | Number of options |
|---|---|---|
| Outstanding as of 1 January | 109 | 2 363 734 |
| Options sold | 75 | –187 350 |
| Options forfeited or expired | 144 | –1 217 482 |
| **Outstanding as of 31 December** | **72** | **958 902** |
| **Exercisable as of 31 December** | 72 | 958 902 |

The following table summarises the status of stock options outstanding as of 31 December 2012:

| Range of exercise prices in CHF | Number of options | Weighted average remaining contractual life in years | Weighted average exercise price in CHF |
|---|---|---|---|
| 67–83 | 818 902 | 0.2 | 68 |
| 93–100 | 140 000 | 2.4 | 95 |
| **67–100** | **958 902** | **0.5** | **72** |

All stock options outstanding are also exercisable and the status of these exercisable options is reflected in the table above. The fair value of each option grant was estimated on the date of grant using a binomial option-pricing model.

**Restricted shares**

The Group issued 14 834 and 38 930 restricted shares to selected employees in 2011 and 2012, respectively. Moreover, as an alternative to the Group's cash bonus programme, 425 154 and 273 946 shares were issued during 2011 and 2012, respectively, which are not subject to forfeiture risk.

A summary of the movements in shares relating to outstanding awards granted under the restricted share plans for the year ended 31 December 2012 is as follows:

| | Number of shares | Weighted average grant date fair value in CHF |
|---|---|---|
| Non-vested at 1 January | 780 188 | 48 |
| Granted | 312 876 | 54 |
| Delivery of restricted shares | –608 055 | 49 |
| **Outstanding as of 31 December** | **485 009** | **50** |

The weighted average fair value of restricted shares, which equals the market price of the shares on the date of the grant, was CHF 48 and CHF 50 in 2011 and 2012, respectively.

**Board level Performance Share Plan**

In 2009 and 2010, the Group granted a share plan for the Chairman and Vice Chairman of the Board of Directors. The Group did not grant a further plan in 2011 and 2012. The plans have a requisite service period of three years and are settled in shares. The plans are measured based on Swiss Re's Total Shareholder Return (TSR), representing the share price performance plus paid dividend in any performance period, against a selected peer group. The final number of shares to be released upon vesting can vary between 0% and 150% of the original grant. The fair value of the 2009 and 2010 plans were based on the share price as of the date of grant, which was CHF 36.00 and CHF 53.60, respectively. The 2009 plan vested in 2012. 83 957 units were issued under the 2010 plan and the same number of units remains outstanding as of 31 December 2012.

**Long-term Incentive Plan**

Between 2006 and 2011, the Group annually granted a Long-term Incentive plan (LTI) to selected employees with a three-year vesting period. The requisite service period as well as the maximum contractual term for each plan was three years and the final payment, if any, occured at the end of this performance measurement period. The plan included a payout factor which was derived from Return on Equity (ROE) and Earnings per Share (EPS) targets over the vesting period. The payout ratio can vary between 0 and 2 and the final payment for each plan depends on whether the performance targets have been achieved over the plan period. The fair value of the plans are based on stochastic models which consider the likelihood of achieving performance targets and the impact of dividends.

The 2009 LTI grant was settled in shares in March 2012. The payout factor was driven by average ROE and EPS compound annual growth over the vesting period. Each of the plan grants that were outstanding as of 31 December 2012 are described below.

The LTI plans granted in 2010 and 2011 are expected to be settled in shares in March 2013 and March 2014, respectively. The payout factors are driven by average ROE and average EPS over the vesting period. The share price used for measurement is based on the date of grant and was CHF 48.15 and CHF 39.39 for the 2010 and 2011 plans, respectively.

**Leadership Performance Plan**
During 2011 the Compensation Committee reviewed the existing long-term incentive scheme, and, in March 2012, the LTI was replaced by a new plan called the Leadership Performance Plan (LPP). The LPP plans granted in 2012 and 2013 are expected to be settled in shares, and the requisite service as well as the maximum contractual term is three years. At grant date the award is split into two equal underlying components, a Restricted Share Unit (RSU) and a Performance Share Unit (PSU). The RSU component is measured against a RoE performance condition and will vest within a range of 0–100%. The PSU is based on relative total shareholder return, measured against a pre-defined basket of peers and will vest within a range of 0–200%. The fair values of both components are measured separately, based on stochastic models.

**Value Alignment Incentive**
In 2009, the Group issued a compensation plan to selected employees. The plan had a requisite service period of three years and was paid out in cash. The payout was based on a three-year risk free interest rate, the Swiss Re share price performance and dividend yield over the vesting period. The plan was settled in 2012 with no further plans outstanding at 31 December 2012.

**Unrecognised compensation costs**
As of 31 December 2012, the total unrecognised compensation cost (net of forfeitures) related to non-vested, share-based compensation awards was USD 53 million and the weighted average period over which that cost is expected to be recognised was 1.9 years.

The number of shares authorised for the Group's share-based payments to employees was 11 351 951 and 8 172 503 as of 31 December 2011 and 2012, respectively.

**Employee Participation Plan**
The Group's employee participation plan consists of a savings scheme lasting two or three years. Employees combine regular savings with the purchase of either actual or tracking options. The Group contributes to the employee savings over the period of the plan.

At maturity, either the employee receives shares or cash equal to the accumulated savings balance, or the employee may elect to exercise the options.

In 2011 and 2012, 1 878 895 and 1 635 890 options, respectively, were issued to employees and the Group contributed USD 77 million and USD 36 million, respectively, to the plan.

## 14 Commitments and contingent liabilities

**Leasing commitments**

As part of its normal business operations, the Group enters into a number of lease agreements. Such agreements, which are operating leases, total the following obligations for the next five years and thereafter:

| As of 31 December 2012 | USD millions |
|---|---|
| 2013 | 74 |
| 2014 | 74 |
| 2015 | 73 |
| 2016 | 66 |
| 2017 | 60 |
| After 2017 | 353 |
| **Total operating lease commitments** | **700** |
| Less minimum non-cancellable sublease rentals | –50 |
| **Total net future minimum lease commitments** | **650** |

The following schedule shows the composition of total rental expenses for all operating leases as of 31 December (except those with terms of a month or less that were not renewed):

| USD millions | 2011 | **2012** |
|---|---|---|
| Minimum rentals | 60 | 60 |
| Sublease rental income | –3 | –2 |
| **Total** | 57 | **58** |

**Other commitments**

As a participant in limited investment partnerships, the Group commits itself to making available certain amounts of investment funding, callable by the partnerships for periods of up to 10 years. The total commitments remaining uncalled as of 31 December 2012 were USD 2 295 million.

The Group enters into a number of contracts in the ordinary course of reinsurance and financial services business which, if the Group's credit rating and/or defined statutory measures decline to certain levels, would require the Group to post collateral or obtain guarantees. The contracts typically provide alternatives for recapture of the associated business.

**Life & Health retrocession with Berkshire Hathaway**

As previously reported, in 2010, Berkshire Hathaway through its affiliate, Berkshire Hathaway Life Insurance Company of Nebraska, entered into a coinsurance agreement with Swiss Re Life & Health America Inc. (the "Co-insurance Agreement") and a stop loss agreement with Swiss Reinsurance Company Ltd in respect of Swiss Re's US pre-2004 yearly renewable term life business. The agreements limit Berkshire Hathaway's exposure to USD 1.5 billion.

On the basis of its perception of the performance of the retroceded business and losses incurred to date, Berkshire Hathaway has served notice under the Co-insurance Agreement setting forth various specific and general allegations and alleging damages of between USD 0.5 billion and USD 1.0 billion.

As required by the Co-insurance Agreement, the parties have met to discuss the allegations and have exchanged, and continue to exchange, proposals to resolve the dispute. Failure to resolve the dispute could result in commencement of arbitration proceedings. If arbitration proceedings are commenced, there is no guarantee that arbitrators would agree with the Group's position and findings against the Group could have a material adverse effect on its financial condition and results of operations.

The Group believes that these claims are without merit.

**Legal proceedings**

In the normal course of business operations, the Group is involved in various claims, lawsuits and regulatory matters. In the opinion of management, the disposition of these matters is not expected to have a material adverse effect on the Group's business, consolidated financial position or results of operations.

## 15 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 adopted a new organisational structure effective 1 January 2012. On 27 April 2012, SRZ transferred the Corporate Solutions entities and the Admin Re® entities through a dividend in-kind to Swiss Re Ltd and, as a result, the Corporate Solutions Business Unit and the Admin Re® Business Unit are no longer owned by SRZ. Under the new structure, the former Asset Management segment of the Swiss Re Group is split among business segments to ensure invested assets correspond to reinsurance liabilities. The assets and liabilities related to specific transactions have been allocated to the respective business segments.

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

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

Property & Casualty includes the business lines property, casualty including motor, and specialty. Life & Health 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. For the comparative period presented, the Corporate Solutions and Admin Re® segments have also been included in this column. Effective 1 January 2012, these operating segments are no longer included in the results of the Swiss Reinsurance Company Group. Please refer to Note 1 "Organisation and summary of significant accounting policies" under "Basis for presentation" for further information.

In connection with 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 Group legal entities effective 1 July 2012. This business is shown as part of the "Other" column.

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

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

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

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

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### a) Business segments – income statement

For the years ended 31 December

| 2011<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other[1] | Consolidation | Total |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Premiums earned | 10 135 | 8 317 | 2 848 | | 21 300 |
| Fee income from policyholders | | 87 | 789 | | 876 |
| Net investment income – non-participating | 1 307 | 1 544 | 1 850 | –75 | 4 626 |
| Net realised investment gains – non-participating | 512 | 1 180 | –37 | | 1 655 |
| Net investment result – unit-linked and with-profit | | –25 | –378 | | –403 |
| Other revenues | 72 | | 11 | –32 | 51 |
| **Total revenues** | 12 026 | 11 103 | 5 083 | –107 | 28 105 |
| | | | | | |
| **Expenses** | | | | | |
| Claims and claim adjustment expenses | –7 381 | | –1 459 | 30 | –8 810 |
| Life and health benefits | | –6 280 | –2 119 | –15 | –8 414 |
| Return credited to policyholders | | –34 | –27 | | –61 |
| Acquisition costs | –1 848 | –1 745 | –421 | –7 | –4 021 |
| Other expenses | –1 318 | –716 | –1 114 | 33 | –3 115 |
| Interest expenses | –155 | –579 | –183 | 66 | –851 |
| **Total expenses** | –10 702 | –9 354 | –5 323 | 107 | –25 272 |
| | | | | | |
| **Income before income tax expense** | 1 324 | 1 749 | –240 | 0 | 2 833 |
| Income tax expense | –65 | –85 | 67 | | –83 |
| **Net income before attribution of non-controlling interests** | 1 259 | 1 664 | –173 | 0 | 2 750 |
| | | | | | |
| Income attributable to non-controlling interests | –160 | | –12 | | –172 |
| **Net income after attribution of non-controlling interests** | 1 099 | 1 664 | –185 | 0 | 2 578 |
| | | | | | |
| Interest on contingent capital instruments | | | | | |
| **Net income attributable to common shareholder** | 1 099 | 1 664 | –185 | 0 | 2 578 |
| | | | | | |
| Claims ratio in % | 72.8 | | | | |
| Expense ratio in % | 31.2 | | | | |
| Combined ratio in % | 104.0 | | | | |
| Management expense ratio in % | | 7.2 | | | |
| Benefit ratio in % | | 74.5 | | | |

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

**Business segments – income statement**
For the years ended 31 December

| 2012<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Consolidation | Total |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Premiums earned | 12 329 | 9 050 | 117 | | 21 496 |
| Fee income from policyholders | | 72 | 50 | | 122 |
| Net investment income – non-participating | 1 451 | 1 365 | 290 | 18 | 3 124 |
| Net realised investment gains/losses – non-participating | 259 | 562 | 58 | | 879 |
| Net investment result – unit-linked and with-profit | | 222 | 1 | | 223 |
| Other revenues | 95 | 1 | 2 | –18 | 80 |
| **Total revenues** | **14 134** | **11 272** | **518** | **0** | **25 924** |
| | | | | | |
| **Expenses** | | | | | |
| Claims and claim adjustment expenses | –6 306 | | –36 | 5 | –6 337 |
| Life and health benefits | | –6 787 | –160 | –5 | –6 952 |
| Return credited to policyholders | | –271 | –168 | | –439 |
| Acquisition costs | –2 316 | –1 787 | –29 | | –4 132 |
| Other expenses | –1 325 | –833 | –353 | | –2 511 |
| Interest expenses | –111 | –586 | –51 | | –748 |
| **Total expenses** | **–10 058** | **–10 264** | **–797** | **0** | **–21 119** |
| | | | | | |
| **Income/loss before income tax expense** | **4 076** | **1 008** | **–279** | **0** | **4 805** |
| Income tax expense | –934 | –231 | 43 | | –1 122 |
| **Net income/loss before attribution of non-controlling interests** | **3 142** | **777** | **–236** | **0** | **3 683** |
| | | | | | |
| Income attributable to non-controlling interests | –134 | | –2 | | –136 |
| **Net income/loss after attribution of non-controlling interests** | **3 008** | **777** | **–238** | **0** | **3 547** |
| | | | | | |
| Interest on contingent capital instruments | –18 | –38 | | | –56 |
| **Net income/loss attributable to common shareholder** | **2 990** | **739** | **–238** | **0** | **3 491** |
| | | | | | |
| Claims ratio in % | 51.2 | | | | |
| Expense ratio in % | 29.5 | | | | |
| Combined ratio in % | 80.7 | | | | |
| Management expense ratio in % | | 7.9 | | | |
| Benefit ratio in % | | 75.5 | | | |

**Business segments – balance sheet**
As of 31 December 2011

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

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

**Business segments – balance sheet**
As of 31 December 2012

| **2012**<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Consolidation | Total |
|---|---|---|---|---|---|
| Total assets | 90 752 | 61 530 | 18 344 | –7 559 | 163 067 |

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**b) Property & Casualty Reinsurance business segment – by line of business**
For the years ended 31 December

| 2011<br>USD millions | Property | Casualty | Specialty | Total |
|---|---|---|---|---|
| **Premiums earned** | 4766 | 3313 | 2056 | 10135 |
| | | | | |
| **Expenses** | | | | |
| Claims and claim adjustment expenses | –4502 | –2248 | –631 | –7381 |
| Acquisition costs | –612 | –781 | –455 | –1848 |
| Other expenses | –617 | –373 | –328 | –1318 |
| **Total expenses before interest expenses** | –5731 | –3402 | –1414 | –10547 |
| | | | | |
| **Underwriting result** | –965 | –89 | 642 | –412 |
| | | | | |
| Net investment income | | | | 1307 |
| Net realised investment gains/losses | | | | 512 |
| Other revenues | | | | 72 |
| Interest expenses | | | | –155 |
| **Income before income tax expenses** | | | | 1324 |
| | | | | |
| Claims ratio in % | 94.4 | 67.9 | 30.7 | 72.8 |
| Expense ratio in % | 25.8 | 34.8 | 38.1 | 31.2 |
| Combined ratio in % | 120.2 | 102.7 | 68.8 | 104.0 |

**Property & Casualty Reinsurance business segment – by line of business**
For the years ended 31 December

| 2012<br>USD millions | Property | Casualty | Specialty | Total |
|---|---|---|---|---|
| **Premiums earned** | **5 795** | **4 630** | **1 904** | **12 329** |
| | | | | |
| **Expenses** | | | | |
| Claims and claim adjustment expenses | –2 832 | –2 818 | –656 | –6 306 |
| Acquisition costs | –781 | –1 128 | –407 | –2 316 |
| Other expenses | –687 | –406 | –232 | –1 325 |
| **Total expenses before interest expenses** | **–4 300** | **–4 352** | **–1 295** | **–9 947** |
| | | | | |
| **Underwriting result** | **1 495** | **278** | **609** | **2 382** |
| | | | | |
| Net investment income | | | | 1 451 |
| Net realised investment gains/losses | | | | 259 |
| Other revenues | | | | 95 |
| Interest expenses | | | | –111 |
| **Income before income tax expenses** | | | | **4 076** |
| | | | | |
| Claims ratio in % | 48.9 | 60.9 | 34.4 | 51.2 |
| Expense ratio in % | 25.3 | 33.1 | 33.6 | 29.5 |
| Combined ratio in % | 74.2 | 94.0 | 68.0 | 80.7 |

**c) Life & Health Reinsurance business segment – by line of business**
For the years ended 31 December

| 2011<br>USD millions | Life | Health | Total |
|---|---|---|---|
| **Revenues** | | | |
| Premiums earned | 5 977 | 2 340 | 8 317 |
| Fee income from policyholders | 87 | | 87 |
| Net investment income – non-participating | 1 004 | 540 | 1 544 |
| Net investment income – unit-linked and with-profit | 30 | | 30 |
| Net realised investment gains/losses – unit-linked and with-profit | –55 | | –55 |
| Net realised investment gains/losses – insurance-related derivatives | 36 | –8 | 28 |
| Other revenues | | | 0 |
| **Total revenues before non-participating realised gains/losses** | 7 079 | 2 872 | 9 951 |
| | | | |
| **Expenses** | | | |
| Life and health benefits | –4 647 | –1 633 | –6 280 |
| Return credited to policyholders | –34 | | –34 |
| Acquisition costs | –1 286 | –459 | –1 745 |
| Other expenses | –569 | –147 | –716 |
| **Total expenses before interest expenses** | –6 536 | –2 239 | –8 775 |
| | | | |
| **Operating income** | 543 | 633 | 1 176 |
| | | | |
| Net realised investment gains/losses – non-participating and excluding insurance-related derivatives | | | 1 152 |
| Interest expenses | | | –579 |
| **Income before income tax expenses** | | | 1 749 |
| | | | |
| Management expense ratio in % | 8.1 | 5.1 | 7.2 |
| Benefit ratio[1] in % | 76.3 | 69.8 | 74.5 |

[1] The benefit ratio is calculated as life and health benefits 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 years ended 31 December

| **2012**<br>USD millions | Life | Health | Total |
|---|---|---|---|
| **Revenues** | | | |
| Premiums earned | 6 176 | 2 874 | 9 050 |
| Fee income from policyholders | 72 | | 72 |
| Net investment income – non-participating | 899 | 466 | 1 365 |
| Net investment income – unit-linked and with-profit | 32 | | 32 |
| Net realised investment gains/losses – unit-linked and with-profit | 190 | | 190 |
| Net realised investment gains/losses – insurance-related derivatives | –147 | | –147 |
| Other revenues | 1 | | 1 |
| **Total revenues before non-participating realised gains/losses** | **7 223** | **3 340** | **10 563** |
| | | | |
| **Expenses** | | | |
| Life and health benefits | –4 625 | –2 162 | –6 787 |
| Return credited to policyholders | –271 | | –271 |
| Acquisition costs | –1 299 | –488 | –1 787 |
| Other expenses | –613 | –220 | –833 |
| **Total expenses before interest expenses** | **–6 808** | **–2 870** | **–9 678** |
| | | | |
| **Operating income** | **415** | **470** | **885** |
| | | | |
| Net realised investment gains/losses – non-participating and excluding insurance-related derivatives | | | 709 |
| Interest expenses | | | –586 |
| **Income before income tax expenses** | | | **1 008** |
| | | | |
| Management expense ratio in % | 8.6 | 6.6 | 7.9 |
| Benefit ratio[1] in % | 75.7 | 75.2 | 75.5 |

[1] The benefit ratio is calculated as life and health benefits 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.

**d) Gross premiums earned and fee income from policyholders by geography**

Gross premiums earned and fee income from policyholders by regions for the years ended 31 December

| USD millions | 2011 | **2012** |
|---|---|---|
| Americas | 12 814 | 11 087 |
| Europe (including Middle East and Africa) | 9 880 | 10 431 |
| Asia-Pacific | 4 986 | 6 040 |
| **Total** | 27 680 | **27 558** |

Gross premiums earned and fee income from policyholders by country for the years ended 31 December

| USD millions | 2011 | **2012** |
|---|---|---|
| United States | 10 190 | 8 471 |
| United Kingdom | 3 118 | 2 503 |
| China | 1 711 | 2 416 |
| France | 925 | 2 384 |
| Australia | 1 665 | 1 734 |
| Canada | 1 325 | 1 241 |
| Germany | 1 328 | 1 135 |
| Japan | 763 | 887 |
| Ireland | 308 | 589 |
| Switzerland | 553 | 504 |
| Italy | 580 | 482 |
| Other | 5 214 | 5 212 |
| **Total** | 27 680 | **27 558** |

Gross premiums earned and fee income from policyholders are allocated by country based on the underlying contract.

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## 16 Subsidiaries and equity investees

| Subsidiaries and equity investees | Share capital (USD millions) | Share capital (CHF millions) | Affiliation in % as of 31.12.2012 | Method of consolidation |
|---|---|---|---|---|
| **Europe** | | | | |
| **Belgium** | | | | |
| Swiss Re Treasury (Belgium) N.V., Brussels | 0 | 0 | 100 | f |
| **Denmark** | | | | |
| Swiss Re Denmark Services A/S, Copenhagen | 0 | 0 | 100 | f |
| **France** | | | | |
| Antverpia III Compagnie anonyme d´ assurance sur la vie SA, Roubaix | 6 | 5 | 26 | e |
| Protegys Assurance, Paris | 33 | 30 | 34 | e |
| **Germany** | | | | |
| ASS Assekuranz, Service-und Sachverständigengesellschaft mbH, Sundern | 0 | 0 | 26 | e |
| Paarl Grundbesitzverwaltung GmbH & Co. KG Objekt Köln Sterrenhofweg, Munich | 6 | 6 | 22 | e |
| ReIntra GmbH medizinisch-berufskundlicher Beratungs- und Reintegrationsdienst, Unterföhring bei München | 0 | 0 | 49 | e |
| ROLAND Partner Beteiligungsverwaltung GmbH, Cologne | 0 | 0 | 20 | e |
| Swiss Re Germany AG, Unterföhring bei München | 59 | 54 | 100 | f |
| **Ireland** | | | | |
| Swiss Re International Treasury (Ireland) Ltd., Dublin | 0 | 0 | 100 | f |
| **Liechtenstein** | | | | |
| Elips Life AG, Vaduz | 14 | 12 | 100 | f |
| Elips Versicherungen AG, Vaduz | 5 | 5 | 100 | f |
| **Luxembourg** | | | | |
| Swiss Re Europe Holdings S.A., Luxembourg | 138 | 127 | 100 | f |
| Swiss Re Europe S.A., Luxembourg | 461 | 422 | 100 | f |
| Swiss Re Finance (Luxembourg) S.A., Luxembourg | 0 | 0 | 100 | f |
| Swiss Re Funds (Lux) I, Senningerberg[1] | 10 197 | 9 334 | 100 | f |
| **Malta** | | | | |
| Bodensee Limited, Sliema | 1086 | 994 | 49 | e |

**Method of consolidation**
f full
e equity
[1] Net asset value instead of share capital

| | Share capital (USD millions) | Share capital (CHF millions) | Affiliation in % as of 31.12.2012 | Method of consolidation |
|---|---|---|---|---|
| **Switzerland** | | | | |
| European Reinsurance Company of Zurich Ltd, Zurich | 278 | 254 | 100 | f |
| Schweiz Allgemeine Versicherungs-Aktien-Gesellschaft, Adliswil | 8 | 7 | 100 | e |
| Swiss Re Asset Management Geneva SA, Geneva | 0 | 0 | 100 | f |
| Swiss Re Direct Investments Company Ltd, Zurich | 0 | 0 | 100 | f |
| Swiss Re Principal Investments Company Ltd, Zurich | 0 | 0 | 100 | f |
| Tertianum AG, Zurich | 10 | 10 | 21 | e |
| **United Kingdom** | | | | |
| Swiss Re BHI Limited, London | 0 | 0 | 100 | f |
| Swiss Re Capital Markets Limited, London | 60 | 55 | 100 | f |
| Swiss Re Frankona LM Limited, London | 11 | 10 | 100 | f |
| Swiss Re GB Limited, London | 0 | 0 | 100 | f |
| Swiss Re Services Limited, London | 4 | 3 | 100 | f |
| The Mercantile & General Reinsurance Company Limited, Glasgow | 0 | 0 | 100 | f |

| | | | | |
|---|---|---|---|---|
| **Americas and Caribbean** | | | | |
| **Barbados** | | | | |
| European Finance Reinsurance Company Ltd., Bridgetown | 5 | 5 | 100 | f |
| European International Reinsurance Company Ltd., Bridgetown | 1 | 1 | 100 | f |
| Gasper Funding Corporation, Bridgetown | 17 | 16 | 100 | f |
| Milvus I Reassurance Limited, Bridgetown | 0 | 0 | 100 | f |

| | Share capital (USD millions) | Share capital (CHF millions) | Affiliation in % as of 31.12.2012 | Method of consolidation |
|---|---|---|---|---|
| **Bermuda** | | | | |
| CORE Reinsurance Company Limited, Hamilton | 0 | 0 | 100 | f |
| Group Ark Insurance Holdings Limited, Hamilton | 235 | 216 | 20 | e |
| Swiss Re Global Markets Limited, Hamilton | 0 | 0 | 100 | f |
| Swiss Re Capital Management (Bermuda) Ltd., Hamilton | 0 | 0 | 100 | f |
| Swiss Re Investments (Bermuda) Ltd., Hamilton | 0 | 0 | 100 | f |
| **Brazil** | | | | |
| Swiss Re Brasil Resseguros S.A., Sao Paulo | 59 | 54 | 100 | f |
| Swiss Re Corporate Solutions Brasil Seguros S.A., Sao Paulo | 44 | 40 | 84 | f |
| **Canada** | | | | |
| 7547552 Canada Inc., Toronto | 0 | 0 | 100 | e |
| SwissRe Holdings (Canada) Inc., Toronto | 0 | 0 | 100 | e |
| **Cayman Islands** | | | | |
| SR Alternative Financing II SPC, George Town | 0 | 0 | 100 | f |
| **United States** | | | | |
| Aurora National Life Assurance Company, Wethersfield | 0 | 0 | 100 | f |
| Facility Insurance Corporation, Austin | 0 | 0 | 100 | f |
| Facility Insurance Holding Corporation, Dallas | 0 | 0 | 100 | f |
| Rialto Re I Inc., Burlington | 0 | 0 | 100 | f |
| Sterling Re Inc., Burlington | 0 | 0 | 100 | f |
| Swiss Re America Holding Corporation, Wilmington | 0 | 0 | 100 | f |
| Swiss Re Atrium Corporation, Wilmington | 1 | 0 | 100 | f |
| Swiss Re Capital Markets Corporation, New York | 0 | 0 | 100 | f |
| Swiss Re Financial Products Corporation, Wilmington | 2 116 | 1 937 | 100 | f |
| Swiss Re Financial Services Corporation, Wilmington | 0 | 0 | 100 | f |
| Swiss Re Life & Health America Holding Company, Wilmington | 0 | 0 | 100 | f |
| Swiss Re Life & Health America Inc., Hartford | 4 | 4 | 100 | f |
| Swiss Re Partnership Holding, LLC, Dover | 368 | 337 | 100 | f |
| Swiss Re Risk Solutions Corporation, Wilmington | 0 | 0 | 100 | f |
| Swiss Re Solutions Holding Corporation, Wilmington | 9 | 8 | 100 | f |
| Swiss Re Treasury (US) Corporation, Wilmington | 0 | 0 | 100 | f |
| Swiss Reinsurance America Corporation, Armonk | 6 | 5 | 100 | f |

| | Share capital (USD millions) | Share capital (CHF millions) | Affiliation in % as of 31.12.2012 | Method of consolidation |
|---|---|---|---|---|
| **Australia** | | | | |
| Swiss Re Australia Ltd, Sydney | 73 | 67 | 100 | f |
| Swiss Re Life & Health Australia Limited, Sydney | 213 | 195 | 100 | f |
| **Africa** | | | | |
| **South Africa** | | | | |
| Eastern Foreshore Investments Limited, Cape Town | 1 | 1 | 100 | f |
| Swiss Re Life and Health Africa Limited, Cape Town | 0 | 0 | 100 | f |
| **Asia** | | | | |
| **China** | | | | |
| Alltrust Insurance Company of China Limited, Shanghai | 126 | 115 | 5 | e |
| Beijing Prestige Health Consulting Services Company Limited, Beijing | 6 | 6 | 100 | e |
| **Vietnam** | | | | |
| Vietnam National Reinsurance Corporation, Hanoi | 32 | 30 | 25 | e |

## 17 Variable interest entities

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

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

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

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

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

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

**Modified coinsurance agreement**

The Group assumes insurance risk via a modified coinsurance agreement from Aurora National Life Assurance Company. Until the second quarter of 2012, Aurora National Life Assurance Company was recognised as a VIE in which the Group qualified as the primary beneficiary and consolidated the entity (for further details please refer to Annual Report 2011).

In the third quarter of 2012, a put/call option to acquire the parent of Aurora National Life Assurance Company, New California Holdings Inc., was exercised. As a result, Aurora National Life Assurance Company is wholly owned by SRZ and does not qualify as a VIE. The related non-controlling interests are no longer reported. Please refer to Note 6 for further information.

### 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 31 December 2012, the total assets of the insurance-linked and credit-linked securitisation vehicles in which the Group holds variable interests but is not the primary beneficiary were USD 2 992 million. The total assets of the vehicles in which the Group is the primary beneficiary were USD 62 million.

### Swaps in trusts

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

### Debt financing vehicles

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

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

The total assets of the debt financing vehicles in which the Group is the primary beneficiary were USD 7 195 million as of 31 December 2012.

### Investment vehicles

During 2012, this VIE category has been introduced to disclose the new VIEs resulting from the sale of Swiss Re Private Equity Partners AG (please see Note 6). Another private equity limited partnership, previously reported in the category "Other", has been included in this category.

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 31 December 2012, the total assets of investment vehicles in which the Group holds variable interests but is not the primary beneficiary were USD 2 359 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 31 December 2012, the total assets of other VIEs in which the Group holds variable interests but is not the primary beneficiary were USD 1 209 million. The total assets of the vehicles in which the Group is the primary beneficiary were USD 747 million.

The Group did not provide financial or other support to any VIEs during 2012 that it was not previously contractually required to provide.

### Consolidated VIEs

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

| USD millions | 2011 Carrying value | 2011 Whereof restricted: | 2012 Carrying value | 2012 Whereof restricted: |
|---|---|---|---|---|
| Fixed income securities available-for-sale | 9254 | 9254 | 6 896 | 6 896 |
| Policy loans, mortgages and other loans | 191 | 191 | | |
| Short-term investments | 998 | 998 | 610 | 610 |
| Other invested assets | 202 | 202 | 258 | 258 |
| Cash and cash equivalents | 928 | 928 | 177 | 177 |
| Accrued investment income | 78 | 78 | 44 | 44 |
| Premiums and other receivables | 9 | 9 | | |
| Reinsurance recoverable on unpaid claims and policy benefits | 7 | 7 | | |
| Funds held by ceding companies | 2 | 2 | | |
| Income taxes recoverable | 1 | 1 | | |
| Acquired present value of future profits | 23 | 23 | | |
| Other assets | 273 | 253 | 19 | 1 |
| **Total assets** | 11 966 | 11 946 | **8 004** | **7 986** |
| | **Carrying value** | **Whereof limited recourse:** | **Carrying value** | **Whereof limited recourse:** |
| Unpaid claims and claim adjustment expenses | 15 | 15 | | |
| Liabilities for life and health policy benefits | 1 165 | 1 165 | | |
| Policyholder account balances | 1 365 | 1 365 | | |
| Reinsurance balances payable | 5 | 5 | | |
| Deferred and other non-current taxes | 180 | 180 | | |
| Short-term debt | 973 | 973 | 504 | 504 |
| Accrued expenses and other liabilities | 633 | 633 | 76 | 76 |
| Long-term debt | 5 172 | 5 172 | 5 328 | 5 328 |
| **Total liabilities** | 9 508 | 9 508 | **5 908** | **5 908** |

The above USD 11 966 million total assets as of year-end 2011 include USD 3 473 million total assets of the modified coinsurance agreement.

As of 31 December 2012, the consolidation of the VIEs resulted in non-controlling interests in the balance sheet of nil (31 December 2011: USD 414 million). The non-controlling interests in income were USD 12 million and USD 1 million net of tax for years ended 31 December 2011 and 2012, respectively. All non-controlling interests were related to Aurora National Life Assurance Company, which has been fully owned by Swiss Re since the third quarter of 2012. Therefore, the non-controlling interests are no longer reported (see above under "Modified coinsurance agreement" and Note 6 for further information).

### 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:

| USD millions | 2011 | **2012** |
|---|---|---|
| Fixed income securities: | | |
| Available-for-sale | 99 | 72 |
| Trading | 20 | 12 |
| Other invested assets | 680 | 1 138 |
| **Total assets** | 799 | **1 222** |
| | | |
| Short-term debt | 393 | 399 |
| Accrued expenses and other liabilities | 509 | 385 |
| **Total liabilities** | 902 | **784** |

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

| | | | | 2011 | | | | **2012** |
|---|---|---|---|---|---|---|---|---|
| USD millions | Total assets | Total liabilities | Maximum exposure to loss | Difference between exposure and liabilities | Total assets | Total liabilities | Maximum exposure to loss | Difference between exposure and liabilities |
| Insurance-linked/Credit-linked securitisations | 261 | | 1 168 | 1 168 | 212 | | 842 | 842 |
| Swaps in trusts | 212 | 316 | –[1] | – | 149 | 240 | –[1] | – |
| Investment vehicles | 63 | | 63 | 63 | 829 | | 829 | 829 |
| Other | 263 | 586 | 1 089 | 503 | 32 | 544 | 1 622 | 1 078 |
| **Total** | 799 | 902 | –[1] | – | **1 222** | **784** | **–[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 544 million recognised for the "Other" category relate mainly to collateral received.

## 18 Restructuring provision

In 2012, the Group set up total provisions of USD 7 million, and released USD 4 million.

The increase in provisions in the Property & Casualty Reinsurance business segment of USD 7 million in 2012 is related to office structure simplification costs and leaving benefits.

Changes in restructuring provisions are disclosed in the "Other expenses" line in the Group's income statement.

For the years ended 31 December, restructuring provision developed as follows:

| 2011<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other[1] | Total |
|---|---|---|---|---|
| Balance as of 1 January | 92 | 5 | | 97 |
| Increase in provision | 17 | | 9 | 26 |
| Release of provision | –7 | | | –7 |
| Costs incurred | –59 | –3 | | –62 |
| **Balance as of 31 December** | 43 | 2 | 9 | 54 |

| **2012**<br>USD millions | Property & Casualty Reinsurance | Life & Health Reinsurance | Other | Total |
|---|---|---|---|---|
| Balance as of 1 January | 43 | 2 | 9 | 54 |
| Effect of change in Group structure[2] | | | –9 | –9 |
| Increase in provision | 7 | | | 7 |
| Release of provision | –4 | | | –4 |
| Costs incurred | –14 | –1 | | –15 |
| **Balance as of 31 December** | **32** | **1** | **0** | **33** |

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

## 19 Related parties

**Insurance activities**

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

| **For the year ended 31 December 2012**<br>USD millions | Corporate Solutions | Admin Re® | Other | Total |
|---|---|---|---|---|
| Premiums earned | –296 | 274 | 56 | 34 |
| Fee income from policyholders | | 16 | | 16 |
| Net investment income – non-participating | 77 | 102 | | 179 |
| **Total revenues** | **–219** | **392** | **56** | **229** |
| | | | | |
| Claims and claim adjustment expenses | 431 | | –28 | 403 |
| Life and health benefits | | –264 | | –264 |
| Return credited to policyholders | | –64 | | –64 |
| Acquisition costs | 58 | –19 | –26 | 13 |
| **Total expenses** | **489** | **–347** | **–54** | **88** |

| **As of 31 December 2012**<br>USD millions | Corporate Solutions | Admin Re® | Other | Total |
|---|---|---|---|---|
| Premiums and other receivables | 59 | 145 | 43 | 247 |
| Reinsurance recoverable on unpaid claims and policy benefits | 271 | 10 | 1 | 282 |
| Funds held by ceding companies | 2 097 | 2 | | 2 099 |
| Deferred acquisition costs | –39 | | 30 | –9 |
| Other assets | 601 | | | 601 |
| **Total assets** | **2 989** | **157** | **74** | **3 220** |
| | | | | |
| Unpaid claims and claim adjustment expenses | 7 393 | 115 | 42 | 7 550 |
| Liabilities for life and health policy benefits | | 7 | | 7 |
| Unearned premiums | 91 | | 78 | 169 |
| Funds held under reinsurance treaties | | | 1 | 1 |
| Reinsurance balances payable | 447 | | 1 | 448 |
| **Total liabilities** | **7 931** | **122** | **122** | **8 175** |

### Investment activities

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

| **For the year ended 31 December 2012**<br>USD millions | Corporate Solutions | Admin Re® | Other | Total |
|---|---|---|---|---|
| Net investment income/loss – non-participating | –4 | 52 | 4 | 52 |
| Net realised investment gains/losses – non-participating | 4 | 41 | 3 | 48 |

| **As of 31 December 2012**<br>USD millions | Corporate Solutions | Admin Re® | Other | Total |
|---|---|---|---|---|
| Policy loans, mortgages and other loans | | 634 | 508 | 1 142 |
| Accrued investment income | | 24 | | 24 |
| Other invested assets | 1 | | 30 | 31 |
| Accrued expenses and other liabilities | | | 4 | 4 |

### Financing activities

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

| **For the year ended 31 December 2012**<br>USD millions | Admin Re® | Other | Total |
|---|---|---|---|
| Net investment income/loss – non-participating | | 6 | 6 |
| Net realised investment gains/losses – non-participating | | –69 | –69 |
| Interest expense | –2 | –30 | –32 |

| **As of 31 December 2012**<br>USD millions | Admin Re® | Other | Total |
|---|---|---|---|
| Policy loans, mortgages and other loans | | 1 625[1] | 1 625 |
| Accrued investment income | | 4[1] | 4 |
| Short-term debt | | 3 513 | 3 513 |
| Accrued expenses and other liabilities | | 1 644[1] | 1 644 |
| Long-term debt | | 196 | 196 |

[1] The balances reported in "Policy loans, mortgages and other loans" and "Accrued investment income", which are offset in "Accrued expenses and other liabilities", are part of two funding transactions of the Swiss Re Group. The counterparty of these balances is Swiss Re Specialised Investments Holdings (UK) Ltd.

| Issued in | Instrument | Maturity | Currency | Nominal in millions | Interest rate | Book value in USD millions |
|---|---|---|---|---|---|---|
| 2005 | Senior loan | 2028 | GBP | 100 | 1 month LIBOR | 162 |
| 2008 | Senior loan | 2028 | GBP | 240 | 4.98% | 390 |
| 2012 | Senior loan | 2013 | CHF | 1 245 | 10 month LIBOR +0.825% | 1 361 |
| 2012 | Senior loan | 2013 | USD | 1 600 | 6 month LIBOR +0.35% | 1 600 |
| **Total short-term debt as of 31 December 2012** | | | | | | **3 513** |

| Issued in | Instrument | Maturity | Currency | Nominal in millions | Interest rate | Book value in USD millions |
|---|---|---|---|---|---|---|
| 2012 | Senior loan[1] | 2014 | GBP | 120 | 2.41% | 196 |
| **Total long-term debt as of 31 December 2012** | | | | | | **196** |

[1] The Group has refined the classificaiton of an instrument issued in 2012 from short-term debt to long-term debt. There is no impact on net income or shareholder's equity.

**Operating transactions**

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

| **For the year ended 31 December 2012**<br>USD millions | Corporate Solutions | Admin Re® | Other | Total |
|---|---|---|---|---|
| Net investment income/loss – non-participating | 1 | 2 | | 3 |
| Other revenues | 13 | 29 | 1 | 43 |
| Other expenses | 498 | 50 | –59 | 489 |
| Interest expense | –1 | | | –1 |

| **As of 31 December 2012**<br>USD millions | Corporate Solutions | Admin Re® | Other | Total |
|---|---|---|---|---|
| Other assets | 413 | 149 | 6 | 568 |
| Accrued expenses and other liabilities | 298 | 117 | 92 | 507 |

Effective 25 June 2012, due to the sale of Admin Re® US to Jackson National by the Swiss Re Group, reinsurance and other obligations under a modified coinsurance agreement were transferred from an affiliated company to the Swiss Reinsurance Company Group's balance sheet. Subsequently in the second quarter of 2012, Aurora National Life Assurance Company, which is a VIE to the Group, was consolidated. Consolidation resulted mainly in additional investments of USD 3 983 million, liabilities for life and health policy benefits of USD 1 350 million, policyholder account balances of USD 1 310 million, and net unrealised investment gains of USD 318 million. Retained earnings were increased by USD 191 million and non-controlling interests by USD 540 million. Assets and liabilities were recognised at carrying amounts in accordance with US GAAP transactions between entities under common control guidance.

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

## 20 Risk assessment

Article 663b sub-para. 12 of the Swiss Code of Obligations requires disclosure of information on the performance of a risk assessment.

The bodies and committees mentioned below belong to the Swiss Re Group as the identification, assessment and control of risk exposures of the Swiss Reinsurance Company Group is integrated in and covered by the Group risk management organisation and processes of the Swiss Re Group.

The Board of Directors is ultimately responsible for the Group's governance principles and policies, including approval of the Group's overall risk tolerance. The Board mainly deals with risk management through two committees:

- The Finance and Risk Committee is responsible for reviewing the Group Risk Policy and capacity limits, as well as for monitoring risk tolerance and reviewing top risk issues and exposures.
- The Audit Committee is responsible for overseeing internal controls and compliance procedures.

The Group Executive Committee (Group EC) is responsible for implementing the risk management framework through four sub-committees:

- The Group Risk and Capital Committee has responsibility for allocating capital and insurance risk capacity, approving investment and counterparty credit risk limits, and determining changes to the internal risk and capital methodology.
- The Group Asset-Liability Committee oversees the management of Swiss Re's balance sheet, in particular its liquidity, capital and funding positions and related policies.
- The Group Products and Limits Committee determines Swiss Re's product policy and underwriting standards, sets transaction limits, and decides on large or non-standard transactions.
- The Group Regulatory Committee is the central information and coordination platform for regulatory matters and compliance. It ensures a consistent approach to external communication on regulatory issues.

The Group Chief Risk Officer, who is a member of the Group EC, reports directly to the Group CEO as well as to the Board's Finance and Risk Committee. The Group Chief Risk Officer is a member of the four Group EC committees, serving as the chairman of both the Group Risk and Capital Committee and the Group Regulatory Committee. In addition, the Group Chief Risk Officer leads the Group's Risk Management function, which is responsible for risk oversight and control across the Group.

The Group Risk Management function is structured with global departments providing shared services such as Risk Reporting, as well as dedicated departments for the Reinsurance, Corporate Solutions, and Admin Re® Business Units.

All of these departments have dedicated Chief Risk Officers who report directly to the Group CRO, with a secondary reporting line to their respective Business Unit CEOs. They are responsible for risk oversight in their respective Business Unit, including identifying, assessing, and controlling risks as well as establishing the proper risk governance to assure proper execution of these activities.

Senior managers of business and corporate units are responsible for managing operational risks in their area of activity, based on a centrally coordinated methodology. Their self-assessments are reviewed and challenged by operational risk specialists in partnership with the dedicated risk management units. Risk management experts also review Swiss Re's underwriting decision processes.

The Group's risk management activities are also integrally supported by Group Internal Audit and Compliance. The Group Internal Audit department carries out independent, objective assessments of the adequacy and effectiveness of internal control systems. It evaluates the execution of processes within Swiss Re, including those within Risk Management.

The Compliance function is principally responsible for overseeing Swiss Re's compliance with applicable laws, regulations, rules and the Code of Conduct, as well as management of Compliance Risk. It serves to assist the Board of Directors, the Group EC and Management in discharging their respective duties to effectively identify, mitigate and manage Compliance Risks.

The Risk Management function continuously reviews Swiss Re's organisation in order to ensure alignment with the Group's structure.

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# Report of the statutory auditor

Report of the statutory auditor
to the General Meeting of
Swiss Reinsurance Company Ltd
Zurich

**Report of the statutory auditor on the consolidated financial statements**
As statutory auditor, we have audited the consolidated financial statements of Swiss Re Group, which comprise the income statement, statement of comprehensive income ,balance sheet, statement of shareholder's equity, statement of cash flow, and notes (pages 2 to 102) for the year ended 31 December 2012.

### Board of Directors' responsibility
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2012 present fairly, in all material respects, the financial position, the results of operations and the cash flows in accordance with accounting principles generally accepted in the United States of America (US GAAP) and comply with Swiss law.

**Report on other legal requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd

Alex Finn
Audit expert
Auditor in charge

Dawn M Kink

Zurich, 14 March 2013

# Annual Report
# Swiss Reinsurance Company Ltd

**Reinsurance and sub-holding company**
Swiss Reinsurance Company Ltd (the Company), domiciled in Zurich, Switzerland, performs a dual role within the Swiss Re Group as both a reinsurance company and a sub-holding company for the Reinsurance business segment.

**Financial year 2012**
Net income for the financial year 2012 amounted to CHF 3 600 million, compared to a loss of CHF 63 million in the prior year.

The financial year under review was impacted by a positive investment result, compared to a significant loss in the prior year. This loss was driven by the restructuring of Swiss Re Group. As a consequence from the restructuring in 2011, valuation adjustments on investments in subsidiaries and affiliated companies were required.

Swiss Reinsurance Company Ltd transferred its subsidiaries, Swiss Re Corporate Solutions Ltd and Swiss Re Life Capital Ltd, through a dividend in-kind on 27 April 2012 to Swiss Re Ltd, the ultimate holding company of the Swiss Re Group. The transactions reduced the Company's balance sheet by CHF 5 810 million.

In connection with the sale of Admin Re® US to Jackson National Life Insurance Company by Swiss Re Life Capital Ltd on 4 September 2012, certain blocks of business from Reassure America Life Insurance Company were assumed by the Company effective 1 July 2012. These transactions impacted life and health business related balance sheet and income statement positions as well as the investment portfolio.

**Reinsurance result**
Reinsurance result amounted to a gain of CHF 1 290 million in 2012, compared to a gain of CHF 3 025 million in 2011.

Premiums earned increased from CHF 8 825 million in 2011 to CHF 11 579 million in the current reporting year. Without the effect of foreign exchange movements, total premiums earned amounted to CHF 11 088 million in 2012.

Property and casualty premiums earned decreased from CHF 5 638 million in 2011 to CHF 5 084 million in 2012. The decrease was driven by a change in the intragroup retrocession program, introduced with the new Swiss Re Group corporate structure, partly offset by stronger external business renewals and new business written mainly in Asia. Without the effect of foreign exchange movements, property and casualty premiums earned amounted to CHF 4 916 million in 2012.

Life and health premiums earned increased significantly from CHF 3 187 million in 2011 to CHF 6 496 million in 2012. The increase was mainly driven by the assumption of blocks of business from Reassure America Life Insurance Company before its disposal. Excluding this one-off transaction and foreign exchange movements, life and health premiums earned remained materially unchanged.

Claims and claim adjustment expenses decreased significantly from CHF 9 970 million in 2011 to CHF 6 016 million in 2012. Without the effect of foreign exchange movements, total claims and claim adjustment expenses amounted to CHF 5 753 million in 2012.

Property and casualty claims and claim adjustment expenses decreased by CHF 317 million to CHF 2 776 million in 2012, compared to 2011. The year under review was mainly impacted by losses caused by Hurricane Sandy which occurred in the United States of America, whereas the prior year witnessed several natural catastrophe events in Japan, Australia, New Zealand and Thailand. In 2012, the Company strengthened its reserves by increasing the equalisation provision by CHF 400 million, as against a release of CHF 550 million in 2011.

Life and health claims and claim adjustment expenses decreased by CHF 3 637 million to CHF 3 240 million in 2012. The expenses were significantly higher in 2011, as a result of the one-off recapture of reinsurance treaties with affiliated companies. In turn, these transactions reduced the Company's liability for life and health benefits in that year. In 2012, the Company setup an additional liability for life and health policy benefits in connection with the assumed blocks of business from Reassure America Life Insurance Company.

**Investment result**
Investment result amounted to a gain of CHF 3073 million in 2012, compared to a loss of CHF 2313 million in 2011.

Investment income increased by CHF 1285 million to CHF 6212 million in 2012, mainly due to the lower market value of derivative financial instruments related to life and health variable annuity business.

Investment expenses decreased from CHF 6648 million in 2011 to CHF 2751 million in 2012. Investment expenses were significantly higher in 2011, due to the restructuring of the Swiss Re Group which resulted in valuation adjustments on investments in subsidiaries and affiliated companies.

**Other income and expenses**
Other net expenses decreased by CHF 127 million, driven by revised treatment of foreign exchange gains and losses.

**Assets**
Total assets decreased by 4% to CHF 80742 million in 2012, compared to prior year. Without the effect of foreign exchange movements, total assets amounted to CHF 81805 million in 2012.

As a result from the restructuring of the Swiss Re Group in 2011, investments in subsidiaries and affiliated companies decreased by CHF 5338 million in 2012, reflecting the transfer of its investments in Swiss Re Corporate Solutions Ltd and Swiss Re Life Capital Ltd through a dividend in-kind to Swiss Re Ltd, partially offset by capital contributions in cash and in-kind to an affiliated company.

The balance of equity securities decreased by CHF 569 million to CHF 1139 million in 2012, mainly due to the cancellation of its own shares in 2012 and hence as of 31 December 2012, Swiss Re Ltd held directly 100% (2011: 92.8%) in the Company.

The increase in fixed income securities from CHF 17179 million in 2011 to CHF 19146 million in 2012 was mainly related to asset portfolios assumed by the Company from reinsurance with Reassure America Life Insurance Company and invested operational cash. These impacts were partially offset by the disposal of shares in investment funds in fixed income securities, due to a transfer to short-term investments. The increase in short-term investments by CHF 5186 million to CHF 8912 million was mostly driven by new investments in connection with a loan from the parent company and a transfer from long-term securities.

Assets in derivative financial investments increased from CHF 214 million in 2011 to CHF 1700 million in 2012 in connection with the life and health variable annuity business.

Funds held by ceding companies increased significantly, mainly as a result of the portfolios assumed by the Company from Reassure America Life Insurance Company. The decrease in other assets related mostly to security lending collateral and reverse repurchase transactions.

**Liabilities**
Total liabilities increased by 3% to CHF 68 400 million in 2012. Without the effect of foreign exchange movements, total liabilities amounted to CHF 69 416 million in 2012.

Technical provisions increased by 3% to CHF 39 170 million in 2012. The increase was mainly driven by a provision for life and health policy benefits relating to the assumed business from Reassure America Life Insurance Company and setup of an equalisation provision of CHF 400 million. The increase was partially offset by the release of provision established for the 2011 natural catastrophe losses and the change in the intragroup retrocession program.

During the year, the Company revised its policy on the treatment of foreign exchange gains and losses and their recognition in the provision for currency fluctuation. Details of the impact on the financial statements are disclosed in the notes "Significant accounting principles".

The increase in debts from CHF 7 030 million in 2011 to CHF 11 629 million in 2012 was driven by loans from the parent company as well as the issuance of hybrid capital instruments and a subordinated loan by the Company.

Liabilities from derivative financial instruments decreased from CHF 3 466 million in 2011 to CHF 2 087 million in 2012, mainly due to the valuation changes of derivative financial instruments in connection with the life and health variable annuity business.

The increase in funds held under reinsurance treaties resulted from a change of an existing treaty to a funds withheld-basis. The decrease in other liabilities related to reduction of current account balance with a subsidiary as well as reduced payables in respect of repurchase agreements and securities lending transactions.

**Shareholder's equity**
Shareholder's equity decreased from CHF 17 751 million as of 31 December 2011 to CHF 12 342 million as of 31 December 2012.

The decrease mainly resulted from the ordinary and extraordinary dividends in cash of CHF 2 466 million and from the transfer of its investments in Swiss Re Corporate Solutions Ltd and Swiss Re Life Capital Ltd through a dividend in-kind of CHF 5 810 million, reflected by lower other reserves and lower legal reserves from capital contributions. Due to cancellation of its own shares, the share capital was reduced by CHF 3 million to CHF 34 million and the reserve for own shares was released.

# Income statement Swiss Reinsurance Company Ltd

For the years ended 31 December

| CHF millions | Notes | 2011 | 2012 |
|---|---|---|---|
| **Reinsurance** | 2 | | |
| Premiums earned | | 8825 | **11579** |
| Claims and claim adjustment expenses | | –9970 | **–6016** |
| Life and health benefits | | 4538 | **–2271** |
| Change in equalisation provision | | 550 | **–400** |
| Acquisition costs | | –867 | **–1581** |
| Other reinsurance result | | 271 | **419** |
| Operating costs | | –914 | **–828** |
| Allocated investment return | | 592 | **388** |
| **Reinsurance result** | | 3025 | **1290** |
| | | | |
| **Investments** | 3 | | |
| Investment income | | 4927 | **6212** |
| Investment expenses | | –6648 | **–2751** |
| Allocated investment return | | –592 | **–388** |
| **Investment result** | | –2313 | **3073** |
| | | | |
| **Other income and expenses** | | | |
| Other interest income | | 67 | **50** |
| Other interest expenses | | –410 | **–436** |
| Other income | | 69 | **250** |
| Other expenses | | –330 | **–341** |
| **Result from other income and expenses** | | –604 | **–477** |
| | | | |
| **Income before income tax expense** | | 108 | **3886** |
| Income tax expense | | –171 | **–286** |
| **Net income/loss** | | –63 | **3600** |

The accompanying notes are an integral part of Swiss Reinsurance Company Ltd's financial statements.

# Balance sheet
# Swiss Reinsurance Company Ltd

As of 31 December

## Assets

| CHF millions | Notes | 2011 | 2012 |
|---|---|---|---|
| **Non-current assets** | | | |
| **Investments** | | | |
| Investment real estate | | 1 095 | **1 232** |
| Investments in subsidiaries and affiliated companies | | 22 552 | **17 214** |
| Loans to subsidiaries and affiliated companies | | 4 636 | **3 683** |
| Mortgages and other loans | | 714 | **740** |
| Equity securities | | 1 708 | **1 139** |
| Fixed income securities | | 17 179 | **19 146** |
| Short-term investments | | 3 726 | **8 912** |
| Alternative investments | | 2 430 | **2 082** |
| Assets in derivative financial instruments | | 214 | **1 700** |
| **Total investments** | | 54 254 | **55 848** |
| | | | |
| **Tangible assets** | | 696 | **673** |
| **Intangible assets** | | 26 | **33** |
| | | | |
| **Total non-current assets** | | 54 976 | **56 554** |
| | | | |
| **Current assets** | | | |
| Premiums and other receivables from reinsurance | 4 | 5 865 | **4 980** |
| Funds held by ceding companies | 4 | 11 385 | **12 979** |
| Deferred acquisition costs | 4 | 592 | **443** |
| Cash and cash equivalents | | 3 527 | **3 194** |
| Other receivables | | 2 981 | **179** |
| Other assets | | 4 422 | **2 245** |
| Accrued income | | 173 | **168** |
| | | | |
| **Total current assets** | | 28 945 | **24 188** |
| | | | |
| **Total assets** | | 83 921 | **80 742** |

The accompanying notes are an integral part of Swiss Reinsurance Company Ltd's financial statements.

## Liabilities and shareholder's equity

| CHF millions | Notes | 2011 | 2012 |
|---|---|---|---|
| **Liabilities** | | | |
| **Technical provisions** | | | |
| Unpaid claims | 5 | 26 895 | **26 592** |
| Liabilities for life and health policy benefits | 5 | 7 892 | **9 959** |
| Unearned premiums | 5 | 3 002 | **2 060** |
| Provisions for profit commissions | 5 | 143 | **159** |
| Equalisation provision | 5 | – | **400** |
| **Total technical provisions** | | 37 932 | **39 170** |
| | | | |
| **Non-technical provisions** | | | |
| Provision for taxation | | 53 | **159** |
| Provision for currency fluctuation | | 1 735 | **1 397** |
| Other provisions | | 441 | **491** |
| **Total non-technical provisions** | | 2 229 | **2 047** |
| | | | |
| **Debt** | | | |
| Debentures | | 4 459 | **6 073** |
| Loans | | 2 571 | **5 556** |
| **Total debt** | | 7 030 | **11 629** |
| | | | |
| **Funds held under reinsurance treaties** | 5 | 4 029 | **5 236** |
| **Reinsurance balances payable** | 5 | 2 686 | **3 197** |
| **Liabilities from derivative financial instruments** | | 3 466 | **2 087** |
| **Other liabilities** | | 8 613 | **4 769** |
| **Accrued expenses** | | 185 | **265** |
| | | | |
| **Total liabilities** | | 66 170 | **68 400** |
| | | | |
| **Shareholder's equity** | 6 | | |
| Share capital | | 37 | **34** |
| Other legal reserves | | 650 | **650** |
| Reserve for own shares | | 748 | **–** |
| Legal reserves from capital contributions | | 8 995 | **8 057** |
| Other reserves | | 7 334 | **14** |
| Retained earnings/loss brought forward | | 50 | **–13** |
| Net income/loss for the financial year | | –63 | **3 600** |
| | | | |
| **Total shareholder's equity** | | 17 751 | **12 342** |
| | | | |
| **Total liabilities and shareholder's equity** | | 83 921 | **80 742** |

The accompanying notes are an integral part of Swiss Reinsurance Company Ltd's financial statements.

# Notes
# Swiss Reinsurance Company Ltd

## 1 Significant accounting principles

**Basis of presentation**
The financial statements are prepared in accordance with Swiss Company Law.

**Time period**
The 2012 financial year comprises the accounting period from 1 January 2012 to 31 December 2012.

**Use of estimates in the preparation of annual accounts**
The preparation of the annual accounts requires management to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses as well as the related disclosures. Actual results could differ significantly from these estimates.

**Foreign currency translation**
Assets and liabilities denominated in foreign currencies are converted into Swiss francs at year-end exchange rates with the exception of participations, which are maintained in Swiss francs at historical exchange rates. Income and expenses are converted into Swiss francs at average exchange rates for the reporting year.

**Cash and cash equivalents**
Cash and cash equivalents include cash at bank, short-term deposits and certain short-term deposits in money-market funds with an original maturity of three months or less. Such current assets are held at nominal value.

**Investments**
The following assets are carried at cost, less necessary and legally permissible depreciation:
- Investment real estate
- Investments in subsidiaries and affiliated companies
- Equity securities
- Fixed income securities (other than zero-coupon bonds)
- Investments in funds
- Alternative investments
- Assets in derivative financial instruments

Subsequent recoveries of previously recorded downward value adjustments may be recognised up to the lower of historical cost or market value at the balance sheet date. The valuation rules prescribed by the Swiss Financial Market Supervisory Authority FINMA are observed.

Zero-coupon bonds reported under fixed income securities are valued at their amortised cost values.

Assets in derivative financial instruments include reinsurance contracts or features embedded in reinsurance contracts that fulfil the characteristics of derivative financial instruments.

Short-term investments contain investments with an original duration of between three months and one year. Such investments are generally held until maturity and are maintained at their amortised cost values.

Loans to subsidiaries and affiliated companies, mortgages and other loans are carried at nominal value. Value adjustments are recorded where the expected recovery value is lower than the nominal value.

**Tangible assets**
Property for own use is valued at the purchase or construction cost less necessary and legally permissible depreciation.

Other tangible assets are carried at cost, less individually scheduled straight-line depreciation over their useful lives. Items of minor value are not capitalised.

**Intangible assets**
Intangible assets, consisting of capitalised development costs for software for internal use, are stated at cost less straight-line amortisation over the estimated useful lives.

**Deferred acquisition costs**
Deferred acquisition costs consist principally of commissions and are related to the production of new reinsurance business. Deferred acquisition costs for short duration contracts are amortised in proportion to premiums earned. Deferred acquisition costs for long duration contracts are amortised over the life of the underlying contracts.

**Other assets**
Other assets include deferred expenses on retroactive reinsurance policies, which are amortised through earnings over the expected claims-paying period, as well as receivables in connection with securities lending collateral and reverse repurchase transactions, which are carried at nominal value.

**Other current assets**
Other current assets are carried at nominal value after deduction of known credit risks if applicable.

**Technical provisions**
Unpaid claims are based on information provided by clients and own estimates of expected claims experience, which are drawn from empirical statistics. These include provisions for claims incurred but not reported. Unpaid insurance obligations are set aside at the full expected amount of future payment.

Liabilities for life and health policy benefits are determined on the basis of actuarially calculated present values taking experience into account. For business written directly by the Company, or via a branch of the Company, liabilities are based on the cedant-reported information or a prospective net level premium valuation, on assumptions based on estimates of own experience drawn from internal studies. Reference is made to cedant-reported information given the importance of deposit reserves in Europe. If the data the Company receives is sufficiently granular, however, a prospective gross premium valuation approach can also be adopted. With respect to the business ceded by the Company's subsidiaries a prospective gross premium valuation is applied. The method is prospective as it takes into account expected future cash flows inherent in the reinsurance contract from the valuation date until expiry of the contract obligations. The assumptions used in the valuation are based on estimates from experience studies. Cash flows include primarily premiums, claims, commissions and expenses, with margins added for prudence to reflect the uncertainties of the underlying best estimates. The gross premium valuation approach could result in a negative liability provision, which is typically set to zero at a reinsurance treaty level.

Accounting principles for life and health business require that no contract is treated as an asset on the balance sheet, with the exception of specific contracts where an offsetting amount has been paid and is recoverable from the ceding company.

Modified coinsurance arrangements are treated on a gross basis with the separate recognition of the funds withheld, as well as the liabilities for life and health policy benefits.

Premiums written relating to future periods are stated as unearned premiums and are normally calculated by statistical methods. The accrual of commissions is determined proportionally and is reported under “Deferred acquisition costs”.

Provisions for profit commissions are based on contractual agreements with clients and depend on the results of reinsurance treaties.

The equalisation provision is established to achieve a protection of the balance sheet and to break peaks of incurred claims in individual financial years with an exceptionally high claims burden by releasing appropriate amounts from the provision.

The shares of technical provisions pertaining to retroceded business are determined or estimated according to the contractual agreement and the underlying gross business data per treaty.

Liabilities assumed and consideration provided in connection with portfolio transactions are established through the respective lines in the income statement. The initial recognition of assumed outstanding claims is recorded as change in unpaid claims, with the consideration being recognised as negative claims paid. The assumption of the provision for unearned premiums is established through the change in unearned premiums, with the respective consideration accounted for as premiums written. The liability for life and health policy benefits is established as a charge against life and health benefits, with the initial premium consideration recorded as premiums written.

The initial set up of assets and liabilities in respect of property and casualty retroactive treaties with external counterparties is accounted for as a balance sheet transaction.

**Non-technical provisions**
The provision for taxation reflects the related tax expense for the financial year under report.

The provision for currency fluctuation comprises the net effect of foreign exchange gains and losses arising from the revaluation of the opening balance sheet and the translation adjustment of the income statement from average to closing exchange rates at year-end. These net impacts are recognised in the income statement over a time period of up to nine years, based on the average duration of the technical provisions. Where the provision for currency fluctuation results in an overall negative liability provision in a given year, it is set to zero and the difference is recognised in the income statement.

Other provisions are determined according to business principles and are based on estimated needs and in accordance with tax regulations.

**Debt**
Debt is held at redemption value.

**Funds held under reinsurance treaties**
Funds held under reinsurance treaties mainly contain cash deposits withheld from retrocessionaires, which are stated at redemption value.

**Reinsurance balances payable**
Reinsurance balances payable are held at redemption value.

**Liabilities from derivative financial instruments**
Liabilities from derivative financial instruments are generally maintained at the highest commitment amount as per a balance sheet date during the life of the underlying contracts. Premiums received in respect of derivative financial instruments are not realised until expiration or settlement of the contract.

Included in this position are reinsurance contracts or features embedded in reinsurance contracts that fulfil the characteristics of derivative financial instruments. For such contracts, premiums received may be recognised as income prior to contract expiration or settlement, in cases where the recorded commitment has already reached the maximum liability amount potentially payable under the terms of the respective contracts. Decreases in the liability amounts prior to expiration or settlement are only recognised as income for contracts for which hedges are in place.

**Other liabilities**
Other liabilities include payables in connection with repurchase agreements and securities lending transactions, which are held at redemption value.

**Deposit arrangements**
Contracts which do not meet risk transfer requirements, defined as transferring a reasonable probability of a significant loss to the reinsurer, are accounted for as deposit arrangements. Deposit amounts are adjusted for payments received and made, as well as for amortisation or accretion of interest.

**Allocated investment return**
The allocated investment return contains the calculated interest generated on the investments covering the technical provisions. The interest rate reflects the currency-weighted, five-year average yield on five-year government bonds.

**Management expenses**
Overall management expenses are allocated to the reinsurance business, the investment business and to other expenses on an imputed basis.

**Foreign exchange gains and losses**
Foreign exchange gains and losses arising from foreign exchange transactions, as well as any changes of the provision for currency fluctuation over time are recognised in the income statement and included in other expenses or other income, respectively.

**Capital and indirect taxes**
Capital and indirect taxes related to the financial year are included in other expenses. Value-added taxes are included in the respective expense lines in the income statement.

**Income tax expense**
The income tax expense relates to the financial year under report.

**Change in accounting policy**
As of 1 January 2012, the Company revised its accounting policy for the treatment of foreign exchange gains and losses and their recognition in the provision for currency fluctuation.

In the previous years, foreign exchange gains and losses, consisting of foreign exchange gains and losses arising from the revaluation of the opening balance sheet, the translation adjustment of the income statement from average to closing exchange rates at year-end as well as foreign exchange gains and losses arising from foreign exchange transactions, were deferred in the provision for currency fluctuation. Where the provision was not sufficient to absorb a negative difference, the amount was recognised in the income statement.

As of 1 January 2012, foreign exchange gains and losses arising from the revaluation of the opening balance sheet and the translation adjustment of the income statement from average to closing exchange rates at year-end are deferred in the provision for currency fluctuation and recognised in the income statement over a period of up to nine years, based on the average duration of the technical provisions. Where the provision for currency fluctuation results in an overall negative liability provision in a given year, it is set to zero and the difference is recognised in the income statement. Foreign exchange gains and losses arising from foreign exchange transactions are now recognised in the income statement in the year they occur.

Retroactive application of the revised accounting policy in the previous years would have resulted in a provision for currency fluctuation of CHF 1 257 million as of 31 December 2011. The difference of CHF 478 million to the booked provision for currency fluctuation as of 31 December 2011 will be recognised in the income statement over a period of five years starting from the financial year 2012.

## 2 Reinsurance result

| CHF millions | Gross | Retro | 2011 Net | Gross | Retro | 2012 Net |
|---|---|---|---|---|---|---|
| Premiums written | 13 850 | –4 696 | 9 154 | **16 348** | **–5 680** | **10 668** |
| Change in unearned premiums | –1 244 | 915 | –329 | **464** | **447** | **911** |
| **Premiums earned** | 12 606 | –3 781 | 8 825 | **16 812** | **–5 233** | **11 579** |
| Claims paid and claim adjustment expenses | –13 930 | 3 528 | –10 402 | **–8 998** | **3 162** | **–5 836** |
| Change in unpaid claims | –2 220 | 2 652 | 432 | **314** | **–494** | **–180** |
| **Claims and claim adjustment expenses** | –16 150 | 6 180 | –9 970 | **–8 684** | **2 668** | **–6 016** |
| **Life and health benefits** | 5 751 | –1 213 | 4 538 | **–2 364** | **93** | **–2 271** |
| **Change in equalisation provision** | 550 | – | 550 | **–400** | **–** | **–400** |
| Fixed commissions | –1 717 | 1 052 | –665 | **–2 875** | **1 514** | **–1 361** |
| Profit commissions | –242 | 40 | –202 | **–256** | **36** | **–220** |
| **Acquisition costs** | –1 959 | 1 092 | –867 | **–3 131** | **1 550** | **–1 581** |
| Other reinsurance income and expenses | 148 | –51 | 97 | **140** | **–78** | **62** |
| Result from cash deposits | 574 | –400 | 174 | **737** | **–380** | **357** |
| **Other reinsurance result** | 722 | –451 | 271 | **877** | **–458** | **419** |
| **Operating costs** | | | –914 | | | **–828** |
| **Allocated investment return** | | | 592 | | | **388** |
| **Reinsurance result** | | | 3 025 | | | **1 290** |

## 3 Investment result

| CHF millions | 2011 | 2012 |
|---|---|---|
| Income from real estate investment | 98 | **106** |
| Income from subsidiaries and affiliated companies | 2 335 | **2 564** |
| Income from equity securities | 33 | **36** |
| Income from fixed income securities, mortgages and other loans | 638 | **695** |
| Income from derivative financial instruments | 23 | **10** |
| Income from short-term investments | 65 | **59** |
| Income from alternative investments | 61 | **68** |
| Income from investment services | 40 | **39** |
| Valuation readjustments on investments | 29 | **1 212** |
| Realised gains on sale of investments | 1 605 | **1 423** |
| **Investment income** | 4 927 | **6 212** |
| Expenses from derivative financial instruments | –13 | **–** |
| Investment management expenses | –268 | **–230** |
| Valuation adjustments on investments | –6 082 | **–2 160** |
| Realised losses on sale of investments | –285 | **–361** |
| **Investment expenses** | –6 648 | **–2 751** |
| Allocated investment return | –592 | **–388** |
| **Investment result** | –2 313 | **3 073** |

## 4 Assets from reinsurance

| CHF millions | Gross | Retro | 2011 Net | Gross | Retro | 2012 Net |
|---|---|---|---|---|---|---|
| Premiums and other receivables from reinsurance | 5668 | 197 | 5865 | **4820** | **160** | **4980** |
| Funds held by ceding companies | 11385 | – | 11385 | **12979** | **–** | **12979** |
| Deferred acquisition costs | 1324 | –732 | 592 | **1166** | **–723** | **443** |
| **Assets from reinsurance** | 18377 | –535 | 17842 | **18965** | **–563** | **18402** |

## 5 Liabilities from reinsurance

| CHF millions | Gross | Retro | 2011 Net | Gross | Retro | 2012 Net |
|---|---|---|---|---|---|---|
| Unpaid claims | 33597 | –6702 | 26895 | **32664** | **–6072** | **26592** |
| Liabilities for life and health policy benefits | 9987 | –2095 | 7892 | **12144** | **–2185** | **9959** |
| Unearned premiums | 5146 | –2144 | 3002 | **4541** | **–2481** | **2060** |
| Provisions for profit commissions | 176 | –33 | 143 | **193** | **–34** | **159** |
| Equalisation provision | – | – | – | **400** | **–** | **400** |
| Funds held under reinsurance treaties | 1 | 4028 | 4029 | **19** | **5217** | **5236** |
| Reinsurance balances payable | 769 | 1917 | 2686 | **1498** | **1699** | **3197** |
| **Liabilities from reinsurance** | 49676 | –5029 | 44647 | **51459** | **–3856** | **47603** |

## 6 Shareholder's equity

### Change in shareholder's equity

| CHF millions | 2011 | 2012 |
|---|---|---|
| Shareholder's equity as of 1 January | 18757 | **17751** |
| Ordinary cash dividend paid for the previous year | –943 | **–1028** |
| Ordinary dividend in-kind paid for the previous year | – | **–5810** |
| Extraordinary cash dividend paid | – | **–1438** |
| Capital reduction due to cancellation of treasury shares | – | **–733** |
| Net income/loss for the financial year | –63 | **3600** |
| **Shareholder's equity on 31 December before proposed dividend payments** | 17751 | **12342** |
| Proposed dividend payments | –6838 | **–1831**[1] |
| **Shareholder's equity on 31 December after proposed dividend payments** | 10913 | **10511** |

[1] Details on the proposed dividend payment for the financial year 2012 are disclosed on page 123.

## 7 Contingent liabilities

Swiss Reinsurance Company Ltd has issued a number of guarantees to several of its subsidiaries in support of their business activities by securing either their overall capital positions or specific transactions. These guarantees are generally not limited by a nominal amount but rather by the exposure of the underlying business.

In addition, as a component of the Swiss Re Group's financing structure, the Company has guaranteed CHF 3 760 million (2011: CHF 5 678 million) of debt issued by certain subsidiaries and letter of credit facilities benefiting various subsidiaries of which no amount was utilised as of 31 December 2012 and 2011, respectively.

## 8 Unfunded commitments

As a participant in limited investment partnerships, the Company commits itself to making available certain amounts of investment funding, callable by the partnerships in general for periods of up to 10 years. As of 31 December 2012, total commitments remaining uncalled were CHF 1 711 million (2011: CHF 660 million).

## 9 Leasing contracts

Total off-balance-sheet commitments from operating leases for the next five years and thereafter are as follows:

| CHF millions | 2011 | **2012** |
|---|---|---|
| 2012 | 22 | **–** |
| 2013 | 21 | **21** |
| 2014 | 18 | **20** |
| 2015 | 15 | **18** |
| 2016 | 8 | **12** |
| After 2017 | 27 | **32** |
| **Total operating leases, net** | 111 | **103** |

These commitments pertain to the non-cancellable contract periods and refer primarily to office and apartment space rented by the Company.

In 2011, a financial lease of IT hardware was recognised on the balance sheet with a value of CHF 10 million. In 2012, this financial lease was fully repaid.

## 10 Security deposits

To secure the technical provisions at the 2012 balance sheet date, securities with a value of CHF 16 318 million (2011: CHF 10 687 million) were deposited in favour of ceding companies, of which CHF 4 866 million (2011: CHF 9 200 million) referred to affiliated companies of the Company. The prior year total amount of securities deposited has been revised to include securities in investment funds which were deposited in favour of ceding companies which had not been previously included.

In addition, a real estate portfolio with a carrying amount of CHF 673 million (2011: CHF 673 million) serves as collateral for short-term senior operational debt of CHF 650 million with an external counterparty.

## 11 Securities lending and repurchase agreements

To enhance the performance of its investment portfolio, the Company enters into securities lending and repurchase transactions. In the context of such transactions securities are transferred to the counterparty.

Additionally, the Company performs the role of the collateral clearer for the Swiss Re Group, centrally managing collateral for the Swiss Re Group, providing funding diversification, enabling secured cash investment and yield enhancement. As such the Company acts as principal in collateral transactions, borrowing securities from its affiliated companies and entering into lending and borrowing as well as repurchase and reverse repurchase agreements with third parties. As a matter of policy, the Company requires that collateral, consisting of cash or securities, is provided to cover the assumed counterparty risk associated with such transactions.

An overview of the fair value of securities transferred under securities lending and repurchase agreements is provided in the following table as of 31 December:

| CHF millions | 2011 | **2012** |
|---|---|---|
| Fair value of securities transferred to third parties | 5 646 | **9 143** |
| Fair value of securities transferred to affiliated companies | 5 682 | **7 608** |
| **Total** | 11 328 | **16 751** |

## 12 Investment funds

As of 31 December 2012, fixed income securities of CHF 3 464 million (2011: CHF 4 581 million) were held in investment funds, which are owned by its affiliated companies. The securities in these funds and their revenues are reported in the corresponding asset category. The securities which were held and lent directly by the investment funds are excluded in the amounts above.

## 13 Fire insurance value of tangible assets

As of 31 December 2012, the insurance value of tangible assets, comprising the real estate portfolio and other tangible assets, amounted to CHF 2 506 million (2011: CHF 2 555 million).

## 14 Obligations towards employee pension fund

As of 31 December 2012, other liabilities included CHF 5 million (2011: CHF 5 million) payable to the employee pension fund.

## 15 Public placed debentures

As of 31 December 2012, the following public placed debentures were outstanding:

| Instrument | Issued in | Currency | Nominal in millions | Interest rate | Maturity/ First call in | Book value CHF millions |
|---|---|---|---|---|---|---|
| Subordinated bond | 2012 | CHF | 320 | 7.250% | 2017 | 320 |
| Subordinated bond | 2012 | USD | 750 | 8.250% | 2018 | 687 |
| Subordinated bond | 2012 | EUR | 500 | 6.625% | 2022 | 603 |
| Senior bond | 2011 | CHF | 600 | 2.125% | 2017 | 600 |
| Senior bond | 2010 | CHF | 500 | 2.000% | 2015 | 500 |
| Senior bond | 2009 | CHF | 700 | 4.250% | 2013 | 700 |

## 16 Investments in subsidiaries

Details on the Company's subsidiaries are disclosed on pages 90 to 93.

## 17 Own shares

As of 31 December 2011, the Swiss Re Group held 370 706 931 Swiss Reinsurance Company Ltd shares, of which Swiss Re Ltd owned 344 052 565 shares and the Company owned directly 26 654 366 shares. On 25 May 2012, Swiss Reinsurance Company Ltd cancelled all its 26 654 366 treasury shares and hence Swiss Re Ltd held directly 100% (2011: 92.8%) in Swiss Reinsurance Company Ltd, which equalled to 344 052 565 Swiss Reinsurance Company Ltd shares as of 31 December 2012.

## 18 Deposit arrangements

The following balances were generated and included in:

| CHF millions | 2011 | **2012** |
|---|---|---|
| Reinsurance result | 41 | **22** |
| Premiums and other receivables from reinsurance | 263 | **153** |
| Funds held by ceding companies | 55 | **672** |
| Funds held under reinsurance treaties | 1 | **19** |
| Reinsurance balances payable | 396 | **1 032** |

## 19 Claims on and obligations towards affiliated companies of the Company

| CHF millions | 2011 | **2012** |
|---|---|---|
| Premiums and other receivables from reinsurance | 1 183 | **1 119** |
| Funds held by ceding companies | 9 074 | **7 165** |
| Other receivables | 2 836 | **119** |
| Other assets | 77 | **26** |
| Loans | 1 921 | **4 906** |
| Funds held under reinsurance treaties | 3 862 | **5 034** |
| Reinsurance balances payable | 1 330 | **1 216** |
| Other liabilities | 6 519 | **3 801** |

## 20 Conditional capital and authorised capital

As of 31 December 2012, the Company had the following conditional capital and authorised capital:

**Conditional capital for Equity-Linked Financing Instruments**
The share capital of the Company shall be increased by an amount not exceeding CHF 5 000 000 through the issuance of a maximum of 50 000 000 registered shares, payable in full, each with a nominal value of CHF 0.10, through the voluntary or mandatory exercise of conversion and/or option rights granted in connection with bonds or similar instruments including loans or other financial instruments by the Company or Group companies of Swiss Reinsurance Company Ltd (hereinafter collectively the "Equity-Linked Financing Instruments"). Existing shareholders' subscription rights are excluded.

**Authorised capital**
The Board of Directors is authorised to increase the share capital of the Company at any time up to 15 April 2013 by an amount not exceeding CHF 8 500 000 through the issuance of up to 85 000 000 registered shares, payable in full, each with a nominal value of CHF 0.10. Increases by underwriting as well as partial increases are permitted. The date of issue, the issue price, the type of contribution and any possible acquisition of assets, the date of dividend entitlement as well as the expiry or allocation of non exercised subscription rights will be determined by the Board of Directors.

With respect to a maximum of CHF 5 000 000 through the issuance of up to 50 000 000 registered shares, payable in full, each with a nominal value of CHF 0.10, out of the total amount of authorised capital referred to above, the subscription rights of shareholders may not be excluded.

With respect to a maximum of CHF 3 500 000 through the issuance of up to 35 000 000 registered shares, payable in full, each with a nominal value of CHF 0.10, out of the total amount of authorised capital referred to above, the Board of Directors may exclude or restrict the subscription rights of the existing shareholders for the use of shares in connection with (i) mergers, acquisitions (including take-over) of companies, parts of companies or holdings, equity stakes (participations) or new investments planned by the Company and/or Group companies of Swiss Reinsurance Company Ltd, financing or re-financing of such mergers, acquisitions or new investments, the conversion of loans, securities or equity securities, and/or (ii) improving the regulatory capital position of the Company or Group companies of Swiss Reinsurance Company Ltd in a fast and expeditious manner if the Board of Directors deems it appropriate or prudent to do so (including by way of private placements).

## 21 Release of undisclosed reserves

In the year under report, undisclosed reserves on investments or on provisions were released by a net amount of CHF 233 million (2011: no net release).

## 22 Major shareholders

As of 31 December 2012, the Company was a fully owned subsidiary of Swiss Re Ltd.

## 23 Personnel information

As of 31 December 2012, Swiss Reinsurance Company Ltd employed a worldwide staff of 3 878 (2011: 3 654). Personnel expenses for the 2012 financial year amounted to CHF 1 058 million (2011: CHF 885 million).

## 24 Management fee contribution

In 2012, management expenses of CHF 574 million (2011: CHF 282 million) were recharged to affiliated companies of the Company and invoiced to third parties. These recharges were reported net under "Operating costs", "Investment expenses" and "Other expenses".

## 25 Risk assessment

Article 663b sub-para. 12 of the Swiss Code of Obligations requires disclosure of information on the performance of a risk assessment.

The identification, assessment and control of risk exposures of Swiss Reinsurance Company Ltd on a stand-alone basis are integrated in and covered by Swiss Re's Group risk management organisation and processes.

Details are disclosed on page 102.

# Proposal for allocation of disposable profit/loss

The Board of Directors proposes to the Annual General Meeting to be held in Zurich on 25 March 2013 to approve the following allocation and a dividend payment:

| CHF millions | 2011 | **2012** |
|---|---|---|
| Retained earnings/loss brought forward | 50 | **–13** |
| Net income/loss for the financial year | –63 | **3 600** |
| **Disposable profit/loss** | –13 | **3 587** |
| Allocation to other reserves | – | **–3 550** |
| **Retained earnings/loss after allocation** | –13 | **37** |

| CHF millions | 2011 | **2012** |
|---|---|---|
| Other reserves brought forward | 6 852[1] | **14** |
| Allocation from retained earnings | – | **3 550** |
| Cash dividend | –1 028 | **–1 831** |
| Dividend in-kind of Swiss Re Corporate Solutions Ltd and Swiss Re Life Capital Ltd out of other reserves | –5 810 | **–** |
| **Other reserves after allocation and dividend payment** | 14 | **1 733** |

[1] Other reseves brought forward of CHF 6 852 million consisted of the other reserves balance as of 31 December 2011 of CHF 7 334 million, the dividend payment in the amount of CHF 500 million out of such reserves, as resolved by the Extraordinary General Meeting on 26 June 2012, and the allocation from reserve for own shares of CHF 18 million in connection with the cancellation of its own shares on 25 May 2012.

### Dividend

If the Board of Directors' proposal for allocation and a dividend payment is accepted, a cash dividend of CHF 1 831 million will be paid out of other reserves.

Zurich, 14 March 2013

# Report of the statutory auditor

Report of the statutory auditor
to the General Meeting of
Swiss Reinsurance Company Ltd
Zurich

**Report of the statutory auditor on the Financial Statements**
As statutory auditor, we have audited the financial statements of Swiss Reinsurance Company Ltd, which comprise the income statement, balance sheet and notes (pages 109 to 122), for the year ended 31 December 2012.

*Board of Directors' responsibility*
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

*Auditor's responsibility*
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*
In our opinion, the financial statements for the year ended 31 December 2012 comply with Swiss law and the company's articles of incorporation.

**Report on other legal requirements**
We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposal for allocation of disposable profit/loss complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd

Alex Finn
Audit expert
Auditor in charge

Dawn M Kink

Zurich, 14 March 2013

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# 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;
- legal actions or regulatory investigations or actions, including those in respect of industry requirements or business conduct rules of general applicability;
- changes in accounting standards;
- significant investments, acquisitions or dispositions, and any delays, unexpected costs or other issues experienced in connection with any such transactions;
- changing levels of competition; and
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks.

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

# Note on risk factors

**General impact of adverse market conditions**
At various points during 2012, there was deterioration in bank funding markets, depressed volumes of capital markets activity overall, sharply higher yields on sovereign debt of Greece, Italy, Ireland, Portugal and Spain and significant capital outflows from banks in certain of these countries. 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 developments in turn could have an adverse impact on the investment results of Swiss Reinsurance Company Ltd ("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.

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. 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 are focused principally on banking institutions, but some could have direct applicability to insurance or reinsurance operations and others could have a general impact on the regulatory landscape for financial institutions, which might indirectly impact capital requirements and/or required reserve levels or have other direct or indirect effects on the Group. Changes are particularly likely to impact financial institutions designated as "systemically important," a designation which is expected to result in enhanced regulatory supervision and heightened capital, liquidity and diversification requirements under evolving reforms. There is an emerging focus on classifying certain insurance companies as systemically important as well. The Group could be designated as a global systemically important financial institution. 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 as early as April 2013.

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 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**

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

**Liquidity risks**

The Group's business requires, and its clients expect, that it has sufficient capital and sufficient liquidity to meet its reinsurance obligations, and that this would continue to be the case following the occurrence of any event or series of events, including extreme catastrophes, that would trigger insurance or reinsurance coverage obligations. The Group's uses of funds include obligations arising in its reinsurance business (including claims and other payments as well as insurance provision repayments due to portfolio transfers,

securitisations and commutations), which may include large and unpredictable claims (including catastrophe claims), funding of capital requirements and operating costs, payment of principal and interest on outstanding indebtedness and funding of acquisitions. The Group also enters into contracts or trading arrangements that could give rise to significant short-term funding obligations and, in connection with the Group's trading operations, it could be subject to unexpected calls to deliver collateral or unwind trading positions at a net cost to it. The Group also has unfunded capital commitments in its private equity and hedge fund investments, which could result in funding obligations at a time when it is subject to liquidity constraints. 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; competitive conditions; cyclicality of the industry; risks related to emerging claims and coverage issues (including, for example, trends to establish stricter building standards, which can lead to higher industry losses for earthquake cover based on higher replacement values); risks arising from the Group's dependence on policies, procedures and expertise of ceding companies; risks related to investments in emerging markets; and risks related to the failure of operational systems and infrastructure. In addition, the occurrence of future risks that the Group's risk management procedures fail to identify or anticipate could have a material adverse effect on the Group. Any of the foregoing, as well as other concerns in respect of the Group's business, could also give rise to reputational risk.

### Use of models; accounting matters

The Group is subject to risks relating to the preparation of estimates and assumptions that management uses, 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 realignment of 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.

# Corporate calendar and contact information

## Corporate calendar

**10 April 2013**
149th Annual General Meeting

**2 May 2013**
First quarter 2013 results

**8 August 2013**
Second quarter 2013 results

**7 November 2013**
Third quarter 2013 results

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