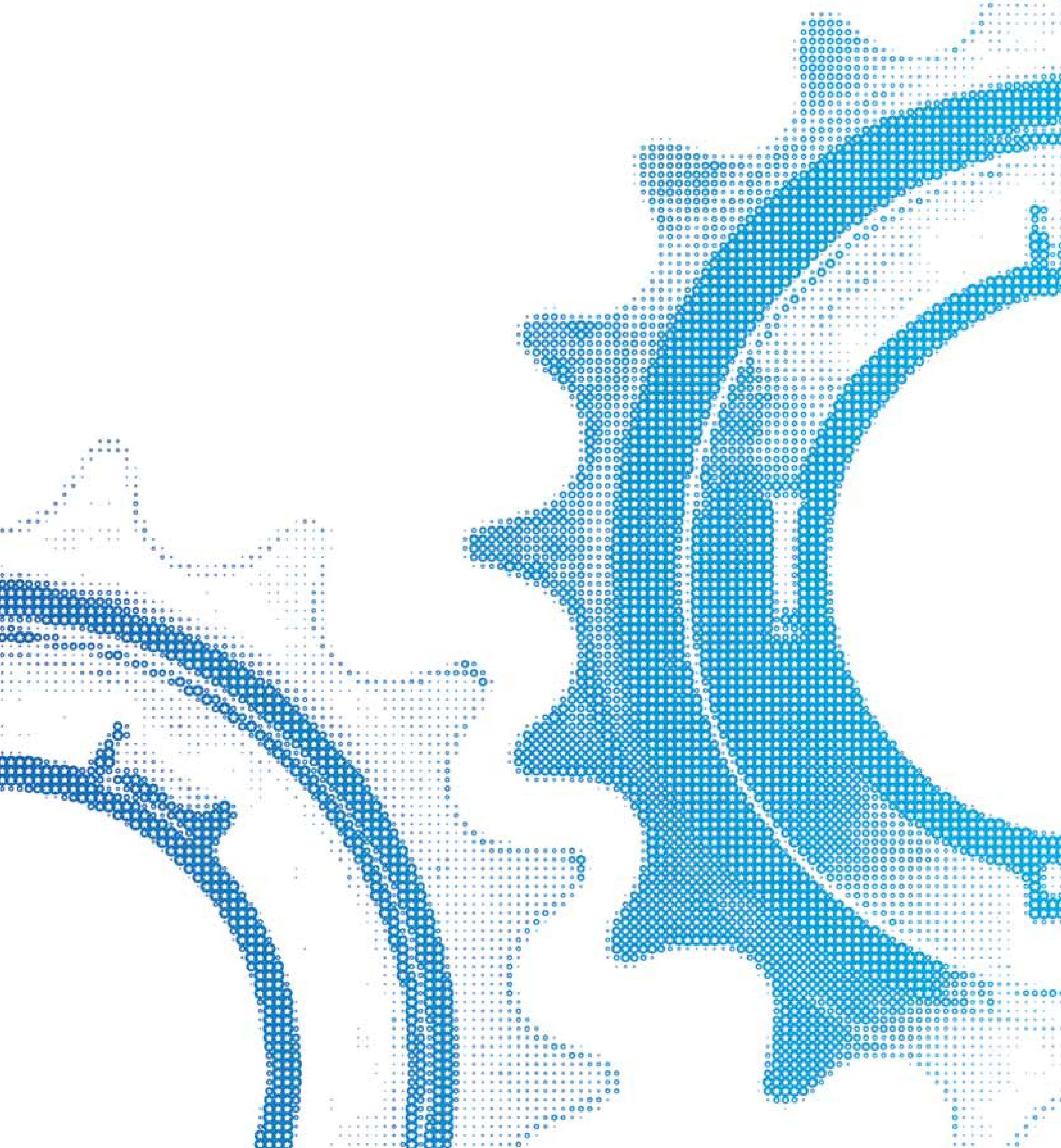
Swiss Re

2012 Financial Review



Key information

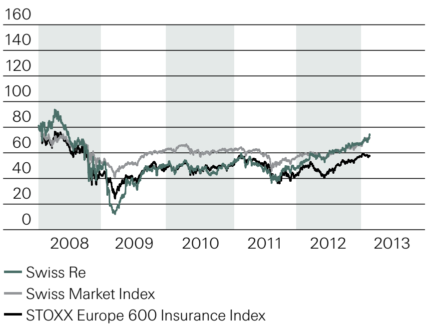
Financial highlights

For the twelve months ended 31 December

USD millions, unless otherwise stated	2011	2012	Change in %
Group			
Net income attributable to common shareholders	2 626	**4 201**	60
Premiums earned and fee income	22 176	**25 446**	15
Earnings per share in CHF	6.79	**11.13**	64
Shareholders' equity	29 590	**34 002**	15
Return on equity[1] in %	9.6	**13.4**	
Return on investments in %	4.4	**4.0**	
Number of employees[2] (31.12.2011/31.12.2012)	10 788	**11 193**	4
Property & Casualty Reinsurance			
Net income attributable to common shareholders	1 099	**2 990**	172
Premiums earned	10 135	**12 329**	22
Combined ratio in %	104.0	**80.7**	
Return on equity[1] in %	11.0	**26.7**	
Life & Health Reinsurance			
Net income attributable to common shareholders	1 664	**739**	–56
Premiums earned and fee income	8 404	**9 122**	9
Benefit ratio in %	74.5	**75.5**	
Return on equity[1] in %	21.2	**8.9**	
Corporate Solutions			
Net income attributable to common shareholders	81	**196**	142
Premiums earned	1 929	**2 284**	18
Combined ratio in %	107.9	**96.2**	
Return on equity[1] in %	3.7	**7.4**	
Admin Re®			
Net income attributable to common shareholders	329	**183**	–44
Premiums earned and fee income	1 686	**1 705**	1
Return on equity[1] in %	5.0	**2.6**	

[1] Return on equity is calculated by dividing net income attributable to common shareholders by average common shareholders' equity.
[2] Regular staff

Share price (CHF)



Swiss Re's financial strength ratings

As of 15 February 2013	Financial strength rating	Outlook	Last update
Standard & Poor's	AA–	Stable	18 December 2012
Moody's	A1	Positive	20 December 2012
A.M. Best	A+	Stable	23 January 2013

Share performance

As of 15 February 2013	
Share price in CHF	72.90
Market capitalisation in CHF millions	25 019

Performance

in %	1 January 2008 – 15 February 2013 (p.a.)	2012
Swiss Re	–1.9	37.7
Swiss Market Index	–2.4	14.9
STOXX Europe 600 Insurance Index	–6.5	32.9

Content

This 2012 Financial Review of the Swiss Re Group contains updates on our business and results and preliminary unaudited financial information for 2012. The updates on our business and results will be included in our 2012 Annual Report, together with our audited financial statements for 2012 and other disclosures we are required to include or historically have included in an annual report. This Financial Review is not intended to be a substitute for the full 2012 Annual Report, which will be published on the Swiss Re website on 15 March 2013.

Message from the Chairman

Excellent results earned in a difficult environment

3.50

Proposed dividend in CHF for 2012*
(CHF 3.00 in 2011)

4.00

Proposed special dividend in CHF for 2012*

* Swiss withholding tax exempt distribution out of legal reserves from capital contributions

Dear shareholders
Two years ago I wrote to you of our plans to establish a new organisational structure. The structure would allow us to be more flexible, transparent, accountable and client-focused. I can now report that the Group has successfully executed on these plans, delivering an excellent business performance in 2012 while making a seamless transition to a new Group Chief Executive Officer.

Based on this performance and in line with our commitment to active capital management, the Board of Directors will recommend a dividend of CHF 3.50 per share at this year's Annual General Meeting. Additionally we will propose a special dividend of CHF 4.00 per share. This translates to a total return of capital to shareholders of approximately USD 2.8 billion.

These excellent results have been earned in a difficult environment. Low interest rates are a challenge for all our business lines. The regulatory landscape is also changing, in particular the regulations related to solvency, capital markets, and national and global supervision. These changes are happening in a number of jurisdictions simultaneously and will have a cumulative and cross-sector impact. In early 2013, the G-20 is expected to approve a list of re/insurance companies designated as globally systemically important. As a leading re/insurer, we play an important role in the financial system and the economy. However our core activities are neither a source nor an amplifier of systemic risk, as has been acknowledged by many regulatory bodies.

What would such a designation mean in practical terms for Swiss Re? Regulators are in the early stages of defining the policy measures that would apply to the companies appearing on this list. They are focusing on three areas — enhanced supervision, effective resolution, and loss absorption capacity. Swiss Re believes that it is well prepared to respond to requirements along these lines.

We expect the global economy to be less turbulent in the coming year. The US and European economies are expected to improve slightly, and growth in emerging markets is expected to remain quite robust. In 2012 we saw several positive developments in the euro area.

However the economic and financial market environment — particularly in Europe — remains fragile. The risks are often political: the decisions taken over the last year must now be implemented and further reforms will be necessary. Any delay increases the risk that the crisis will flare up again. We expect interest rates to rise slightly this year and next, but to remain quite low by historical standards.

I am confident that our Group is well positioned for 2013. This confidence comes from our strong capital position and the long-term relationships we have with our clients. It also reflects the power of traditional Swiss Re strengths, such as disciplined underwriting and prudent asset management.

"I am confident that our Group is well positioned for 2013. This confidence comes from our strong capital position and the long-term relationships we have with our clients."

Indeed this is an appropriate time for taking the long view, as we will be celebrating our 150th anniversary beginning in 2013. Our company was founded after the 1861 fire in Glarus, Switzerland. Two Swiss insurance companies and one bank — themselves almost still start-ups — pooled their resources to develop a reinsurance solution as had been done in other countries after similar city fires. Since then we have been in the business of protecting society against major risk events and nurturing the growth of a private sector approach to managing risks. Our outlook was global almost from the start, with the San Francisco earthquake of 1906 representing an early major international test, which we passed as with so many disasters since — hurricanes, earthquakes, winterstorms and others. We were also there when society had to cope with man-made tragedies and outrages, such as 9/11.

Swiss Re has been a key innovator in the area of reinsurance. Today we are carrying this tradition forward with insurance-linked securities, longevity swaps and partnerships with governments. For 150 years we have been expanding the boundaries of the insurance solution, not only by innovation but also by reaching out to new clients. This year when we turn 150 is the right moment to commemorate these achievements. We will have a number of events in locations around the globe for clients, media and other stakeholders, not to mention the employees who make it all possible, as well as the families who support them.

In 2012, the Swiss Re Foundation began its activities. The non-profit foundation aims to increase society's resilience toward natural hazards, climate change, population growth, water scarcity and pandemics, along with other challenges to security, health and prosperity. The Swiss Re Foundation will also support community projects and employee volunteering in locations where Swiss Re has offices.

We are pleased to nominate Mary Francis to join us on the Board of Directors. A British citizen, she has previously served on the boards of the Bank of England and Aviva plc and worked as director general of the Association of British Insurers, among other institutions and roles. Her depth of experience and breadth of perspective will be an invaluable support in fulfilling the Board's oversight role.

I would like to conclude by expressing my thanks to you, our shareholders. We appreciate the trust you have placed in us and we are doing all we can to earn it.

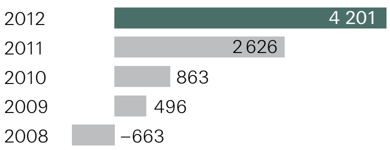
Zurich, 21 February 2013

Walter B. Kielholz
Chairman of the
Board of Directors

Message from the Group CEO

Performance and growth by the Swiss Re Group in 2012, demonstrated by net income of USD 4.2 billion

Net income
(USD millions)



Dear shareholders
I am very proud to report on the performance and growth of our Group in 2012, demonstrated convincingly by our net income of USD 4.2 billion. All Business Units contributed to this excellent result, including a strong return on Group investments of 4.0%.

These are my first annual results where I write to you as Group CEO. I am very glad that I can start by sharing such great news. This performance is the result of tireless effort from Swiss Re employees around the globe, to whom I would like to express my most sincere gratitude.

Let me run you quickly through their achievements:

The Property & Casualty Reinsurance segment delivered a very strong net income of USD 3.0 billion, represented by a combined ratio of USD 80.7%. The Life & Health Reinsurance segment turned a profit of USD 739 million, though we recognise we still have some work to do on the profitability of this segment. I am pleased by Corporate Solutions' net income of USD 196 million, or 142% higher than in 2011, making good on the growth aspirations we had for this segment when we put a stronger emphasis on the direct corporate business. Admin Re® underwent significant structural changes in 2012 with the sale of its US business, demonstrating the capital agility that was one of the key ideas of our corporate reorganisation. Admin Re® delivered net income of USD 183 million.

With these excellent results behind us we are moving in the right direction on our 2011–2015 financial targets. They remain our top priority and we are working hard to deliver on them. Return on equity was 13.4%, and our earnings per share were USD 11.85 or CHF 11.13.

By working together we can achieve the best: that will be the title of this year's annual report and effective shorthand for this year's accomplishments. It is also a good summation of the value Swiss Re provides to its clients.

Across our Group we are harnessing the power of partnership to meet the challenges of business. In South Korea we have worked with Cigna/LINA to develop insurance that covers the cost of cancer treatment for people over the age of sixty. In China we have gone even further, teaming up with local insurers to deliver insurance that covers similar risks for people of all ages — a first in the market. We have become the official insurance provider for Solar Impulse, which aims to become the first solar-powered aircraft to fly around the world. In Vietnam and Mexico we are working together with governments to protect lives and livelihoods.

> “With these excellent results behind us we are moving in the right direction on our 2011–2015 financial targets. They remain our top priority and we are working hard to deliver on them.”

These examples of partnership and collaboration are equally powerful as examples of our commitment to building value over the long term — appropriate for 2013, as we celebrate Swiss Re's 150th anniversary at a number of events around the globe.

To continue to perform and grow we will add even more focus to two crucial areas: on talent development and on our high growth markets. And success in the latter depends on success in the first. By 2015 we aim to generate 20%–25% of our revenues from high growth markets. For this endeavour we need talented people — people endowed with the right skills and languages, as well as agility and the passion to perform. The development and management of our human capital in these markets will be key to success.

Our targets are ambitious, and conditions before us are challenging. Nevertheless we remain confident we can meet and exceed our goals, recognising that opportunities for risk management are practically limitless, provided we harness the power of collaboration. If the achievements of 2012 are any indication, we are moving in the right direction.

Zurich, 21 February 2013

Michel M. Liès
Group Chief Executive Officer

Group results

Excellent net income of USD 4.2 billion driven by very strong underlying business performance

Swiss Re reported annual net income of USD 4.2 billion in 2012, compared to net income of USD 2.6 billion in 2011. Earnings per share were CHF 11.13 or USD 11.85, compared to CHF 6.79 or USD 7.68 in 2011.

The Group results in 2012 reflect a strong underlying performance together with prior-year reserve releases and significant realised gains on investments.

Property & Casualty Reinsurance reported net income of USD 2 990 million driven by strong underwriting performance, a continuation of strong underlying margins and favourable development of prior-year reserves. Life & Health Reinsurance delivered net income of USD 739 million, compared to USD 1 664 million in 2011. The result for 2012 reflects lower investment income and a continuation of the negative performance of business written in the Americas prior to 2004. In 2011 the result included exceptionally large mark-to-market gains on the foreign exchange portfolio that was designated as trading.

Corporate Solutions delivered net income of USD 196 million reflecting profitable business growth.

Admin Re® reported net income of USD 183 million, which includes a loss of USD 399 million due to the sale of the Admin Re® US business. Excluding the effects of the sale, Admin Re®'s net income was USD 582 million during the year driven by an improvement in investment performance, including higher realised gains. In addition, management actions provided one-off benefits to the result.

The Group's combined ratio improved significantly to 83.1% in 2012, compared to 104.7% in 2011. The net impact from natural catastrophes on the combined ratio in 2012 was 8.0 percentage points, which is 0.6 percentage points below the expected level. In 2011, natural catastrophe experience was approximately 19.4 percentage points higher than expected. Both periods benefited from better than expected development of prior accident years, amounting to a 7.4 percentage point impact for the 2012 combined ratio, after 11.0 percentage points in 2011.

The return on investments for 2012 was 4.0%, compared to 4.4% in 2011. Excluding the impact of foreign exchange, return on investments was 4.2% in 2012, compared to 3.7% in 2011. On a full year basis, the Group running yield declined to 3.2%, compared to 3.7% during 2011.

Shareholders' equity increased USD 4.4 billion to USD 34.0 billion compared to 31 December 2011, driven by net income partially offset by the Group's dividend. Furthermore, during the year the Group issued two contingent capital instruments with an aggregate face value of USD 1.1 billion that are reported as components of shareholders' equity.

Return on equity increased to 13.4% in 2012 from 9.6% in 2011 driven by the strong earnings in the period.

During the year non-controlling interests decreased by USD 1.7 billion reflecting the sale of Swiss Re Private Equity Partners AG and the acquisition of the ownership interest in New California Holdings, Inc.

Book value per common share was USD 95.87 or CHF 87.76 at the end of December 2012, compared to USD 86.35 or CHF 80.74 at the end of 2011. Book value per common share is based on common shareholders' equity and excludes non-controlling interests and the impact of contingent capital instruments.

For information on segment shareholders' equity, please see pages 80 to 81.

Full-year 2012 Group operating results
Property & Casualty Reinsurance reported USD 12.3 billion in premiums earned, an increase of 22% compared to the prior-year period. The increase reflects successful renewals in 2012 and continued earnings from large quota share treaties written in 2011. Life & Health Reinsurance premiums earned and fee income increased 9%, driven by health business growth in Europe and Asia, new longevity transactions and higher rates in the Americas. Corporate Solutions premiums earned increased 18% to USD 2.3 billion, reflecting successful organic growth across all major lines of business.

The Property & Casualty Reinsurance claims and claim adjustment expenses decreased 15% in 2012 compared to 2011. This reflects natural catastrophe experience within expected levels for 2012, despite the impact from Hurricane Sandy in the last quarter of 2012. Both reporting periods benefited from reserve releases due to favourable development of prior accident years.

The Corporate Solutions claims and claim adjustment expenses were stable year on year. 2012 reflects higher business volumes and fewer large losses compared to 2011. Loss occurrence was in line with expectations compared to a higher than average burden in 2011.

Life & Health Reinsurance benefits increased 8% to USD 6.8 billion compared to 2011, mainly due to health business growth in Europe and Asia and continued lapses from the business written in the Americas prior to 2004. The benefit ratio increased slightly to 75.5% in 2012, compared to 74.5% in 2011.

Returns credited to policyholders reflect the investment performance on the underlying assets, mainly backing unit-linked and with-profit policies, which are passed through to policyholders. In 2012, returns credited to policyholders were USD 3.0 billion, compared to USD 61 million in the prior year.

Acquisition costs for the Group increased 13% to USD 4.5 billion, reflecting higher business volumes.

Administrative expenses increased 7% to USD 2.9 billion, driven by higher variable compensation reflecting the strong underlying performance of the Group, various initiatives related to the implementation of the new Group structure and strategic growth initiatives. Other expenses decreased USD 21 million to USD 300 million.

Interest expenses were USD 0.7 billion, a decrease of 14% over 2011, mainly due to lower average debt outstanding during the year compared to 2011.

The Group reported a tax expense of USD 1.1 billion on a pre-tax income of USD 5.5 billion in 2012, compared to an expense of USD 77 million on a pre-tax income of USD 2.9 billion in 2011. The results reflect an effective tax rate in the current and prior year of 20.4% and 2.7%, respectively. The higher effective tax rate in the current year was a result of lower tax benefits from reductions in the local statutory valuations of investments in subsidiaries and changes in local country tax rates.

Group investments

Strategy
Swiss Re maintained a balanced investment management approach throughout the year, taking into account each Business Unit's risk appetite and strategy. At the same time, the key longer-term risk factors were monitored such as the eurozone debt crisis, growth sustainability in the US as well as China "hard landing" concerns, while the Group's and Business Units' investments have been steered within the Group's asset-liability management (ALM) framework.

Financial markets overview for 2012
Concerns over the global economic outlook and the eurozone debt crisis dominated financial markets. In the first quarter, sentiment was positive as a result of additional liquidity provided by the ECB in the form of three-year long-term refinancing operations (LTROs). Greece also completed its private sector debt restructuring and secured a second bailout programme. Later in the year, political and banking sector risks in Europe as well as a continued weak global economic growth environment were the key market drivers. Market risk appetite improved substantially as global central banks took an even more accommodative stance, as with the ECB's conditional bond-buying plan. Following US President Obama's re-election in November, attention shifted to the uncertainty around the looming US "fiscal cliff".

The environment in 2012 was supportive for core sovereign bond markets: US Treasury and "core" European government bond yields declined further with US 10-year Treasury yields reaching a new all-time low of 1.39% in July 2012. Equities had a good start into the year: the S&P 500 was up 12% in the first quarter, followed by a market correction in the spring. After a renewed "risk-on" period, volatility increased again somewhat in the fourth quarter. Once more, credit risk proved to deliver very strong total returns thanks to both tightening spreads and falling government bond yields.

Investment result
The Group's investment portfolio decreased to USD 137.4 billion at the end of December 2012, excluding unit-linked and with-profit businesses, compared to USD 150.6 billion at the end of December 2011. This was primarily due to the reduction in investments from the sale of the Admin Re® US business, being partially offset by mark-to-market and foreign exchange gains. The Group engaged in moderate re-risking during the year, increasing its exposure to spread-related products by approximately USD 5.0 billion and to equity products by USD 0.8 billion.

Operating income for investments, including the impact of foreign exchange, decreased to USD 5.2 billion in 2012 from USD 5.7 billion in 2011. This was driven by realised gains, reduced hedging costs and lower impairments during the year, which more than offset the lower net investment income from decreasing yields and a lower asset base from the sale of Admin Re® US completed in the third quarter of 2012. The return on investments declined 0.4 percentage points in 2012 to 4.0% from 4.4% in 2011. Excluding the impact of foreign exchange, return on investments was 4.2% in 2012, compared to 3.7% in 2011.

Net investment income from investments was USD 3.6 billion for 2012, compared to USD 4.0 billion for 2011. This was mainly due to lower yields and the impact of a lower asset base from the sale of Admin Re® US business. On a full year basis, the Group running yield declined to 3.2%, compared to 3.6% during 2011.

Net realised gains from investments, including the impact of foreign exchange, were USD 1.5 billion for 2012, compared to USD 1.7 billion for 2011. For 2012, net realised gains on sales of USD 2.1 billion were partially offset by losses on hedges of USD 0.3 billion and impairments of USD 0.2 billion.

Including mark-to-market gains, which increased shareholders' equity by USD 1.7 billion, primarily from the impact of lower interest rates on government bonds and credit spread tightening, the total return on investments reached 5.4% in 2012.

Outlook
Looking ahead, credit risk is expected to remain attractive in risk-adjusted terms within the current global low growth and low interest rate environment. The fiscal and debt outlook in advanced economies continues to be challenging, with the political economy dimension likely to remain a key driver for financial markets in 2013, warranting a continued disciplined "top-down" investment strategy.

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Summary of financial statements

Income statement

USD millions	2011	2012	Change in %
Revenues			
Premiums earned	21 300	**24 661**	16
Fee income from policyholders	876	**785**	–10
Net investment income – non-participating	4 626	**4 473**	–3
Net realised investment gains/losses – non-participating	1 634	**947**	–42
Net investment result – unit-linked and with-profit	–403	**2 570**	–
Other revenues	50	**188**	276
Total revenues	28 083	**33 624**	20
Expenses			
Claims and claim adjustment expenses	–8 810	**–7 763**	–12
Life and health benefits	–8 414	**–8 878**	6
Return credited to policyholders	–61	**–2 959**	–
Acquisition costs	–4 021	**–4 548**	13
Administrative expenses	–2 730	**–2 917**	7
Other expenses	–321	**–300**	–7
Interest expenses	–851	**–736**	–14
Total expenses	–25 208	**–28 101**	11
Income before income tax expense	2 875	**5 523**	92
Income tax expense	–77	**–1 125**	–
Net income before attribution of non-controlling interests	2 798	**4 398**	57
Income attributable to non-controlling interests	–172	**–141**	–18
Net income after attribution of non-controlling interests	2 626	**4 257**	62
Interest on contingent capital instruments	0	**–56**	–
Net income attributable to common shareholders	2 626	**4 201**	60

Changes in equity

USD millions	2011	2012	Change in %
Total shareholders' equity as of 1 January	25 342	**29 590**	17
Net income attributable to common shareholders	2 626	**4 201**	60
Change in unrealised gains/losses on securities, net	3 181	**184**	–94
Change in other-than-temporary impairment, net of tax	51	**90**	76
Change in foreign currency translation	–199	**332**	–
Dividends	–1 035	**–1 134**	10
Contingent capital instruments	0	**1 102**	–
Purchase/sale of treasury shares and shares issued under employee plans	–123	**–11**	–91
Other changes in equity	–253	**–352**	39
Total shareholders' equity as of 31 December	29 590	**34 002**	15
Non-controlling interests	1 697	**24**	–99
Total equity as of 31 December	31 287	**34 026**	9

Summary balance sheet

USD millions	2011	2012	Change in %
Assets			
Investments			
Fixed income securities	97 223	**88 848**	–9
Equity securities	2 531	**3 774**	49
Policy loans, mortgages and other loans	5 640	**2 299**	–59
Investment real estate	645	**777**	20
Short-term investments, at amortised cost which approximates fair value	13 660	**18 645**	36
Other invested assets	20 176	**12 968**	–36
Investments for unit-linked and with-profit business	22 349	**25 501**	14
Total investments	162 224	**152 812**	–6
Cash and cash equivalents	11 407	**10 837**	–5
Reinsurance assets	32 342	**34 883**	8
Deferred acquisition costs and other intangible assets	8 149	**7 062**	–13
Goodwill	4 051	**4 092**	1
Other assets	7 726	**6 099**	–21
Total assets	225 899	**215 785**	–4
Liabilities and equity			
Unpaid claims and claim adjustment expenses	64 878	**63 670**	–2
Liabilities for life and health policy benefits	39 044	**36 117**	–7
Policyholder account balances	34 162	**29 349**	–14
Unearned premiums	8 299	**9 384**	13
Funds held under reinsurance treaties	2 436	**3 642**	50
Reinsurance balances payable	3 962	**3 754**	–5
Income taxes payable	442	**604**	37
Deferred and other non-current taxes	2 853	**3 724**	31
Short-term debt	4 127	**3 612**	–12
Accrued expenses and other liabilities	17 868	**11 617**	–35
Long-term debt	16 541	**16 286**	–2
Total liabilities	194 612	**181 759**	–7
Total shareholders' equity	29 590	**34 002**	15
Non-controlling interest	1 697	**24**	–99
Total equity	31 287	**34 026**	9
Total liabilities and equity	225 899	**215 785**	–4

Reinsurance

Reinsurance consists of two segments, Property & Casualty and Life & Health. The Business Unit operates globally, both through brokers and directly with clients, and provides a large range of solutions for risk and capital management.

Strategy and priorities
Our Reinsurance strategy is based on excellence in our core business and smart expansion in selected pockets of growth. By continuously striving to improve the value of our products and services for our clients we make 'client centricity' our overarching theme.

Excellence in our core businesses is predicated on underwriting as a key differentiator based on industry leading cycle management and portfolio steering. This includes the steering of peak perils, our risk transformation capabilities, and research and development. As a few examples, in Property, we have our own research team and models for storm, earthquake and flood. In Casualty, we are developing a forward-looking 'nat-cat-like' model based on a systematic assessment of risk drivers. In Life & Health our unparalleled mortality experience data allow us to better quantify the underlying risk.

Our key value drivers are large capacity, technical expertise and the ability to develop tailored solutions to meet clients' needs, for example in the area of solvency relief. In addition we have a market leading position in transferring both property and life risks to the capital markets.

We see growth opportunities in longevity and health as well as high growth markets such as China, India, Indonesia, Brazil and Mexico, where we are pursuing opportunities with tailored approaches and dedicated resources.

Property & Casualty
Active cycle management and portfolio steering remains a strength of Swiss Re. In 2012, we continued to deploy capacity to those segments where we expect to achieve the most attractive return on our shareholders' capital. We continued to invest substantially into research & development as a value driver for underwriting to maintain our competitive advantage.

Loss activity in 2011 drove natural catastrophe rates up in 2012, especially in loss-affected markets, and we were able to capture profitable growth. Property and specialty reinsurance continued to deliver excellent earnings, each with a relatively high economic profit margin. Due to the prolonged period of low interest rates, profitability in casualty continued to be challenging around the world, particularly in the US. However, we saw a slowing of reserve releases and some positive price signals at the primary level, indicating some improvement in the market. We focused on large capital relief transactions as well as external run-off deals. As for the Reinsurance Business Unit overall, capturing opportunities in growth markets remained a key priority in P&C. Notable examples of this focus include our reinsurance cover for the Hong Kong-Zhuhai-Macau Bridge, as well as the tailor-made solutions and products we delivered in 2012 to reinsure China's growing number of vehicles.

Life & Health
In 2012 the environment for Life & Health was more difficult than for Property & Casualty, with challenges stemming from low interest rates and declining premium volumes. Upcoming regulatory changes will encourage large primary insurers in Europe and Canada to retain more mortality risk, driving increased competition for the reinsured portion.

Our Life & Health growth strategy focuses on longevity and health. Longevity represents a very large risk pool that is expected to grow further as demographics shift. Swiss Re is a natural and efficient holder of longevity risk as it is a partial hedge against our large mortality portfolio and does not correlate with property and casualty risks. And given our unique ability to deploy large net capacity, we are well positioned to achieve significant growth in this area, as shown by the GBP 800 million (USD 1.3 billion) longevity insurance contract we closed in 2012 covering over 5,000 members of the pension fund of UK insurer LV=. The transaction confirms our position as the leader in the longevity swap market, having transferred over USD 12 billion in longevity liability to our own books. Our substantial investment into research and development is aimed at continually improving our ability to predict mortality and longevity trends.

Several major demographic and socio-economic trends are intensifying demand for commercial health insurance solutions, including: the greater healthcare needs of ageing societies; rising healthcare expectations of the new middle class, especially in growth markets; and healthcare finance reform, particularly in mature markets. Swiss Re offers a variety of health reinsurance solutions to meet these needs, from short-term protection against the risk of volatility in medical expenses for insurers or employers, to very long-term protection against the financial impact of disability or critical illness.

Outlook
We believe we are well positioned to capture the market opportunities ahead of us. Our excellent capitalisation allows for business growth and continued dividends to the holding company.

We believe that the main factors driving reinsurance market prices – interest rates, regulatory changes, inflation, reserve adequacy, industry capitalisation, and natural catastrophes – indicate higher prices for reinsurance and we aim to benefit from this trend in Property & Casualty. In Life & Health we will continue to actively manage our in-force book to increase profitability and develop new solutions to grow, particularly in longevity and health.

Property & Casualty

Performance

Net income increased 172.1% to USD 3.0 billion in 2012 from USD 1.1 billion in 2011 driven by strong underwriting performance, reflected in significant premium growth and continued very strong underlying margins. Both years benefited from favourable prior accident years development.

Natural catastrophe experience for 2012 was within expectations, while 2011 was heavily impacted by the large Asian natural catastrophe events.

Major natural catastrophe losses in 2012 were caused by Hurricane Sandy, earthquakes in Northern Italy, droughts in the US, Typhoon Bolaven in South Korea and hailstorms in Alberta, Canada.

Property & Casualty results

USD millions	2011	2012	Change in %
Premiums earned	10135	**12329**	22
Expenses			
Claims and claim adjustment expenses	–7381	–6306	–15
Acquisition costs	–1848	–2316	25
Other expenses	–1318	–1325	1
Total expenses before interest expenses	–10547	**–9947**	–6
Underwriting result	–412	**2382**	–
Net investment income	1307	1451	11
Net realised investment gains/losses	512	259	–49
Other revenues	72	95	32
Interest expenses	–155	–111	–28
Income before income tax expenses	1324	**4076**	208
Income tax expense	–65	–934	–
Income attributable to non-controlling interests	–160	–134	–16
Interest on contingent capital instruments		–18	–
Net income attributable to common shareholders	1099	**2990**	172
Claims ratio in %	72.8	51.2	
Expense ratio in %	31.2	29.5	
Combined ratio in %	104.0	80.7	

Net premiums earned

Net premiums earned increased 21.6% to USD 12.3 billion in 2012, compared to USD 10.1 billion in 2011. Growth was driven by large capital relief quota shares, successful renewals in 2012 following the extraordinary natural catastrophe experience of 2011, and continued premium earnings from large transactions written in 2011. As a consequence, the composition of gross premiums earned by region changed so that Asia and EMEA had higher shares in 2012 than in 2011.

The mix between proportional and non-proportional reinsurance changed only slightly in 2012. Based on gross written premiums (before intragroup retrocession), the share of proportional business increased to 61% in 2012, compared to 59% in 2011, mainly as a result of a large capital relief transaction written in 2012.

Combined ratio

The 2012 combined ratio improved to 80.7%, compared to 104.0% in 2011.

The net impact from natural catastrophes on the 2012 combined ratio was 1.3 percentage points below the expected level of 9.4 percentage points. In 2011, natural catastrophe experience was about 24 percentage points higher than expected.

Both periods benefited from better than expected development of prior accident years, amounting to an 8.1 percentage point improvement for the 2012 combined ratio, compared to about 11 percentage points in 2011.

Lines of business

The property combined ratio improved to 74.2% in 2012, compared to 120.2% in 2011, driven by the more benign natural catastrophe loss experience.

The casualty combined ratio for 2012 was 94.0%, compared to 102.7% in 2011. The improvement was mainly due to more positive prior accident year development in 2012 compared to 2011.

The specialty combined ratio improved slightly to 68.0% in 2012, compared to 68.8% in 2011, reflecting favourable claims experience in prior years across all lines.

Expense ratio

The administrative expense ratio improved to 10.7% in 2012, compared to 13.0% in 2011, mainly driven by the increased premium volume.

Investment result

Return on investment increased slightly to 3.2% in 2012, compared to 3.1% in 2011.

Investment income increased by USD 144 million year on year as lower yields were more than offset by favourable mark-to-market valuations on private equity investments and lower expenses.

Net realised gains decreased USD 253 million to USD 259 million in 2012 largely due to unfavourable foreign exchange movements year over year, partly offset by higher realised gains from government bond sales.

Return on equity
The return on equity for 2012 was 26.7%, compared to 11.0% in 2011. The improvement was mainly due to the lower impact from natural catastrophes.

Outlook
If natural catastrophe risks continue to grow faster than GDP, as we expect, our property business will continue to grow. In the Special Lines business, volume and profit are expected to increase at a marginally higher rate than GDP, with a disproportionately large contribution from high growth markets in Asia and Latin America.

Profit margins in casualty reinsurance are expected to increase modestly from the current low base. We expect to deploy more capital to this segment when this occurs. New solvency regimes will continue to drive demand for capital relief solutions and we are well positioned to support those clients. Starting in January 2013, we will also see an increase in retained premiums due to the expiry of a 20% quota share treaty with Berkshire Hathaway.

Life & Health

Performance

Net income decreased to USD 739 million in 2012 from USD 1.7 billion in 2011. The decrease was primarily the result of lower investment income driven by significantly lower realised gains on investments and lower yields, a continuation of the negative performance of business written in the US prior to 2004, tax benefits realised in 2011 not repeated in 2012 and higher administrative expenses.

Net premiums earned

Premiums earned and fee income increased 9% to USD 9.1 billion in 2012, compared to USD 8.4 billion in 2011. The increase was primarily a result of increased health premiums due to business growth in Europe and Asia, new longevity transactions, and higher rates related to the Americas business.

Benefit ratio

The benefit ratio increased slightly to 75.5% in 2012, compared to 74.5% in 2011, mainly due to higher claims and continued lapses from the pre-2004 US business.

Expense ratio

The management expense ratio increased to 7.9% in 2012 from 7.2% in 2011. The increase was primarily due to higher costs related to strategic initiatives and an increase in central expenses being charged to the business segment.

Life & Health results

USD millions	2011	**2012**	Change in %
Revenues			
Premiums earned	8317	9050	9
Fee income from policyholders	87	72	–17
Net investment income – non-participating	1544	1365	–12
Net realised investment gains/losses – non-participating	1180	562	–52
Net investment result – unit-linked and with-profit	–25	222	–
Other revenues		1	–
Total revenues	11103	**11272**	2
Expenses			
Life and health benefits	–6280	–6787	8
Return credited to policyholders	–34	–271	697
Acquisition costs	–1745	–1787	2
Other expenses	–1295	–1419	10
Total expenses	–9354	**–10264**	10
Income before income tax expenses	1749	**1008**	–42
Income tax expense	–85	–231	172
Interest on contingent capital instruments		–38	–
Net income attributable to common shareholders	1664	**739**	–56
Management expense ratio in %	7.2	7.9	
Benefit ratio[1] in %	74.5	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.

Lines of business

A diversified geographical business mix and a continued disciplined pricing approach provided for a stable result; however, volatile financial markets and changes in the interest rate environment impacted the Life and Health results.

Operating income for traditional life business decreased to USD 415 million in 2012 from USD 543 million in the previous year. The decrease was driven primarily by lower investment income, unfavourable experience from pre-2004 US business, and unfavourable variable annuities results, partly offset by favourable mortality experience and favourable market movements relating to the embedded B36 derivatives.

Operating income for the traditional health business decreased to USD 470 million in 2012, compared to USD 633 million in 2011. The decrease was driven by lower investment income, unfavourable morbidity experience, and higher administrative expenses, partly offset by positive recapture experience.

Investment result

The return on investments was 4.7% in 2012, compared to 6.8% in 2011. Realised investment gains were USD 709 million in 2012, compared to USD 1.2 billion in 2011. The decrease was primarily due to less favourable foreign exchange movements in the current year. Net investment income was USD 1.4 billion in 2012, compared to USD 1.5 billion in 2011. The decrease is primarily due to lower yields.

Return on equity
The return on equity was 8.9% in 2012, compared to 21.2% in 2011. The very high return on equity in the prior year was primarily due to exceptionally high realised gains on government bonds and foreign exchange.

Outlook
Life and health primary markets are expected to continue to face the dual challenges of weak economic growth and very low interest rates that limit the attractiveness of some products. In addition, clients may seek to retain more mortality risk. Flow business will therefore continue to be under pressure; however, there are opportunities for large transactions to support clients, such as those with solvency issues or those undertaking mergers and acquisitions. In the medium term we aim to generate an increased contribution from high growth markets, particularly in health. We will also continue to diversify into longevity risk.

We see strong longer-term growth prospects for life and health protection markets and we estimate that there is a protection gap of approximately USD 80 trillion worldwide. We will continue to work with clients and distributors to develop consumer-friendly products and processes (eg, using our in-house predictive underwriting analytics) to address this gap.

Corporate Solutions

Strategy and priorities
Corporate Solutions' strategy is to serve large corporations as a lean global player. The product offerings range from traditional property and casualty insurance to customised solutions in innovative areas such as weather risk management. By executing this strategy, Corporate Solutions aims to increase its gross written premium net of intra-group transactions from USD 2.4 billion in 2010 to USD 4–5 billion by 2015.

Corporate Solutions stands out due to a unique combination of large net capacity and innovation capabilities, underpinned by disciplined cycle management and superior underwriting. These strengths give Corporate Solutions a clear advantage in specialised markets and allow it to move away from the pure commodity space. In 2012, Corporate Solutions structured the first insurance transaction for a Chinese hydropower company to provide coverage against the impact of low rainfall on power generation. The deal is a milestone in accessing the world's largest hydropower market. Corporate Solutions also provided the first area-yield index cover in South Africa and contingency cover for the London Olympics.

Corporate Solutions regards talent management as a core growth enabler. Since early 2011 the Business Unit has been recruiting top local talent, providing customised training and job rotations. This investment, combined with strong customer centricity and a results orientation, is significantly contributing to Corporate Solutions' competitive edge. Corporate Solutions is building a global office network to access risks which are placed locally while continuing to service business placed in wholesale centres such as London and Singapore. In 2012, Corporate Solutions opened offices in Amsterdam and Genoa and established a local office in Dubai to reach the Middle East and North Africa. By the end of 2012 Corporate Solutions had more than 40 offices in 17 countries.

Corporate Solutions results

USD millions	2011	**2012**	Change in %
Revenues			
Premiums earned	1 929	2 284	18
Net investment income	104	109	5
Net realised investment gains	214	142	–34
Other revenues	6	1	–83
Total revenues	2 253	**2 536**	13
Expenses			
Claims and claim adjustment expenses	–1 461	–1 448	–1
Acquisition costs	–180	–300	67
Other expenses	–442	–449	2
Interest expenses	–2	0	–100
Total expenses	–2 085	**–2 197**	5
Income before income tax expense	168	**339**	102
Income tax expense	–87	–143	64
Net income attributable to common shareholders	81	**196**	142
Claims ratio in %	75.7	63.4	
Expense ratio in %	32.2	32.8	
Combined ratio in%	107.9	96.2	

Corporate Solutions' annual survey with 1500+ responses from clients and broker partners revealed continuously improving satisfaction. In particular clients and brokers appreciate Corporate Solutions for its financial stability, client relationship and underwriting expertise.

Performance
Net income was USD 196 million in 2012, an increase of 142% compared to net income of USD 81 million in 2011. The result was primarily driven by profitable business growth. Hurricane Sandy had an estimated cost of USD 144 million for Corporate Solutions. In 2011, by comparison, there were more large losses in the year, most notably the Japan and New Zealand earthquakes, floods in Thailand and Australia, and a number of large fire losses. An increase in the tax rate also had a negative impact on the result.

Premiums
Gross written premium net of intra-group transactions increased 38% to USD 3.5 billion in 2012, compared to USD 2.5 billion in 2011. The exceptional growth experienced in 2012 is not expected to repeat in 2013, though the ambition to attain USD 4–5 billion of gross written premium by 2015 is clearly on track. Net premiums earned increased 18% to USD 2.3 billion in 2012, compared to USD 1.9 billion in 2011. The increase in premiums was driven by organic growth across all major lines of business.

Combined ratio
The combined ratio improved by 11.7 percentage points to 96.2% in 2012 from 107.9% in 2011. The quality of the book remained consistently high year on year and the large loss burden for 2012 was in line with expectations, compared to a higher than normal amount of large losses experienced in 2011. The expense ratio was largely flat at 32.8% in 2012, compared to 32.2% in 2011. Set-up costs related to business expansion neutralised the positive effect on the cost ratio from higher premium volumes.

The property combined ratio improved by 32.3 percentage points to 100.7% in 2012, reflecting significantly lower natural catastrophe losses.

The casualty combined ratio improved 12.6 percentage points to 91.7% in 2012, mainly due to the absence of large losses in 2012.

The credit combined ratio was 82.8% in 2012, compared to 57.8% in 2011, primarily driven by a single loss in Australia, a large profit commission effect related to a reinsurance contract and an increased allocation of operating expenses.

In other specialty, the combined ratio decreased slightly to 102.0% in 2012, compared to 103.3% in 2011. Both periods were impacted by satellite and marine losses.

Investment result
Return on investments decreased to 3.2% in 2012 from 4.5% in 2011. While net investment income was up slightly year on year primarily due to mark-to-market gains on indirect private equity positions, this was more than offset by lower realised gains on asset sales and the impact of lower yields. Realised insurance derivative gains (not included in return on investments) were down slightly at USD 55 million in 2012, compared to USD 60 million in 2011. These contracts offer protection against weather perils and other risks related to insurance, but are accounted for as derivatives.

Return on equity
Return on equity increased to 7.4% in 2012, compared to 3.7% in the prior year.

Total financial contribution
The total financial contribution (TFC) of Corporate Solutions accounts for business written within the Swiss Re Group and includes development of historical loss reserves remaining in Reinsurance for the combined ratio and return on equity, as well as related investment income and an additional USD 0.5 billion shareholders' equity for return on equity. The combined ratio on the TFC basis was 69.6% and return on equity 25.8%.

Outlook
Corporate Solutions will continue its expansion in 2013 consistent with its strategy. The global upward trend in property lines is likely to be sustained, though differences in rate adequacy between geographies and segments will persist. Corporate Solutions is well positioned to capture opportunities thanks to its value proposition, strong balance sheet and expanding geographic reach.

Admin Re®

Strategy and priorities
Admin Re® implemented a transformation programme starting in 2011 which resulted in a three-pronged strategy leveraging its core competencies: portfolio steering, management actions and transactions.

The first part of this strategy, portfolio steering, relates to the active management of the in-force business portfolio including seeking ways to release capital. The sale of the Admin Re® US business in 2012 was a key event reflecting this, as the Group sought to focus its efforts on opportunities in the UK and Continental Europe.

Management actions include cost management and increasing capital efficiency. The Alico transaction in the UK, which concluded in 2012, enhanced capital efficiency by transferring the individual policies from the previous carrier to an Admin Re® subsidiary.

Transactions are a core component of Admin Re®'s business. Admin Re® has a proven track record of generating significant cash dividends as a result of transactions, for example the sale of the Admin Re® US business, which resulted in USD 881 million of cash dividends to the Swiss Re Group. Admin Re® continues to pursue new opportunities, including the acquisition of closed books of in-force life insurance business and the entire capital stock of life insurance companies. Any transactions need to meet Swiss Re's Group investment criteria and hurdle rates.

In addition to in-house funding, the Swiss Re Group and Admin Re® can also seek alternative funding arrangements for new business growth, including third-party financing.

Performance
Admin Re® generated gross cash of USD 1 196 million for 2012, significantly higher than the USD 302 million in 2011. The increase was mainly due to the cash proceeds and release of capital from the sale of the Admin Re® US holding company, including Reassure America Life Insurance Co., to Jackson National Life Insurance Company. The sale closed on 4 September 2012 with the Group receiving total cash proceeds of USD 0.9 billion and recognising a USD 399 million loss on the disposal.

Excluding the impact of the sale gross cash generation was USD 432 million, an increase of USD 130 million over the prior year. The increase was driven by Admin Re®'s UK business, which included benefits from statutory valuation updates and the completion of the legal transfer of the Alico UK business acquired in 2011.

Net income in 2012 amounted to USD 183 million, including the USD 399 million loss related to the sale of the Admin Re® US business in the reporting year. Excluding this loss, net income was USD 582 million, compared to USD 329 million in the prior-year period, an increase of 76.9%. The rise in underlying net income was driven by an improvement in investment performance, including higher realised gains, and management actions mainly related to business transformation and efficiency initiatives which provided one-off benefits to the result.

Admin Re® results

USD millions	2011	2012	Change in %
Revenues			
Premiums earned	897	992	11
Fee income from policyholders	789	713	–10
Net investment income – non-participating	1 611	1 548	–4
Net realised investment gains/losses – non-participating	205	–89	–
Net investment result – unit-linked and with-profit	–378	2 348	–
Other revenues		3	–
Total revenues	3 124	**5 515**	77
Expenses			
Life and health benefits	–2 119	–2 086	–2
Return credited to policyholders	–27	–2 688	–
Acquisition costs	–233	–142	–39
Other expenses	–466	–457	–2
Interest expenses	–61	–53	–13
Total expenses	–2 906	**–5 426**	87
Income before income tax benefit	218	**89**	–59
Income tax benefit	123	101	–18
Income attributable to non-controlling interests	–12	–7	–42
Net income attributable to common shareholders	329	**183**	–44

Operating revenues
Premiums and fee income were USD 1 705 million in 2012, compared to USD 1 686 million in the prior year. The increase was mainly due to the recognition of accelerated premiums for a retained block of business in the US, offset by an increase in claims reserves. Excluding the impact of the acceleration, premiums and fees were lower compared to the prior year primarily due to the impact of the Admin Re® US sale.

Investment result
The return on investment was 4.9% for 2012, slightly lower than the prior-year return, with this excluding the effects from the sale of the Admin Re® US business. Proprietary net investment income was USD 1 548 million in 2012, compared to USD 1 611 million in 2011.

The running yield on investments declined to 4.3% in 2012 from 4.5% in 2011, mainly as a result of lower yields on new purchases. The reduction was partially offset by the Admin Re® US sale, with the investment portfolio supporting the continuing Admin Re® operations providing a higher yield than the portfolio that was disposed of as part of the transaction.

Expenses
Administrative expenses were USD 457 million in 2012, a marginal decrease from USD 466 million for 2011. The costs remained relatively flat with the impact from the sale of Admin Re® US and lower expenses associated with corporate realignment being offset by new business-related costs and continued investment in Admin Re®.

Return on equity
The return on equity was 2.6% for 2012, compared to 5.0% in 2011, with the reduction driven by the loss recognised in the year related to the sale of the Admin Re® US business. Excluding the loss on disposal, the return on equity was 7.7% for the year, 2.7 percentage points higher than the prior year.

Shareholders' equity
Common shareholders' equity, which excludes non-controlling interests, was USD 6 662 million as of 31 December 2012, a decrease of USD 716 million compared to 2011. The decrease was mainly due to the loss on the sale of the Admin Re® US business and payment of a USD 881 million dividend to the Swiss Re Group on completion of the sale, with a further USD 175 million of dividends paid in the first half of 2012. The reduction was partially offset by an increase in unrealised gains arising in the year as a result of tighter credit spreads, together with business shifts from the Reinsurance segment as part of the restructuring following the sale of the Admin Re® US business. The realisation of previously unrealised gains on the disposal of Admin Re® US had no impact on shareholders' equity.

Outlook
Admin Re® seeks to grow through selective acquisitions that offer predictable, long-term and consistent returns. The closed life market remains active with recent activity centred in the UK and Continental Europe where Admin Re® is looking to continue building on its strong market position. As part of its growth plans Admin Re® is also focused on potentially raising third-party capital to fund future growth.

Income statement

For the years ended 31 December

USD millions	Note	2011	**2012**
Revenues			
Premiums earned	8	21 300	**24 661**
Fee income from policyholders	8	876	**785**
Net investment income – non-participating	2	4 626	**4 473**
Net realised investment gains/losses – non-participating business (total impairments for the years ended 31 December were 435 in 2011 and 215 in 2012, of which 254 and 162, respectively, were recognised in earnings)	2	1 634	**947**
Net investment result – unit-linked and with-profit	2	–403	**2 570**
Other revenues		50	**188**
Total revenues		28 083	**33 624**
Expenses			
Claims and claim adjustment expenses	8	–8 810	**–7 763**
Life and health benefits	8	–8 414	**–8 878**
Return credited to policyholders		–61	**–2 959**
Acquisition costs	8	–4 021	**–4 548**
Other expenses		–3 051	**–3 217**
Interest expenses		–851	**–736**
Total expenses		–25 208	**–28 101**
Income before income tax expense		2 875	**5 523**
Income tax expense		–77	**–1 125**
Net income before attribution of non-controlling interests		2 798	**4 398**
Income attributable to non-controlling interests		–172	**–141**
Net income after attribution of non-controlling interests		2 626	**4 257**
Interest on contingent capital instruments		0	**–56**
Net income attributable to common shareholders		2 626	**4 201**
Earnings per share in USD			
Basic	10	7.68	**11.85**
Diluted	10	7.49	**11.06**
Earnings per share in CHF[1]			
Basic	10	6.79	**11.13**
Diluted	10	6.63	**10.39**

[1] The translation from USD to CHF is shown for informational purposes only and has been calculated using the Group's average exchange rates.

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	2 798	**4 398**
Other comprehensive income, net of tax:		
Change in unrealised gains/losses (tax: –1 326 in 2011 and 59 in 2012)	3 181	**184**
Change in other-than-temporary impairment (tax: –24 in 2011 and –47 in 2012)	51	**90**
Change in foreign currency translation (tax: –42 in 2011 and 28 in 2012)	–199	**332**
Change in adjustment for pension benefits (tax: 83 in 2011 and 59 in 2012)	–253	**–178**
Total comprehensive income before attribution of non-controlling interests	5 578	**4 826**
Interest on contingent capital instruments		**–56**
Attribution of value to option on redeemable non-controlling interest[1]		**–132**
Comprehensive income attributable to non-controlling interests	–172	**–141**
Total comprehensive income attributable to common shareholders	5 406	**4 497**

[1] 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. by Swiss Re. The put/call agreement was considered a redeemable non-controlling interest; however, a value was not assigned to this instrument as the exercise was contingent on several items occurring to complete the transaction. During the second quarter of 2012, the majority of the contingencies had been resolved and the exercise of the put/call option at the predetermined price became probable. In accordance with US GAAP requirements, the difference between the carrying value of the minority interest and the redemption price, USD 132 million, was recorded against shareholders' equity and as a reduction in the net income attributable to common shareholders for the purposes of calculating earnings per share. In August 2012, the put/call option was exercised and New California Holdings, Inc. was acquired. Please refer to Note 5 "Acquisitions and Disposals" for further information.

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 9 529 in 2012 subject to securities lending and repurchase agreements) (amortised cost: 86 984 in 2011 and 80 594 in 2012)		93 770	**86 974**
Trading (including 620 in 2011 and 196 in 2012 subject to securities lending and repurchase agreements)		3 453	**1 874**
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 2 789 in 2012)		1 960	**3 102**
Trading		571	**672**
Policy loans, mortgages and other loans		5 640	**2 299**
Investment real estate		645	**777**
Short-term investments, at amortised cost which approximates fair value (including 87 in 2011 and 3 464 in 2012 subject to securities lending and repurchase agreements)		13 660	**18 645**
Other invested assets		20 176	**12 968**
Investments for unit-linked and with-profit business (including fixed income securities trading: 4 095 in 2011 and 4 630 in 2012, equity securities trading: 16 182 in 2011 and 18 617 in 2012)		22 349	**25 501**
Total investments		162 224	**152 812**
Cash and cash equivalents (including 36 in 2011 and 75 in 2012 subject to securities lending)		11 407	**10 837**
Accrued investment income		1 220	**1 050**
Premiums and other receivables		11 441	**11 529**
Reinsurance recoverable on unpaid claims and policy benefits		11 837	**10 109**
Funds held by ceding companies		9 064	**13 245**
Deferred acquisition costs		3 923	**4 039**
Acquired present value of future profits		4 226	**3 023**
Goodwill		4 051	**4 092**
Income taxes recoverable		720	**467**
Other assets		5 786	**4 582**
Total assets		225 899	**215 785**

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	**63 670**
Liabilities for life and health policy benefits	3	39 044	**36 117**
Policyholder account balances		34 162	**29 349**
Unearned premiums		8 299	**9 384**
Funds held under reinsurance treaties		2 436	**3 642**
Reinsurance balances payable		3 962	**3 754**
Income taxes payable		442	**604**
Deferred and other non-current taxes		2 853	**3 724**
Short-term debt	6	4 127	**3 612**
Accrued expenses and other liabilities		17 868	**11 617**
Long-term debt	6	16 541	**16 286**
Total liabilities		194 612	**181 759**
Equity			
Contingent capital instruments	6	0	**1 102**
Common stock, CHF 0.10 par value			
2011: 370 706 931; 2012: 370 706 931 shares authorised and issued[1]		35	**35**
Additional paid-in capital		8 985	**7 721**
Treasury shares, net of tax		–1 096	**–995**
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax		4 223	**4 407**
Other-than-temporary impairment, net of tax		–118	**–28**
Cumulative translation adjustments, net of tax		–3 941	**–3 609**
Accumulated adjustment for pension and post-retirement benefits, net of tax		–775	**–953**
Total accumulated other comprehensive income		–611	**–183**
Retained earnings		22 277	**26 322**
Shareholders' equity		29 590	**34 002**
Non-controlling interests		1 697	**24**
Total equity		31 287	**34 026**
Total liabilities and equity		225 899	**215 785**

[1] Please refer to Note 1 "Organisation and summary of significant accounting policies" and Note 10 "Earnings per share" for details on the number of shares authorised and issued.

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

Statement of shareholders' 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 of common shares		
Balance as of period end	35	**35**
Additional paid-in capital		
Balance as of 1 January	10 530	**8 985**
Contingent capital instruments' issuance costs		**–18**
Share-based compensation	–87	**–29**
Realised gains/losses on treasury shares	–423	**–83**
Dividends on common shares[1]	–1 035	**–1 134**
Balance as of period end	8 985	**7 721**
Treasury shares, net of tax		
Balance as of 1 January	–1 483	**–1 096**
Purchase of treasury shares	–261	**–147**
Issuance of treasury shares, including share-based compensation to employees	648	**248**
Balance as of period end	–1 096	**–995**
Net unrealised gains/losses, net of tax		
Balance as of 1 January	1 042	**4 223**
Other changes during the period	3 181	**184**
Balance as of period end	4 223	**4 407**
Other-than-temporary impairment, net of tax		
Balance as of 1 January	–169	**–118**
Other changes during the period	51	**90**
Balance as of period end	–118	**–28**
Foreign currency translation, net of tax		
Balance as of 1 January	–3 742	**–3 941**
Other changes during the period	–199	**332**
Balance as of period end	–3 941	**–3 609**
Adjustment for pension and other post-retirement benefits, net of tax		
Balance as of 1 January	–522	**–775**
Change during the period	–253	**–178**
Balance as of period end	–775	**–953**
Retained earnings		
Balance as of 1 January	19 651	**22 277**
Net income after attribution of non-controlling interests	2 626	**4 257**
Interest on contingent capital instruments, net of tax		**–56**
Cumulative effect of adoption of ASU 2010-26[2], net of tax		**–24**
Attribution of value to option on redeemable non-controlling interest[3]		**–132**
Balance as of period end	22 277	**26 322**
Shareholders' equity	29 590	**34 002**
Non-controlling interests		
Balance as of 1 January	1 564	**1 697**
Change during the period[4]	–39	**–1 946**
Income attributable to non-controlling interests	172	**141**
Attribution of value to option on redeemable non-controlling interest[3]		**132**
Balance as of period end	1 697	**24**
Total equity	31 287	**34 026**

[1] Dividends to shareholders were paid in the form of a withholding tax-exempt repayment out of legal reserves from capital contributions.
[2] The Group adopted a new accounting guidance, 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.
[3] 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. by Swiss Re. The put/call agreement was considered a redeemable non-controlling interest; however, a value was not assigned to this instrument as the exercise was contingent on several items occurring to complete the transaction. During the second quarter of 2012, the majority of the contingencies had been resolved and the exercise of the put/call option at the predetermined price became probable. In accordance with US GAAP requirements, the difference between the carrying value of the minority interest and the redemption price, USD 132 million, was recorded against shareholders' equity and as a reduction in the net income attributable to common shareholders for the purposes of calculating earnings per share. In August 2012, the put/call option was exercised and New California Holdings, Inc. was acquired. Please refer to Note 5 "Acquisitions and Disposals" for further information.
[4] 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 closed on 4 September 2012. The sale resulted in the deconsolidation of a number of private equity funds, which led to a reduction in non-controlling interests of USD 1 400 million. In addition, New California Holdings, Inc. was acquired for USD 548 million in cash. As of acquisition date, Swiss Re also fully owns Aurora National Life Assurance Company and consequently no longer reports any non-controlling interest related to this subsidiary. Please refer to Note 5 "Acquisitions and Disposals" for further information.

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 shareholders	2 626	**4 201**
Add net income attributable to non-controlling interests	172	**141**
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items	3 115	**3 888**
Net realised investment gains/losses	–388	**–2 688**
Change in:		
Technical provisions, net	–4 093	**–3 397**
Funds held by ceding companies and other reinsurance balances	–1 501	**46**
Reinsurance recoverable on unpaid claims and policy benefits	275	**17**
Other assets and liabilities, net	–17	**235**
Income taxes payable/recoverable	–532	**1 138**
Income from equity-accounted investees, net of dividends received	–222	**–380**
Trading positions, net	2 847	**–543**
Securities purchased/sold under agreement to resell/repurchase, net	–785	**1 845**
Net cash provided/used by operating activities	1 497	**4 503**
Cash flows from investing activities		
Fixed income securities:		
Sales and maturities	142 952	**108 231**
Purchases	–145 183	**–106 064**
Net purchase/sale/maturities of short-term investments	6 952	**–5 073**
Equity securities:		
Sales	2 351	**1 501**
Purchases	–3 173	**–2 242**
Cash paid/received for acquisitions/disposal and reinsurance transactions, net[1]	80	**106**
Net purchases/sales/maturities of other investments	–573	**10**
Net cash provided/used by investing activities	3 406	**–3 531**
Cash flows from financing activities		
Issuance/repayment of long-term debt	–33	**740**
Issuance/repayment of short-term debt	–8 991	**–2 200**
Proceeds from the issuance of contingent capital instruments, net of issuance cost		**1 084**
Purchase/sale of treasury shares	–261	**–133**
Dividends paid to shareholders	–1 035	**–1 134**
Net cash provided/used by financing activities	–10 320	**–1 643**
Total net cash provided/used	–5 417	**–671**
Effect of foreign currency translation	–104	**101**
Change in cash and cash equivalents	–5 521	**–570**
Cash and cash equivalents as of 1 January	16 928	**11 407**
Cash and cash equivalents as of 31 December	11 407	**10 837**

[1] Swiss Re has closed the sale of the Admin Re® US business to Jackson National Life Insurance Company. The purchase price included a cash payment of USD 589 million. 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 5 "Acquisitions and Disposals" for further information.

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 748 million and USD 123 million for the years ended 31 December 2011 and 2012, respectively.

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

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Notes to the condensed Group financial statements (unaudited)

1 Organisation and summary of significant accounting policies

Nature of operations
The Swiss Re Group, which is headquartered in Zurich, Switzerland, comprises Swiss Re Ltd (the parent company) and its subsidiaries (collectively, the "Swiss Re Group" or the "Group"). The Swiss Re Group is a wholesale provider of reinsurance, insurance and other insurance-based forms of risk transfer. Working through brokers and a network of more than 60 offices around the globe, the Group serves a client base made up of insurance companies, mid- to large-sized corporations and public sector clients.

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.

These financial statements reflect the structure announced by the Group on 17 February 2011 and which was fully implemented with effect from 1 January 2012. The segmental disclosures have been revised to reflect the way the Group now manages its business activities. The Group reporting structure consists of the Reinsurance unit, with separate disclosure of the Property & Casualty Reinsurance and Life & Health Reinsurance reporting segments, the Corporate Solutions reporting segment and the Admin Re® reporting segment. The Group items reporting segment includes the Group's holding company (Swiss Re Ltd), and certain treasury activities as well as the remaining non-core activities that have been in run-off since November 2007. The segmental disclosures for the comparative period have been restated to reflect the current structure. Please refer to Note 12 for further information. Additional details on segment results are included in Notes 8 and 9.

As of 1 January 2012, the Group changed the presentation of its investments related to unit-linked and with-profit business in Life & Health Reinsurance and Admin Re®. These assets are presented in separate line items on the face of the income statement and balance sheet. The comparative period has been revised and presented accordingly.

On 4 September 2012, the Group completed the sale of Admin Re® US to Jackson National Life Insurance Company (Jackson National). Subsequently, the subject business was deconsolidated as of that date. For more details on the transaction and its impact on the Swiss Re Group financial statements, please refer to Note 5.

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 5 for further information.

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 Swiss Re Group's liabilities for unpaid claims and claim adjustment expenses and policy benefits for life and health include estimates for premium, claim and benefit data not received from ceding companies at the date of the financial statements. In addition, the Group uses certain financial instruments and invests in securities of certain entities for which exchange trading does not exist. The Group determines these estimates based on historical information, actuarial analyses, financial modelling and other analytical techniques. Actual results could differ significantly from the estimates described above.

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

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

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

Subsequent events
Subsequent events for the current reporting period have been evaluated up to 20 February 2013. This is the date on which the unaudited condensed 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 the statement of shareholders' equity for the impact on retained earnings.

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	3 637	3 063
Equity securities	78	91
Policy loans, mortgages and other loans	405	313
Investment real estate	134	134
Short-term investments	103	102
Other current investments	15	78
Share in earnings of equity-accounted investees	286	508
Cash and cash equivalents	100	79
Net result from deposit-accounted contracts	145	166
Deposits with ceding companies	339	430
Gross investment income	5 242	**4 964**
Investment expenses	–511	–464
Interest charged for funds held	–105	–27
Net investment income – non-participating	4 626	**4 473**

Dividends received from investments accounted for using the equity method were USD 64 million and USD 128 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	2 607	2 336
Gross realised losses	–612	–383
Equity securities available-for-sale:		
Gross realised gains	96	181
Gross realised losses	–234	–77
Other-than-temporary impairments	–254	–162
Net realised investment gains/losses on trading securities	575	58
Change in net unrealised investment gains/losses on trading securities	71	67
Other investments:		
Net realised/unrealised gains/losses	–881	–230
Net realised/unrealised gains/losses on insurance-related derivatives	–67	–189
Gain/loss related to sale of Admin Re® US operations[1]		–399
Foreign exchange gains/losses	333	–255
Net realised investment gains/losses – non-participating	1 634	**947**

[1] Refer to Note 5 for more information.

Proceeds from sales of fixed income securities available-for-sale amounted to USD 115 775 million and USD 101 046 million for 2011 and 2012, respectively. Sales of equity securities available-for-sale were USD 2 389 million and USD 1 494 million for 2011 and 2012, respectively.

Investment result – unit-linked and with-profit business
Net investment result on unit-linked and with-profit business credited to policyholders was as follows:

USD millions	2011 Unit-linked	2011 With-profit	2012 Unit-linked	2012 With-profit
Investment income – fixed income securities	119	95	128	97
Investment income – equity securities	545	39	531	32
Investment income – other	21	24	18	24
Total investment income – unit-linked and with-profit business	685	158	**677**	**153**
Realised gains/losses – fixed income securities	109	99	65	88
Realised gains/losses – equity securities	–1 364	–73	1 679	89
Realised gains/losses – other	–17		–149	–32
Total realised gains/losses – unit-linked and with-profit business	–1 272	26	**1 595**	**145**
Total net investment result – unit-linked and with-profit business	–587	184	**2 272**	**298**

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
Credit losses for which an other-than-temporary impairment was not previously recognised	141	14
Reductions for securities sold during the period	–418	–237
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	54
Impact of increase in cash flows expected to be collected	–85	–61
Impact of foreign exchange movements	–6	6
Balance as of 31 December	515	**291**

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 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Other-than-temporary impairments recognised in other comprehensive income	Estimated fair value
Debt securities issued by governments and government agencies:					
US Treasury and other US government corporations and agencies	20 387	1 881	–1		22 267
US Agency securitised products	3 866	144	–3		4 007
States of the United States and political subdivisions of the states	245	24	–6		263
United Kingdom	15 182	1 865	–51		16 996
Canada	3 078	806	–2		3 882
Germany	4 791	200	–51		4 940
France	3 068	45	–52		3 061
Other	6 849	453	–56	–1	7 245
Total	57 466	5 418	–222	–1	62 661
Corporate debt securities	21 467	2 065	–265	–13	23 254
Residential mortgage-backed securities	2 119	30	–154	–110	1 885
Commercial mortgage-backed securities	3 820	222	–141	–38	3 863
Other asset-backed securities	2 112	64	–54	–15	2 107
Fixed income securities available-for-sale	86 984	7 799	–836	–177	93 770
Equity securities available-for-sale	1 907	201	–148		1 960

2012 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Other-than-temporary impairments recognised in other comprehensive income	Estimated fair value
Debt securities issued by governments and government agencies:					
US Treasury and other US government corporations and agencies	13 375	746	–26		14 095
US Agency securitised products	4 063	114	–7		4 170
States of the United States and political subdivisions of the states	85	19			104
United Kingdom	14 820	1 268	–48		16 040
Canada	3 556	760	–2		4 314
Germany	5 963	273	–7		6 229
France	3 201	255	–6		3 450
Other	7 627	514	–37		8 104
Total	52 690	3 949	–133		56 506
Corporate debt securities	21 347	2 369	–46	–18	23 652
Residential mortgage-backed securities	911	46	–23	–14	920
Commercial mortgage-backed securities	2 894	245	–33	–2	3 104
Other asset-backed securities	2 752	56	–9	–7	2 792
Fixed income securities available-for-sale	**80 594**	**6 665**	**–244**	**–41**	**86 974**
Equity securities available-for-sale	**2 789**	**373**	**–60**		**3 102**

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	1506
Corporate debt securities	214	182
Mortgage- and asset-backed securities	282	186
Fixed income securities trading – non-participating	3453	**1874**
Equity securities trading – non-participating	571	**672**

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	2559	2071
Equity securities trading	15231	951	17686	931
Investment real estate	828	510	636	489
Short-term investments	734		1129	
Total investments for unit-linked and with-profit business	19147	3202	**22010**	**3491**

Maturity of fixed income securities available-for-sale

The amortised cost or cost and estimated fair values of investments in fixed income securities available-for-sale by remaining maturity are shown below. Fixed maturity investments are assumed not to be called for redemption prior to the stated maturity date. As of 31 December 2011 and 2012, USD 10274 million and USD 9958 million, respectively, of fixed income securities available-for-sale were callable.

		2011		2012
USD millions	Amortised cost or cost	Estimated fair value	Amortised cost or cost	Estimated fair value
Due in one year or less	3020	3040	2746	2768
Due after one year through five years	19696	20156	20799	21452
Due after five years through ten years	17955	19072	14928	16183
Due after ten years	38594	43977	35855	40048
Mortgage- and asset-backed securities with no fixed maturity	7719	7525	6266	6523
Total fixed income securities available-for-sale	86984	93770	**80594**	**86974**

Assets pledged

As of 31 December 2012, investments with a carrying value of USD 9 731 million were on deposit with regulatory agencies in accordance with local requirements. As of 31 December 2012, investments with a carrying value of USD 12 644 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 7 823 million and USD 12 994 million, respectively, were pledged as collateral in securities lending transactions and repurchase agreements. The associated liabilities of USD 6 349 million and USD 2 612 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 4 241 million and USD 4 329 million, respectively. Of this, the amount that was sold or repledged as of 31 December 2011 and 2012 was nil and USD 1 195 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 32 million, respectively, of the gross unrealised loss on equity securities available-for-sale relates to declines in value for less than 12 months and USD 4 million and USD 28 million, respectively, to declines in value for more than 12 months.

2011 USD millions	Less than 12 months Fair value	 Unrealised losses	12 months or more Fair value	 Unrealised losses	Total Fair value	 Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	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 USD millions	Less than 12 months Fair value	 Unrealised losses	12 months or more Fair value	 Unrealised losses	Total Fair value	 Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	2 766	26			2 766	26
US Agency securitised products	734	7			734	7
States of the United States and political subdivisions of the states	4				4	0
United Kingdom	3 316	48			3 316	48
Canada	291	2	2		293	2
Germany	524	6	32	1	556	7
France	147	6	5		152	6
Other	1 846	33	37	4	1 883	37
Total	9 628	128	76	5	9 704	133
Corporate debt securities	1 845	32	318	32	2 163	64
Residential mortgage-backed securities	56	2	424	35	480	37
Commercial mortgage-backed securities	190	14	347	21	537	35
Other asset-backed securities	547	9	98	7	645	16
Total	**12 266**	**185**	**1 263**	**100**	**13 529**	**285**

Mortgages, loans and real estate

As of 31 December, 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	284
Mortgage loans	1 336	1 362
Other loans	640	653
Investment real estate	645	777

The fair value of the real estate as of 31 December 2011 and 2012 was USD 2 215 million and USD 2 536 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 USD 5 million, 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 the private equity and hedge funds are generally valued utilising net asset values (NAV), subject to adjustments, as deemed necessary, for restrictions on redemption (lock-up periods and amount limitations on redemptions).

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

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

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

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

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

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

Governance around level 3 fair valuation

The Group Risk & Capital Committee (GRCC), chaired by the Group Chief Risk Officer, has primary responsibility for governing and overseeing all of the Group's valuation policies and operating parameters (including level 3 measurements). The GRCC 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 the Financial Risk Management function. The process includes monitoring and in-depth analyses of approved pricing methodologies and valuations of the Group's financial instruments aimed at identifying and resolving pricing discrepancies.

The Risk 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 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impact of netting[1]	Total
Assets					
Fixed income securities held for proprietary investment purposes	20383	75701	1139		97223
Debt securities issued by US government and government agencies	20383	2170			22553
US Agency securitised products		4018			4018
Debt securities issued by non-US governments and government agencies		39047			39047
Corporate debt securities		22357	1111		23468
Residential mortgage-backed securities		2031	4		2035
Commercial mortgage-backed securities		3962	8		3970
Other asset-backed securities		2116	16		2132
Fixed income securities backing unit-linked and with-profit life and health policies		4095			4095
Equity securities	18161	483	69		18713
Equity securities backing unit-linked and with-profit life and health policies	16173	9			16182
Equity securities held for proprietary investment purposes	1988	474	69		2531
Derivative financial instruments	50	6992	2646	–7252	2436
Interest rate contracts[2]		4141	1471		5612
Foreign exchange contracts	3	866	112		981
Derivative equity contracts[2]	40	1400	41		1481
Credit contracts		391	986		1377
Other contracts	7	194	36		237
Other assets	2773	1860	2041		6674
Total assets at fair value	41367	89131	5895	–7252	129141
Liabilities					
Derivative financial instruments	–33	–4898	–5875	5950	–4856
Interest rate contracts[2]	–16	–3435	–1075		–4526
Foreign exchange contracts	–4	–764	–66		–834
Derivative equity contracts[2]	–6	–376	–170		–552
Credit contracts		–238	–1075		–1313
Other contracts	–7	–85	–3489		–3581
Liabilities for life and health policy benefits			–341		–341
Accrued expenses and other liabilities	–2926	–3546			–6472
Total liabilities at fair value	–2959	–8444	–6216	5950	–11669

[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 shareholders' equity of the Group.

As of 31 December 2012 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impact of netting[1]	Total
Assets					
Fixed income securities held for proprietary investment purposes	13 474	74 676	698		88 848
Debt securities issued by US government and government agencies	13 474	752			14 226
US Agency securitised products		4 178			4 178
Debt securities issued by non-US governments and government agencies		39 608			39 608
Corporate debt securities		23 149	685		23 834
Residential mortgage-backed securities		990			990
Commercial mortgage-backed securities		3 199	13		3 212
Other asset-backed securities		2 800			2 800
Fixed income securities backing unit-linked and with-profit life and health policies		4 630			4 630
Equity securities	21 781	536	74		22 391
Equity securities backing unit-linked and with-profit life and health policies	18 607	10			18 617
Equity securities held for proprietary investment purposes	3 174	526	74		3 774
Derivative financial instruments	262	6 657	1 010	–5 645	2 284
Interest rate contracts	194	5 235			5 429
Foreign exchange contracts	26	415			441
Derivative equity contracts	34	508	636		1 178
Credit contracts		392	223		615
Other contracts	8	107	151		266
Other assets	747	1 372	2 098		4 217
Total assets at fair value	**36 264**	**87 871**	**3 880**	**–5 645**	**122 370**
Liabilities					
Derivative financial instruments	–274	–5 574	–2 865	4 990	–3 723
Interest rate contracts	–205	–3 972			–4 177
Foreign exchange contracts	–12	–792			–804
Derivative equity contracts	–43	–380	–232		–655
Credit contracts		–412	–271		–683
Other contracts	–14	–18	–2 362		–2 394
Liabilities for life and health policy benefits			–272		–272
Accrued expenses and other liabilities	–885	–2 556			–3 441
Total liabilities at fair value	**–1 159**	**–8 130**	**–3 137**	**4 990**	**–7 436**

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

Assets and liabilities measured at fair value on a non-recurring basis

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. 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.

During 2012, the Group entered into an agreement to sell Admin Re® US to Jackson National. Upon classification of Admin Re® US as assets held for sale, PVFP and DAC of USD 649 million and USD 31 million, respectively, were reassessed as impaired and written off.

During 2012, the non-recurring fair value measurement using significant unobservable input of PVFP and DAC resulted in a charge to the income statement of USD 680 million.

Transfers between level 1 and level 2

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

As of 31 December 2012 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)
Assets		
Transfer into[1]	191	2 358
Transfer out of[1]	–78	–1 388
Liabilities		
Transfer into[1]		–1 930
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. 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 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 transfer.

[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 shareholders' equity of the Group.

	Equity securities held for proprietary investment purposes	Derivative interest rate contracts²	Derivative foreign exchange contracts	Derivative equity contracts²	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 contracts²	Derivative foreign exchange contracts	Derivative equity contracts²	Derivative credit contracts	Other derivative contracts	Total
	–271	–825	–72	–56	–1 007	–2 572	–4 803
	–69	–413	13	2	–158	–771	–1 396
			–7				–7
		46			90	8	144
		1			1	–154	–152
				–116			–116
		116					116
	–1				–1		–2
	–341	–1 075	–66	–170	–1 075	–3 489	–6 216

2012 USD millions	Corporate debt securities	Residential mortgage-backed securities	Commercial mortgage-backed securities	Other asset-backed securities
Assets				
Balance as of 1 January 2012	1 111	4	8	16
Realised/unrealised gains/losses:				
Included in net income	49		–1	
Included in other comprehensive income	–18		2	
Purchases	51		6	32
Issuances				
Sales	–448		–40	–32
Settlements	–58			–9
Transfers into level 3[1]	24		41	
Transfers out of level 3[1]	–26	–4	–3	–7
Impact of foreign exchange movements				
Closing balance as of 31 December 2012	**685**	**0**	**13**	**0**
Liabilities				
Balance as of 1 January 2012				
Realised/unrealised gains/losses:				
Included in net income				
Included in other comprehensive income				
Purchases				
Issuances				
Sales				
Settlements				
Transfers into level 3[1]				
Transfers out of level 3[1]				
Impact of foreign exchange movements				
Closing balance as of 31 December 2012				

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

	Equity securities held for proprietary investment purposes	Derivative interest rate contracts	Derivative foreign exchange contracts	Derivative equity contracts	Derivative credit contracts	Other derivative contracts	Other assets	Total
	69	1 471	112	41	986	36	2 041	5 895
	20	7		–192	–430	44	–15	–518
	3						121	108
						43	192	324
	–18				–33		–216	–787
		–7			–81	–12	–2	–169
		3		828	38	40	41	1 015
		–1 474	–112	–41	–257		–74	–1 998
							10	10
	74	**0**	**0**	**636**	**223**	**151**	**2 098**	**3 880**

	Liabilities for life and health policy benefits	Derivative interest rate contracts	Derivative foreign exchange contracts	Derivative equity contracts	Derivative credit contracts	Other derivative contracts	Total
	–341	–1 075	–66	–170	–1 075	–3 489	–6 216
	68			59	582	1 043	1 752
		–2		–19		–50	–71
		2		96			98
				54	7	–26	35
				–368	–126	–29	–523
		1 075	66	116	341	189	1 787
	1						1
	–272	**0**	**0**	**–232**	**–271**	**–2 362**	**–3 137**

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	1 234
Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date	–1 286	1 005

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Quantitative information about level 3 fair value measurements

Unobservable inputs for major level 3 assets and liabilities as of 31 December 2012 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)
685			
168	Discounted cash flow model	Illiquidity premium	75 bps (na)
437	Corporate spread matrix	Illiquidity premium	15 bps – 277 bps (105 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	701	275	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	**2 160**	**357**		

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

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

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

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

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

Fair value option

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

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

Equity securities trading

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

Liabilities for life and health policy benefits

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

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

Pursuant to the election of the fair value option for the items described, the balances as of 31 December 2011 and 2012 were as follows:

USD millions	2011	2012
Assets		
Equity securities held for proprietary investment purposes	571	672
of which at fair value pursuant to the fair value option	455	509
Liabilities		
Liabilities for life and health policy benefits	–39 044	–36 117
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 the years ended 31 December 2011 and 2012 for items measured at fair value pursuant to election of the fair value option including foreign exchange were as follows:

USD millions	2011	2012
Equity securities held for proprietary investment purposes	–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 as of 31 December 2012 were as follows:

As of 31 December 2012 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Policy loans			284	284
Mortgage loans			1 362	1 362
Other loans			653	653
Investment real estate			2 536	2 536
Total assets			**4 835**	**4 835**
Liabilities				
Debt		–9 970	–10 136	–20 106
Total liabilities		**–9 970**	**–10 136**	**–20 106**

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

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

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

4 Derivative financial instruments

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

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

Fair values and notional amounts of derivative financial instruments

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

As of 31 December 2011 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivatives not designated as hedging instruments				
Interest rate contracts[1]	140 676	4 733	–4 522	211
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	23 802	237	–3 581	–3 344
Total	255 765	8 809	–10 734	–1 925
Derivatives designated as hedging instruments				
Interest rate contracts	2914	879	–4	875
Foreign exchange contracts	2 077		–68	–68
Total	4 991	879	–72	807
Total derivative financial instruments	260 756	9 688	–10 806	–1 118
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		2 436	–4 856	–2 420

As of 31 December 2012 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivatives not designated as hedging instruments				
Interest rate contracts[1]	125 577	4 609	–4 177	432
Foreign exchange contracts	25 739	441	–785	–344
Equity contracts[1]	17 917	1 178	–655	523
Credit contracts	33 137	615	–683	–68
Other contracts	22 965	266	–2 394	–2 128
Total	**225 335**	**7 109**	**–8 694**	**–1 585**
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	**229 772**	**7 929**	**–8 713**	**–784**
Amount offset				
Where a right of setoff exists		–4 466	4 466	
Due to cash collateral		–1 179	524	
Total net amount of derivative financial instruments		**2 284**	**–3 723**	**–1 439**

[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 shareholders' 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]	–54	–141
Foreign exchange contracts[1]	250	–547
Equity contracts[1]	198	–774
Credit contracts	–219	–82
Other contracts	–808	1030
Total gain/loss recognised in income	–633	**–514**

[1] During 2012, the Group revised the 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 shareholders' 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 220 million, respectively, in shareholders' equity. These offset translation gains and losses on the hedged net investment.

Maximum potential loss
In consideration of the rights of setoff and the qualifying master netting arrangements with various counterparties, the maximum potential loss as of 31 December 2011 and 2012 was approximately USD 3 932 million and USD 3 463 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 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 shareholders' equity of the Group.

As of 31 December 2012 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	–92	146		133	279
Total	**–95**	**1 454**	**0**	**167**	**1 621**
Credit Index Products					
Credit spread in basis points					
0 – 250	–63	14 400			14 400
251 – 500	30	427			427
501 – 1 000					
Greater than 1 000					
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	**–56**	**17 054**	**0**	**167**	**17 221**

5 Acquisitions and disposals

Disposal of Admin Re® US
In the second quarter of 2012, the Group entered into an agreement to sell Admin Re® US to Jackson National. In the third quarter of 2012, the Group completed the sale following the receipt of all necessary regulatory approvals. Admin Re® US primarily consisted of bonds, policy loans and policyholder liabilities.

The purchase price was USD 663 million, with an initial cash payment of USD 589 million and the remainder deferred until 2013. Prior to closing a USD 270 million dividend was declared to Swiss Re Ltd. The transaction resulted in a net loss in the Admin Re® segment of USD 399 million. The loss has been reflected in the "Net realised investment gains/losses" line in the income statement of the Admin Re® segment. Certain blocks of businesses have been retained through retrocession or other contractual agreements.

Acquisition of New California Holdings, Inc.
In 2000, the Group 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 covered only 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 on 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 fully owns Aurora National Life Assurance Company and consequently no longer reports any non-controlling interest related to this entity.

Disposal of Swiss Re Private Equity Partners AG
The sale of Swiss Re Private Equity Partners AG, the management company of the Group'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 1400 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.

6 Debt and contingent capital instruments

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

The Group's debt as of 31 December was as follows:

USD millions	2011	**2012**
Senior financial debt	279	793
Senior operational debt	3 848	2 819
Short-term debt – financial and operational debt	4 127	**3 612**
Senior financial debt	2 976	4 952
Senior operational debt	4 854	1 704
Subordinated financial debt	3 587	4 302
Subordinated operational debt	5 124	5 328
Long-term debt – financial and operational debt	16 541	**16 286**
Total carrying value	20 668	**19 898**
Total fair value	20 022	**20 106**

The Group uses debt for general corporate purposes and to fund discrete pools of operational leverage and financial intermediation assets. Operational leverage and financial intermediation are subject to asset and liability matching, resulting in little to no risk that the assets will be insufficient to service and settle the liabilities. Debt used for operational leverage and financial intermediation is treated as operational debt and excluded by the rating agencies from financial leverage calculations. Certain debt positions are limited recourse, meaning the debtors' claims are limited to assets underlying the financing. As of 31 December 2011 and 2012, debt related to operational leverage and financial intermediation amounted to USD 13.8 billion (thereof USD 6.3 billion limited recourse) and USD 9.9 billion (thereof USD 6.1 billion limited recourse), respectively.

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	1 763
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	**16 286**

[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	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						**6 656**
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	282	109
Subordinated financial debt	230	238
Subordinated operational debt	256	251
Total	848	**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 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, an indirect subsidiary of Swiss Re 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”.

7 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	53827	53010
Life & Health	11051	10660
Total	64878	**63670**

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	53345	53827
Reinsurance recoverable	–5717	–6610
Deferred expense on retroactive reinsurance	–401	–320
Net balance as of 1 January	47227	**46897**
Incurred related to:		
Current year	10322	9050
Prior year	–1735	–1477
Amortisation of deferred expense on retroactive reinsurance and impact of commutations	73	64
Total incurred	8660	7637
Paid related to:		
Current year	–1694	–1525
Prior year	–7899	–7962
Total paid	–9593	–9487
Foreign exchange	–441	334
Effect of acquisitions, disposals, new retroactive reinsurance and other items	1044	299
Net balance as of 31 December	46897	**45680**
Reinsurance recoverable	6610	7101
Deferred expense on retroactive reinsurance	320	229
Balance as of 31 December	53827	**53010**

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 accident & health and motor. For property, releases on earlier years more than offset increases for some of the large 2011 claims, mainly the floods in Thailand and earthquakes in New Zealand. For liability, favourable experience across all regions more than offset increases for asbestos and environmental losses and one large directors' and officers' liability insurance claim. For motor, the unfavourable experience is attributed to various issues in Europe and Americas. Accident & health saw small increases in losses driven by exposures in the US, partly offset by releases following a large commutation. 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, 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 liabilities equal to USD 1 991 million. During 2012, the Group incurred positive ultimate loss development of USD 24 million and paid net against these liabilities USD 160 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.

8 Insurance information

For the year ended 31 December

Premiums earned and fees assessed against policyholders

2011 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Total
Premiums earned, thereof:						
Direct		27	1 837	1 138		3 002
Reinsurance	13 076	10 073	452	167	22	23 790
Intra-group transactions (assumed and ceded)	–116	109	116	–109		0
Premiums earned before retrocession to external parties	12 960	10 209	2 405	1 196	22	26 792
Reinsurance ceded to external parties	–2 825	–1 892	–476	–299		–5 492
Net premiums earned	10 135	8 317	1 929	897	22	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	0	789	0	876

For the year ended 31 December

Premiums earned and fees assessed against policyholders

2012 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Total
Premiums earned, thereof:						
Direct		179	2 196	1 204		3 579
Reinsurance	16 097	10 506	385	196	6	27 190
Intra-group transactions (assumed and ceded)	–278	250	278	–250		0
Premiums earned before retrocession to external parties	15 819	10 935	2 859	1 150	6	30 769
Reinsurance ceded to external parties	–3 490	–1 885	–575	–158		–6 108
Net premiums earned	**12 329**	**9 050**	**2 284**	**992**	**6**	**24 661**
Fee income from policyholders, thereof:						
Direct				587		587
Reinsurance		64		134		198
Intra-group transactions (assumed and ceded)		8		–8		0
Gross fee income before retrocession to external parties		72		713		785
Fee income ceded to external parties						0
Net fee income	**0**	**72**	**0**	**713**	**0**	**785**

For the year ended 31 December

Claims and claim adjustment expenses

2011 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Claims paid, thereof:							
Gross claims paid to external parties	–9 285	–8 147	–2 120	–3 094	4		–22 642
Intra-group transactions (assumed and ceded)	–1 214	–121	1 214	121			0
Claims before receivables from retrocession to external parties	–10 499	–8 268	–906	–2 973	4		–22 642
Receivables from retrocession to external parties	1 545	1 991	263	390			4 189
Net claims paid	–8 954	–6 277	–643	–2 583	4	0	–18 453
Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:							
Gross – with external parties	–486	36	652	514	–2	15	729
Intra-group transactions (assumed and ceded)	1 500	67	–1 500	–67			0
Unpaid claims and claim adjustment expenses; life and health benefits before impact of retrocession to third parties	1 014	103	–848	447	–2	15	729
Reinsurance ceded to external parties	559	–106	30	17			500
Net unpaid claims and claim adjustment expenses; life and health benefits	1 573	–3	–818	464	–2	15	1 229
Claims and claim adjustment expenses; life and health benefits	–7 381	–6 280	–1 461	–2 119	2	15	–17 224

Acquisition costs

2011 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Acquisition costs, thereof:							
Gross acquisition costs with external parties	–2 745	–2 024	–298	–298	–8	–7	–5 380
Intra-group transactions (assumed and ceded)	7	–27	–7	27			0
Acquisition costs before impact of retrocession to external parties	–2 738	–2 051	–305	–271	–8	–7	–5 380
Retrocession to external parties	890	306	125	38			1 359
Net acquisition costs	–1 848	–1 745	–180	–233	–8	–7	–4 021

For the year ended 31 December

Claims and claim adjustment expenses

2012 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Claims paid, thereof:							
Gross claims paid to external parties	–9 553	–8 341	–1 915	–2 868	–18		–22 695
Intra-group transactions (assumed and ceded)	–818	–130	818	130			0
Claims before receivables from retrocession to external parties	–10 371	–8 471	–1 097	–2 738	–18		–22 695
Receivables from retrocession to external parties	1 620	2 209	379	293			4 501
Net claims paid	**–8 751**	**–6 262**	**–718**	**–2 445**	**–18**	**0**	**–18 194**
Change in unpaid claims and claim adjustment expenses; life and health benefits, thereof:							
Gross – with external parties	910	–42	400	297	4		1 569
Intra-group transactions (assumed and ceded)	1 219	–85	–1 225	91			0
Unpaid claims and claim adjustment expenses; life and health benefits before impact of retrocession to third parties	2 129	–127	–825	388	4		1 569
Reinsurance ceded to external parties	316	–398	95	–29			–16
Net unpaid claims and claim adjustment expenses; life and health benefits	**2 445**	**–525**	**–730**	**359**	**4**	**0**	**1 553**
Claims and claim adjustment expenses; life and health benefits	**–6 306**	**–6 787**	**–1 448**	**–2 086**	**–14**	**0**	**–16 641**

Acquisition costs

2012 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Acquisition costs, thereof:							
Gross acquisition costs with external parties	–3 522	–2 057	–362	–177	–3		–6 121
Intra-group transactions (assumed and ceded)	55	–14	–55	14			0
Acquisition costs before impact of retrocession to external parties	–3 467	–2 071	–417	–163	–3		–6 121
Retrocession to external parties	1 151	284	117	21			1 573
Net acquisition costs	**–2 316**	**–1 787**	**–300**	**–142**	**–3**	**0**	**–4 548**

Reinsurance receivables

Reinsurance receivables as of 31 December were as follows:

USD millions	2011	**2012**
Premium receivables invoiced	1 681[1]	1 254
Receivables from ceded re/insurance business	747[1]	447
Assets arising from the application of the deposit method of accounting and meeting the definition of financing receivables	707	1 322
Recognised allowance	–132	–109

[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 updated accordingly.

Policyholder dividends

Policyholder dividends are recognised as an element of policyholder benefits. The relative percentage of participating insurance of the life and health policy benefits in 2011 and 2012 was 7% and 8%, respectively. The amount of policyholder dividend expense in 2011 and 2012 was USD 134 million and USD 124 million, respectively.

9 Premiums written

For the years ended 31 December

2011 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Gross premiums written, thereof:							
Direct		27	1 940	1 142			3 109
Reinsurance	14 810	10 136	436	178	–5		25 555
Intra-group transactions (assumed)	401	109	553			–1 063	0
Gross premiums written	15 211	10 272	2 929	1 320	–5	–1 063	28 664
Intra-group transactions (ceded)	–553		–401	–109		1 063	0
Gross premiums written before retrocession to external parties	14 658	10 272	2 528	1 211	–5		28 664
Reinsurance ceded to external parties	–3 017	–1 882	–593	–304			–5 796
Net premiums written	11 641	8 390	1 935	907	–5	0	22 868

2012 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Gross premiums written, thereof:							
Direct		388	2 637	1 207			4 232
Reinsurance	16 387	10 464	444	196			27 491
Intra-group transactions (assumed)	239	249	648			–1 136	0
Gross premiums written	16 626	11 101	3 729	1 403		–1 136	31 723
Intra-group transactions (ceded)	–648		–239	–249		1 136	0
Gross premiums written before retrocession to external parties	15 978	11 101	3 490	1 154			31 723
Reinsurance ceded to external parties	–3 571	–1 870	–780	–158			–6 379
Net premiums written	**12 407**	**9 231**	**2 710**	**996**	**0**	**0**	**25 344**

10 Earnings per share

All of the Group´s companies prepare statutory financial statements based on local laws and regulations. Most jurisdictions require reinsurers to maintain a minimum amount of capital in excess of statutory definition of net assets or maintain certain minimum capital and surplus levels. In addition, some jurisdictions place certain restrictions on amounts that may be loaned or transferred to the parent company. The Group´s ability to pay dividends may be restricted by these requirements.

Dividends are declared in Swiss francs. During the years ended 31 December 2011 and 2012, the Group's dividends declared (in the form of withholding tax exempt repayment out of legal reserves from capital contributions) per share were CHF 2.75 and CHF 3.00, respectively.

Earnings per share for the years ended 31 December were as follows:

USD millions (except share data)	2011	**2012**
Basic earnings per share		
Net income	2 798	**4 398**
Non-controlling interests	–172	**–141**
Interest on contingent capital instruments[1]		**–56**
Net income attributable to common shareholders	2 626	**4 201**
Attribution of value to option on redeemable non-controlling interest		**–132**
Net income attributable to common shareholders after adjustment to non-controlling interest	2 626	**4 069**
Weighted average common shares outstanding	342 136 735	**343 380 921**
Net income per share in USD	7.68	**11.85**
Net income per share in CHF[2]	6.79	**11.13**
Effect of dilutive securities		
Change in income available to common shares due to contingent capital instruments and debt instruments[1]	12	**54**
Change in average number of shares due to contingent capital instruments, debt instruments and employee options	10 065 318	**29 338 167**
Diluted earnings per share		
Net income assuming debt conversion and exercise of options	2 638	**4 123**
Weighted average common shares outstanding	352 202 053	**372 719 088**
Net income per share in USD	7.49	**11.06**
Net income per share in CHF[2]	6.63	**10.39**

[1] Please refer to Note 6 "Debt and contingent capital instruments"
[2] The translation from USD to CHF is shown for informational purposes only and has been calculated using the Group's average exchange rates

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. by Swiss Re. The put/call agreement was considered a redeemable non-controlling interest; however, a value was not assigned to this instrument as the exercise was contingent on several items occurring to complete the transaction. During the second quarter of 2012, the majority of the contingencies had been resolved and the exercise of the put/call option at the predetermined price became probable. In accordance with US GAAP requirements, the difference between the carrying value of the minority interest and the redemption price, USD 132 million, was recorded against shareholders' equity and as a reduction in the net income attributable to common shareholders for the purposes of calculating earnings per share. In August 2012, the put/call option was exercised and New California Holdings, Inc. was acquired. Please refer to Note 5 "Acquisitions and disposals" for further information.

11 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	76
2014	75
2015	74
2016	66
2017	60
After 2018	359
Total operating lease commitments	**710**
Less minimum non-cancellable sublease rentals	–51
Total net future minimum lease commitments	**659**

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	61
Sublease rental income	–3	–2
Total	57	**59**

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.

12 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 operational structure effective from 1 January 2012. As a result, the Group presents four core operating business segments: Property & Casualty Reinsurance, Life & Health Reinsurance, Corporate Solutions and Admin Re®. Asset Management activities are not disclosed as a separate operating segment. Invested assets managed by Asset Management and Group Treasury have been assigned to the new business segments according to risk profile, duration and further asset-liability management considerations. Actual returns on those assets are reported in the respective operating segments.

The presentation of each segment's balance sheet is closely aligned to the segment legal entity structure. The assignment of assets and liabilities for entities that span more than one segment 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. These considerations determined each segment's initial capital positions under the new structure.

Interest expense is incurred from the segment's capital funding position. The tax position of the operating segments is derived from legal entity tax obligations, subject to Group tax considerations.

Accounting policies applied by the business segments are in line with those described in the summary of significant accounting policies (please refer to Note 1 to the Group's annual consolidated financial statements). Comparative information for 2011 is presented according to the 2012 segments presentation basis.

The Group operating segments are outlined below.

Property & Casualty Reinsurance and Life & Health Reinsurance
Reinsurance consists of two segments, Property & Casualty and Life & Health. The Reinsurance Business 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.

Corporate Solutions
Corporate Solutions offers innovative insurance capacity to mid-sized and large multinational corporations across the globe. Offerings range from standard risk transfer covers and multi-line programmes to customised solutions tailored to the needs of clients. Corporate Solutions serves customers from over 40 offices worldwide.

Admin Re®
Through Admin Re®, Swiss Re acquires closed blocks of in-force life and health insurance business, either through reinsurance or corporate acquisition, and typically assumes responsibility for administering the underlying policies. The administration of the business may be managed directly or, where appropriate, in partnership with a third party. Since 1998, Swiss Re has acquired more than 40 blocks of business spanning a range of product types. It currently operates in the UK, US and the Netherlands.

Admin Re® completed the sale of its Admin Re® US operations but retained certain blocks of the US business. For more details, please refer to Note 5.

Group items
Items not allocated to the business segments are included in the "Group items" column, which encompasses Swiss Re Ltd, the Group holding company, the former Legacy reinsurance business in run-off and certain Treasury units. The holding company charges trademark licence fees to the operating segments which are reported as other revenues. Certain administrative expenses of the corporate centre functions that are not recharged to the operating segments are reported as Group items.

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, recharge of trademark licence fees, and intersegmental funding.

a) Business segments – income statement

For the year ended 31 December

2011 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Revenues							
Premiums earned	10 135	8 317	1 929	897	22		21 300
Fee income from policyholders		87		789			876
Net investment income – non-participating	1 307	1 544	104	1 611	135	–75	4 626
Net realised investment gains – non-participating	512	1 180	214	205	–477		1 634
Net investment result – unit-linked and with-profit		–25		–378			–403
Other revenues	72		6		236	–264	50
Total revenues	12 026	11 103	2 253	3 124	–84	–339	28 083
Expenses							
Claims and claim adjustment expenses	–7 381		–1 461		2	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	–180	–233	–8	–7	–4 021
Other expenses	–1 318	–716	–442	–466	–372	263	–3 051
Interest expenses	–155	–579	–2	–61	–122	68	–851
Total expenses	–10 702	–9 354	–2 085	–2 906	–500	339	–25 208
Income/loss before income tax expense	1 324	1 749	168	218	–584		2 875
Income tax expense/benefit	–65	–85	–87	123	37		–77
Net income/loss before attribution of non-controlling interests	1 259	1 664	81	341	–547	0	2 798
Income attributable to non-controlling interests	–160			–12			–172
Net income/loss after attribution of non-controlling interests	1 099	1 664	81	329	–547	0	2 626
Interest on contingent capital instruments							
Net income/loss attributable to common shareholders	1 099	1 664	81	329	–547	0	2 626
Claims ratio in %	72.8		75.7				73.3
Expense ratio in %	31.2		32.2				31.4
Combined ratio in %	104.0		107.9				104.7
Management expense ratio in %		7.2					
Benefit ratio in %		74.5					

Business segments – income statement
For the year ended 31 December

2012 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Revenues							
Premiums earned	12 329	9 050	2 284	992	6		24 661
Fee income from policyholders		72		713			785
Net investment income – non-participating	1 451	1 365	109	1 548	18	–18	4 473
Net realised investment gains – non-participating	259	562	142	–89	73		947
Net investment result – unit-linked and with-profit		222		2 348			2 570
Other revenues	95	1	1	3	385	–297	188
Total revenues	**14 134**	**11 272**	**2 536**	**5 515**	**482**	**–315**	**33 624**
Expenses							
Claims and claim adjustment expenses	–6 306		–1 448		–14	5	–7 763
Life and health benefits		–6 787		–2 086		–5	–8 878
Return credited to policyholders		–271		–2 688			–2 959
Acquisition costs	–2 316	–1 787	–300	–142	–3		–4 548
Other expenses	–1 325	–833	–449	–457	–403	250	–3 217
Interest expenses	–111	–586		–53	–51	65	–736
Total expenses	**–10 058**	**–10 264**	**–2 197**	**–5 426**	**–471**	**315**	**–28 101**
Income/loss before income tax expense	**4 076**	**1 008**	**339**	**89**	**11**	**0**	**5 523**
Income tax expense/benefit	–934	–231	–143	101	82		–1 125
Net income before attribution of non-controlling interests	**3 142**	**777**	**196**	**190**	**93**	**0**	**4 398**
Income attributable to non-controlling interests	–134			–7			–141
Net income after attribution of non-controlling interests	**3 008**	**777**	**196**	**183**	**93**	**0**	**4 257**
Interest on contingent capital instruments	–18	–38					–56
Net income attributable to common shareholders	**2 990**	**739**	**196**	**183**	**93**	**0**	**4 201**
Claims ratio in %	51.2		63.4				53.1
Expense ratio in %	29.5		32.8				30.0
Combined ratio in %	80.7		96.2				83.1
Management expense ratio in %		7.9					
Benefit ratio in %		75.5					

Business segments – balance sheet
As of 31 December 2011

2011 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Assets							
Fixed income securities	28 611	32 217	4 501	31 266	628		97 223
Equity securities	1 459	183	403	9	477		2 531
Other investments	18 791	3 691	213	5 439	2 819	–4 492	26 461
Short-term investments	7 004	3 368	973	1 096	1 219		13 660
Investments for unit-linked and with-profit business		719		21 630			22 349
Cash and cash equivalents	6 550	2 367	685	1 472	333		11 407
Deferred acquisition costs	1 247	2 663	–25	34	4		3 923
Acquired present value of future profits		1 674		2 552			4 226
Reinsurance recoverable	4 951	2 902	9 900	3 641		–9 557	11 837
Other reinsurance assets	12 500	10 133	2 147	358	3	–4 636	20 505
Goodwill	2 006	2 028	17				4 051
Other	4 769	1 886	1 249	791	163	–1 132	7 726
Total assets	87 888	63 831	20 063	68 288	5 646	–19 817	225 899
Liabilities							
Unpaid claims and claim adjustment expenses	49 451	9 310	12 465	1 695	24	–8 067	64 878
Liabilities for life and health policy benefits		18 367	198	21 229		–750	39 044
Policyholder account balances		2 423		32 486		–747	34 162
Other reinsurance liabilities	11 334	2 056	4 654	2 143	14	–5 504	14 697
Short-term debt	856	797	230	963	2 674	–1 393	4 127
Long-term debt	3 376	12 930			235		16 541
Other	11 209	8 976	229	1 980	2 074	–3 305	21 163
Total liabilities	76 226	54 859	17 776	60 496	5 021	–19 766	194 612
Shareholders' equity	10 389	8 972	2 277	7 378	625	–51	29 590
Non-controlling interests	1 273		10	414			1 697
Total equity	11 662	8 972	2 287	7 792	625	–51	31 287
Total liabilities and equity	87 888	63 831	20 063	68 288	5 646	–19 817	225 899

Business segments – balance sheet
As of 31 December 2012

2012 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Consolidation	Total
Assets							
Fixed income securities	31 115	31 366	4 616	21 608	143		88 848
Equity securities	2 360	303	578	3	530		3 774
Other investments	11 893	3 178	107	1 774	6 180	–7 088	16 044
Short-term investments	10 005	5 053	1 549	1 557	481		18 645
Investments for unit-linked and with-profit business		842		24 659			25 501
Cash and cash equivalents	6 904	1 412	978	1 472	71		10 837
Deferred acquisition costs	1 103	2 713	219	2	2		4 039
Acquired present value of future profits		1 358		1 665			3 023
Reinsurance recoverable	5 583	2 447	9 440	469		–7 830	10 109
Other reinsurance assets	12 419	8 631	2 901	3 459	3	–2 639	24 774
Goodwill	2 018	2 057	17				4 092
Other	7 352	2 170	640	612	345	–5 020	6 099
Total assets	**90 752**	**61 530**	**21 045**	**57 280**	**7 755**	**–22 577**	**215 785**
Liabilities							
Unpaid claims and claim adjustment expenses	48 465	9 505	12 258	1 247	21	–7 826	63 670
Liabilities for life and health policy benefits		17 439	216	18 469		–7	36 117
Policyholder account balances		1 466		27 883			29 349
Other reinsurance liabilities	12 543	1 709	4 913	713	8	–3 106	16 780
Short-term debt	3 799	1 529		634	1 245	–3 595	3 612
Long-term debt	3 779	12 461			46		16 286
Other	9 796	9 082	616	1 672	2 775	–7 996	15 945
Total liabilities	**78 382**	**53 191**	**18 003**	**50 618**	**4 095**	**–22 530**	**181 759**
Shareholders' equity	**12 356**	**8 339**	**3 032**	**6 662**	**3 660**	**–47**	**34 002**
Non-controlling interests	14		10				24
Total equity	**12 370**	**8 339**	**3 042**	**6 662**	**3 660**	**–47**	**34 026**
Total liabilities and equity	**90 752**	**61 530**	**21 045**	**57 280**	**7 755**	**–22 577**	**215 785**

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

For the year ended 31 December

2011 USD millions	Property	Casualty	Specialty	Total
Premiums earned	4 766	3 313	2 056	10 135
Expenses				
Claims and claim adjustment expenses	–4 502	–2 248	–631	–7 381
Acquisition costs	–612	–781	–455	–1 848
Other expenses	–617	–373	–328	–1 318
Total expenses before interest expenses	–5 731	–3 402	–1 414	–10 547
Underwriting result	–965	–89	642	–412
Net investment income				1 307
Net realised investment gains/losses				512
Other revenues				72
Interest expenses				–155
Income before income tax expenses				1 324
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 year ended 31 December

2012 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 year ended 31 December

2011 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 year ended 31 December

2012 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) Net premiums earned and fee income from policyholders by geography

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

USD millions	2011	2012
Europe (including Middle East and Africa)	8 613	10 686
Americas	9 275	9 579
Asia-Pacific	4 288	5 181
Total	22 176	**25 446**

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

USD millions	2011	2012
United States	7 205	7 493
United Kingdom	2 925	3 316
France	770	2 110
China	1 383	1 880
Australia	1 511	1 705
Canada	1 237	1 196
Germany	1 109	1 063
Japan	643	714
Ireland	244	591
Netherlands	458	448
Italy	504	439
Other	4 187	4 491
Total	22 176	**25 446**

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

13 Variable interest entities

Swiss Re 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 Swiss Re and does not qualify as a VIE. The related non-controlling interests are no longer reported. Please refer to Note 5 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, Swiss Re 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.

As of 31 December 2012, the total assets of the debt financing vehicles in which the Group holds variable interests but is not the primary beneficiary were USD 2 040 million. The total assets of the vehicles in which the Group is the primary beneficiary were USD 7 195 million.

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 5). 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 1 663 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:

		2011		**2012**
USD millions	Carrying value	Whereof restricted:	Carrying value	Whereof restricted:
Fixed income securities available-for-sale	9 254	9 254	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 7 million net of tax for the 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 5 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	1 053	1 724
Total assets	1 172	**1 808**
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]	–
Debt financing	373		29	29	395		29	29
Investment vehicles	63		63	63	829		829	829
Other	263	586	1 089	503	223	544	1 814	1 270
Total	1 172	902	–[1]	–	**1 808**	**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 are recognised for certain debt financing VIEs when losses occur. To date, the respective debt financing VIEs have not incurred any losses. Liabilities of USD 544 million recognised for the "Other" category relate mainly to collateral received.

14 Restructuring provision

In 2012, the Group set up total provisions of USD 9 million and released USD 4 million.

The increase in provisions in the Property & Casualty Reinsurance and the Admin Re® business segments of USD 7 million and USD 2 million in 2012, respectively, are related to office structure simplification costs and leaving benefits.

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

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

2011 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	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	0	9	0	54

2012 USD millions	Property & Casualty Reinsurance	Life & Health Reinsurance	Corporate Solutions	Admin Re®	Group items	Total
Balance as of 1 January	43	2		9		54
Increase in provision	7			2		9
Release of provision	–4					–4
Costs incurred	–14	–1				–15
Balance as of 31 December	**32**	**1**	**0**	**11**	**0**	**44**

Cautionary note on forward-looking statements

Certain statements and illustrations contained herein are forward-looking. These statements (including as to plans, objectives, targets and trends) 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 Swiss Re'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 or cause Swiss Re to not achieve its published targets. 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;
- Swiss Re'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 Swiss Re'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 Swiss Re's investment assets;
- changes in Swiss Re'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 Swiss Re'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 Swiss Re's hedging arrangements may not be effective;

- the lowering or loss of one of the financial strength or other ratings of one or more Swiss Re companies, and developments adversely affecting Swiss Re'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 Swiss Re's clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- current, pending and future legislation and regulation affecting Swiss Re or its ceding companies and the interpretation of legislation or regulations by regulators;
- legal actions or regulatory investigations or actions, including those in respect of industry requirements or business conduct rules of general applicability;
- changes in accounting standards;
- significant investments, acquisitions or dispositions, and any delays, unexpected costs or other issues experienced in connection with any such transactions;
- changing levels of competition; and
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks.

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

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

Note on risk factors

General impact of adverse market conditions
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

Swiss Re Ltd is a holding company, a legal entity separate and distinct from its subsidiaries, including Swiss Reinsurance Company Ltd. As a holding company with no operations of its own, Swiss Re Ltd is dependent upon dividends and other payments from Swiss Reinsurance Company Ltd and its other principal operating subsidiaries.

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Swiss Re has over 60 office locations in more than 20 countries. For a full list of our office locations and service offerings, please visit swissre.com

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Corporate calendar

Key dates

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

For more information see
swissre.com/investors/events

Title:
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