# Financial statements

**Contents**

# Income statement

For the years ended 31 December

| CHF millions | Note | 2007 | 2008 |
|---|---|---|---|
| **Revenues** | | | |
| Premiums earned | 9, 17 | 31 664 | **25 501** |
| Fee income from policyholders | 9, 17 | 955 | **808** |
| Net investment income | 2, 17 | 10 692 | **7 881** |
| Net realised investment gains/losses | 2, 17 | –739 | **–9 482** |
| Other revenues | 17 | 302 | **270** |
| **Total revenues** | | 42 874 | **24 978** |
| | | | |
| **Expenses** | | | |
| Claims and claim adjustment expenses | 9, 17 | –12 065 | **–10 007** |
| Life and health benefits | 9, 17 | –11 112 | **–9 065** |
| Return credited to policyholders | 17 | –2 120 | **2 822** |
| Acquisition costs | 9, 17 | –6 499 | **–5 366** |
| Other expenses | 17 | –4 077 | **–3 211** |
| Interest expenses | 17 | –1 814 | **–1 501** |
| **Total expenses** | | –37 687 | **–26 328** |
| | | | |
| **Income/loss before income tax expense/benefit** | | 5 187 | **–1 350** |
| Income tax expense/benefit | | –1 025 | **486** |
| **Net income/loss** | | 4 162 | **–864** |
| | | | |
| **Earnings per share in CHF** | | | |
| Basic | 11 | 11.95 | **–2.61** |
| Diluted | 11 | 11.23 | **–2.61** |

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

# Balance sheet

As of 31 December

## Assets

| CHF millions | Note | 2007 | 2008 |
|---|---|---|---|
| **Investments** | 2, 3, 4 | | |
| Fixed income securities: | | | |
| Available-for-sale, at fair value (including 9 045 in 2007 and 8 188 in 2008 subject to securities lending and repurchase agreements) (amortised cost: 2007: 105 995; 2008: 106 216) | | 107 810 | **103 438** |
| Trading (including 15 000 in 2007 and 33 in 2008 subject to securities lending and repurchase agreements) | | 51 793 | **13 961** |
| Equity securities: | | | |
| Available-for-sale, at fair value (including 1 528 in 2007 and 9 in 2008 subject to securities lending and repurchase agreements) (amortised cost: 2007: 9 039; 2008: 675) | | 10 759 | **833** |
| Trading | | 22 103 | **15 355** |
| Policy loans, mortgages and other loans | | 7 414 | **6 611** |
| Investment real estate | | 2 682 | **2 143** |
| Short-term investments, at amortised cost which approximates fair value | | 8 786 | **5 802** |
| Other invested assets | | 16 465 | **15 822** |
| **Total investments** | | 227 812 | **163 965** |
| Cash and cash equivalents (including 0 in 2007 and 2 477 in 2008 subject to securities lending) | | 11 531 | **17 268** |
| Accrued investment income | | 2 139 | **1 449** |
| Premiums and other receivables | | 14 341 | **12 446** |
| Reinsurance recoverable on unpaid claims and policy benefits | 9 | 14 232 | **11 934** |
| Funds held by ceding companies | | 14 205 | **11 230** |
| Deferred acquisition costs | 6, 9 | 5 152 | **4 311** |
| Acquired present value of future profits | 6 | 6 769 | **6 139** |
| Goodwill | | 4 897 | **4 265** |
| Income taxes recoverable | | 1 049 | **757** |
| Other assets | | 5 160 | **6 113** |
| **Total assets** | | 307 287 | **239 877** |

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

## Liabilities and shareholders' equity

| CHF millions | Note | 2007 | 2008 |
|---|---|---|---|
| **Liabilities** | | | |
| Unpaid claims and claim adjustment expenses | 8 | 88 528 | **75 510** |
| Liabilities for life and health policy benefits | 9 | 50 026 | **39 911** |
| Policyholder account balances | 9 | 41 340 | **34 518** |
| Unearned premiums | | 7 722 | **7 802** |
| Funds held under reinsurance treaties | | 8 377 | **5 872** |
| Reinsurance balances payable | | 5 384 | **5 493** |
| Income taxes payable | | 679 | **769** |
| Deferred and other non-current taxes | 12 | 3 817 | **1 329** |
| Short-term debt | 7 | 12 658 | **6 522** |
| Accrued expenses and other liabilities | | 33 552 | **21 245** |
| Long-term debt | 7 | 23 337 | **20 453** |
| **Total liabilities** | | 275 420 | **219 424** |
| | | | |
| **Shareholders' equity** | | | |
| Common stock, CHF 0.10 par value | | | |
| 2007: 370 386 755; 2008: 363 516 036 shares authorised and issued | | 37 | **36** |
| Additional paid-in capital | | 11 208 | **10 776** |
| Treasury shares | | –1 540 | **–1 640** |
| Accumulated other comprehensive income: | | | |
| Net unrealised investment gains/losses, net of deferred taxes | | 3 119 | **–2 407** |
| Cumulative translation adjustments, net of deferred taxes | | –2 554 | **–4 854** |
| Accumulated adjustment for pension and post-retirement benefits, net of deferred taxes | | –115 | **–529** |
| **Total accumulated other comprehensive income** | | 450 | **–7 790** |
| | | | |
| Retained earnings | | 21 712 | **19 071** |
| **Total shareholders' equity** | | 31 867 | **20 453** |
| | | | |
| **Total liabilities and shareholders' equity** | | 307 287 | **239 877** |

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

# Statement of shareholders' equity

For the years ended 31 December

| CHF millions | 2007 | 2008 |
|---|---|---|
| **Common shares** | | |
| Balance as of 1 January | 37 | **37** |
| Issue of common shares | | **1** |
| Cancellation of shares bought back | | **–2** |
| Balance as of period end | 37 | **36** |
| | | |
| **Additional paid-in capital** | | |
| Balance as of 1 January | 11 136 | **11 208** |
| Issue of common shares[1] | 38 | **992** |
| Cancellation of shares bought back | | **–1 453** |
| Share-based compensation | –18 | **78** |
| Realised gains/losses on treasury shares | 52 | **–49** |
| Balance as of period end | 11 208 | **10 776** |
| | | |
| **Treasury shares** | | |
| Balance as of 1 January | –272 | **–1 540** |
| Purchase of treasury shares | –2 574 | **–2 032** |
| Cancellation of shares bought back | | **1 453** |
| Sales of treasury shares | 1 306 | **479** |
| Balance as of period end | –1 540 | **–1 640** |
| | | |
| **Net unrealised gains/losses, net of tax** | | |
| Balance as of 1 January | 2 230 | **3 119** |
| Change during the period | 889 | **–5 493** |
| Cumulative effect of adoption of SFAS 159 | | **–33** |
| Balance as of period end | 3 119 | **–2 407** |
| | | |
| **Foreign currency translation** | | |
| Balance as of 1 January | –205 | **–2 554** |
| Change during the period | –2 349 | **–2 300** |
| Balance as of period end | –2 554 | **–4 854** |
| | | |
| **Adjustment for pension and other post-retirement benefits** | | |
| Balance as of 1 January | –724 | **–115** |
| Change during the period | 609 | **–414** |
| Balance as of period end | –115 | **–529** |
| | | |
| **Retained earnings** | | |
| Balance as of 1 January | 18 682 | **21 712** |
| Net income/loss | 4 162 | **–864** |
| Dividends on common shares | –1 162 | **–1 331** |
| Cumulative effect of adoption of FIN 48 | 30 | |
| Cumulative effect of adoption of SFAS 158 | | **–31** |
| Cumulative effect of adoption of SFAS 159 | | **–7** |
| Deferred income tax on cross-border business transfer[2] | | **–408** |
| Balance as of period end | 21 712 | **19 071** |
| | | |
| **Total shareholders' equity** | 31 867 | **20 453** |

[1] This balance represents the premium from the conversion of a mandatory convertible bond that matured in December 2008.
[2] The novation of certain treaties from Swiss Re's Bermuda branches to Swiss Re Zurich resulted in a net deferred tax liability transfer to Swiss Re Zurich. The respective increase in deferred tax liability is due to different jurisdictional tax rates. The transfer of the net deferred tax liability does not impact the Group's net income or effective tax rate.

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

# Statement of comprehensive income

For the years ended 31 December

| CHF millions | 2007 | **2008** |
| --- | --- | --- |
| Net income/loss | 4 162 | **–864** |
| Other comprehensive income, net of tax: | | |
| Change in unrealised gains/losses (tax: 213 in 2007 and –963 in 2008) | 889 | **–5 526** |
| Change in foreign currency translation (tax: –201 in 2007 and –238 in 2008) | –2 349 | **–2 300** |
| Change in adjustment for pension benefits (tax: –194 in 2007 and –123 in 2008) | 609 | **–414** |
| **Comprehensive income/loss** | 3 311 | **–9 104** |

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

# Statement of cash flow

For the years ended 31 December

| CHF millions | 2007 | 2008 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | 4 162 | **–864** |
| Adjustments to reconcile net income to net cash provided/used by operating activities: | | |
| Depreciation, amortisation and other non-cash items | 676 | **871** |
| Net realised investment gains/losses | 739 | **9 482** |
| Change in: | | |
| Technical provisions, net | –6 434 | **–11 687** |
| Funds held by ceding companies and other reinsurance balances | –449 | **3 191** |
| Other assets and liabilities, net | 3 107 | **–3 407** |
| Income taxes payable/recoverable | 672 | **–1 213** |
| Income from equity-accounted investees, net of dividends received | –407 | **1 031** |
| Trading positions, net | –13 331 | **4 721** |
| Securities purchased/sold under agreement to resell/repurchase, net | 7 935 | **–8 214** |
| **Net cash provided/used by operating activities** | –3 330 | **–6 089** |
| | | |
| **Cash flows from investing activities** | | |
| Fixed income securities: | | |
| Sales and maturities | 59 324 | **89 219** |
| Purchases | –61 711 | **–81 530** |
| Net purchase/sale/maturities of short-term investments | 980 | **4 020** |
| Equity securities: | | |
| Sales | 6 495 | **9 137** |
| Purchases | –6 244 | **–1 440** |
| Cash paid/received for acquisitions/disposals and reinsurance transactions, net | 1 615 | **170** |
| Net purchases/sales/maturities of other investments | –1 761 | **–757** |
| **Net cash provided/used by investing activities** | –1 302 | **18 819** |
| | | |
| **Cash flows from financing activities** | | |
| Issuance of long-term debt | 4 342 | **1 327** |
| Issuance/repayment of short-term debt | 2 057 | **–5 354** |
| Equity issued | 38 | **1** |
| Purchase/sale of treasury shares | –2 303 | **–1 553** |
| Dividends paid to shareholders | –1 162 | **–1 331** |
| **Net cash provided/used by financing activities** | 2 972 | **–6 910** |
| | | |
| **Total net cash provided/used** | –1 660 | **5 820** |
| Effect of foreign currency translation | –415 | **–83** |
| **Change in cash and cash equivalents** | –2 075 | **5 737** |
| Cash and cash equivalents as of 1 January | 13 606 | **11 531** |
| **Cash and cash equivalents as of 31 December** | 11 531 | **17 268** |

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

Interest paid during 2008 was CHF 1 644 million including interest paid on repurchase agreements. The Group settled a mandatory convertible bond totalling CHF 996 million with equity.

For 2007 comparatives fixed income securities designated as trading assets have been reclassified from operating cash flows to investing cash flows according to the nature and purpose for which those assets are held as per the amendment to FAS 95 “Statement of Cash Flows”.

# Notes to the Group financial statements

## 1 Organisation and summary of significant accounting policies

**Nature of operations**

The Swiss Re Group, which is headquartered in Zurich, Switzerland, comprises Swiss Reinsurance Company Ltd (the parent company, referred to as "Swiss Re Zurich") and its subsidiaries (collectively, the "Swiss Re Group" or the "Group"). The Group provides reinsurance and other related products and services to insurance companies, direct clients and others worldwide through reinsurance brokers and a network of offices in over 25 countries.

**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. The Group's financial statements are stated in Swiss francs (CHF), the currency of the country in which Swiss Re Zurich is incorporated. All significant inter-company transactions and balances have been eliminated on consolidation.

**Principles of consolidation**

The Group's financial statements include the consolidated financial statements of Swiss Re Zurich and its subsidiaries. Entities which Swiss Re Zurich directly or indirectly controls through holding a majority of the voting rights are consolidated in the Group's accounts. The Group also consolidates variable interest entities where Swiss Re is the primary beneficiary. Companies which Swiss Re Zurich does not control, but over which Swiss Re Zurich directly or indirectly exercises significant influence, are accounted for using the equity method and are included in other invested assets. The Swiss Re Group's share of net profit or loss in investments accounted for under the equity method is included in net investment income. Equity and net income of these companies are adjusted as necessary to be in line with the Group's accounting policies. The results of consolidated subsidiaries and investments accounted for using the equity method are included in the financial statements for the period commencing from the date of acquisition.

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

The preparation of financial statements requires management to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the related disclosure including contingent assets and liabilities. The 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.

**Foreign currency remeasurements and translation**

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

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

**Valuation of financial assets**

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

The Group considers both the credit risk of its counterparties, and own risk of non-performance in the valuation of certain financial instruments. In determining the fair value of the financial instruments, the assessment of the Group's exposure to the credit risk of our counterparties incorporates consideration of existing collateral and netting arrangements entered into with each counterparty. The measure of the counterparty credit risk is estimated for derivative instruments and other over-the-counter financial assets 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.

There can also be differences between the market values implied by collateral requested by counterparties and the prices observed in the markets. The Group has provided collateral on all financial instruments, including the structured credit default swap, in excess of the market value estimate of CHF 391 million. For these assets or derivative structures, the Group uses market prices or inputs derived from market prices. A separate internal price verification process, independent of the trading function, provides an additional control over the market prices or market input used to determine the fair values of such assets. Whilst management considers that appropriate values have been ascribed to such assets, current market conditions increase the 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.

**Investments**

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

The Group only transfers investments from the trading into the available-for-sale category under rare circumstances. Transfers are accounted for at fair value at the date of transfer, which becomes the new cost basis. As of 1 October 2008 the Group reclassified fixed income securities from the trading into the available-for-sale category. Refer to Note 2 Investments for more detail.

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

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

Policy loans, mortgages and other loans are carried at amortised cost (effective yield method), net of any allowance for the estimated uncollectible amounts.

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

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

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

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

### Derivative financial instruments and hedge accounting

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

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

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

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

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

**Cash and cash equivalents**

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

**Deferred acquisition costs**

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

**Business combinations**

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

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

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

**Acquired present value of future profits**

The acquired present value of future profits (PVFP) of business in force is recorded in connection with the acquisition of life and/or health operations. 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.

**Goodwill**

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

**Other assets**

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

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

Separate account assets are carried at fair value. The investment performance (including interest, dividends, realised gains and losses and changes in unrealised gains and losses) of separate account assets and the corresponding amounts credited to the contract holder are offset to zero in the same line item in earnings.

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

**Capitalised software costs**

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

### Deferred income taxes

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

### Unpaid claims and claim adjustment expenses

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

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

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

### Liabilities for life and health policy benefits

Liabilities for life and health policy benefits from reinsurance business are generally calculated using the net level premium method, based on assumptions as to investment yields, mortality, withdrawals, lapses and policyholder dividends. Assumptions are set at the time the contract is issued or, in the case of contracts acquired by purchase, at the purchase date. The assumptions are based on projections from past experience, making allowance for possible adverse deviation. Interest assumptions for life and health reinsurance benefits liabilities range from 1% to 11%. Assumed mortality rates are generally based on experience multiples applied to the actuarial select and ultimate tables based on industry experience. Liabilities for policy benefits are increased if it is determined that future cash flows, including investment income, are insufficient to cover future benefits and expenses.

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

**Policyholder account balances**

Policyholder account balances relate to universal life-type contracts and investment contracts. Interest crediting rates for policyholder account balances range from 2.5% to 8.5%.

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

Investment contracts are long-duration contracts that do not incorporate significant insurance risk if there is no mortality and morbidity risk, or the mortality and morbidity risk associated with the insurance benefit features offered in the contract is of insignificant amount or remote probability. Amounts received as payment for investment contracts are reported as policyholder account balances. Related assets are included in general account assets.

Amounts assessed against policyholders for mortality, administration and surrender are shown as fee income. Amounts credited to policyholders are shown as return credited to policyholders. Investment income and realised investment gains and losses allocable to policyholders are included in net investment income and net realised investment gains/losses.

**Funds held assets and liabilities**

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

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

**Premiums**

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

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

**Reinsurance ceded**

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

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

**Pensions and other post-retirement benefits**

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

**Share-based payment transactions**

The Group has a long-term incentive plan, a fixed option plan, a restricted share plan, and an employee participation plan. These plans are described in more detail in Note 14. The Group accounts for share-based payment transactions with employees using the fair value method. Under the fair value method, the fair value of the awards is recognised in earnings over the vesting period.

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

**Treasury shares**

Treasury shares are reported at cost in shareholders' equity. Treasury shares also include stand-alone derivative instruments indexed to the Group's shares that meet the requirements for classification in shareholders' equity.

**Earnings per common share**

Basic earnings per common share are determined by dividing net income available to shareholders by the weighted average number of common shares entitled to dividends during the year. Diluted earnings per common share reflect the effect on earnings and average common shares outstanding associated with dilutive securities.

**Recent accounting guidance**

In September 2006, the Financial Accounting Standards Board issued SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158). SFAS 158 requires an employer to recognise the overfunded or underfunded status of a defined benefit post-retirement plan as an asset or liability and to recognise changes in that funded status in the year in which the changes occur through comprehensive income. The Group adopted the provisions of SFAS 158 for the year ended 31 December 2006 except for the provision to measure plan assets and benefit obligations as of the date of the employers' fiscal year end statement of financial condition. The Group adopted the final provision as of 1 January 2008. Refer to Note 13 for further information.

In September 2006, the Financial Accounting Standards Board issued SFAS No. 157 "Fair Value Measurements" (SFAS 157). SFAS 157 establishes a new definition and framework for determining fair value and expands the required disclosures for assets and liabilities recorded at fair value. This statement applies to all assets and liabilities measured at fair value which are required or allowed by other standards with limited exceptions. The Group adopted SFAS 157 as of 1 January 2008. Refer to Note 3 for further information.

In February 2007, the Financial Accounting Standards Board issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159). SFAS 159 enables entities to elect to measure specified financial assets and liabilities at fair value on an instrument-by-instrument basis and expands the ability to use fair value measurements with financial instruments and certain other items for which fair value measurement was not previously permitted. The Group adopted SFAS 159 and applied the fair value option as of 1 January 2008. Refer to Note 3 for further information.

In April 2007, the Financial Accounting Standards Board issued FSP FIN 39-1 "Amendment of FASB Interpretation No. 39" (FIN 39-1). FIN 39-1 impacts master netting arrangements, which are part of derivative transactions, by allowing net derivative positions to be offset against the fair value of amounts (or amounts that approximate fair value) recognised as the right to reclaim cash collateral or the obligation to return cash collateral under those arrangements. The Group adopted FIN 39-1 as of 1 January 2008. Refer to Note 4 for further information.

In May 2008, the Financial Accounting Standards Board issued SFAS No. 163 "Accounting for Financial Guarantee Insurance Contracts". This standard changes the measurement and disclosure requirements for financial guarantee insurance contracts. It has become effective for the Group on 1 January 2009. As required by the standard, the Group adopted for the third quarter 2008 disclosure requirements about risk management practices and exposures that have experienced credit deterioration. Refer to Note 10 for further information.

In September 2008, the Financial Accounting Standards Board issued FSP FAS 133-1 and FIN 45-4 "Disclosures about Credit Derivatives and Certain Guarantees – An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161" (FSP FAS 133-1 and FIN 45-4). This FSP requires disclosures by sellers of credit derivatives and about the current status of the payment/performance risk of guarantees. The Group adopted FSP FAS 133-1 and FIN 45-4 as of 31 December 2008. Refer to Note 4 for further information.

On 10 October 2008, the Financial Accounting Standards Board issued FSP FAS 157-3 "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" (FSP FAS 157-3). FSP FAS 157-3 clarifies the application of SFAS No. 157 "Fair Value Measurements" in a market that is not active. FSP FAS 157-3 is effective upon issuance. The Group has reviewed FSP FAS 157-3 and concluded that it is consistent with the valuation guidance applied by the Group. Refer to Note 3 for further information.

In December 2008, the Financial Accounting Standards Board issued FSP FAS 140-4 and FIN 46(R)-8 "Disclosures about Transfers of Financial Assets and Interests in VIEs" (FSP FAS 140-4 and FIN 46(R)-8). This FSP requires additional disclosures about a company's involvement with variable interest entities (VIEs) and its continuing involvement with transferred financial assets. The Group adopted FSP FAS 140-4 and FIN 46(R)-8 as of 31 December 2008. Refer to Notes 2 and 18 for further information.

## 2 Investments

### Investment income

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

| CHF millions | 2007 | 2008 |
|---|---|---|
| Fixed income securities | 7 516 | 6 788 |
| Equity securities | 888 | 767 |
| Policy loans, mortgages and other loans | 604 | 541 |
| Investment real estate | 221 | 232 |
| Short-term investments | 494 | 275 |
| Other current investments | 539 | 409 |
| Share in earnings of equity-accounted investees | 448 | –944 |
| Cash and cash equivalents | 351 | 332 |
| Deposits with ceding companies | 777 | 595 |
| **Gross investment income** | 11 838 | **8 995** |
| Investment expenses | –612 | –732 |
| Interest charged for funds held | –534 | –382 |
| **Net investment income** | 10 692 | **7 881** |

Dividends received from investments accounted for using the equity method were CHF 26 million and CHF 87 million for 2007 and 2008, respectively. The Group revised the classification of share in earnings and dividends from equity-accounted investments for 2007 and 2008.

Net investment income includes income on unit-linked business and with-profit business, which are credited to policyholders.

| CHF millions | 2007 | 2008 |
|---|---|---|
| Unit-linked investment income | 749 | 767 |
| With-profit investment income | 311 | 249 |

## Realised gains and losses

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

| CHF millions | 2007 | 2008 |
|---|---|---|
| Fixed income securities available-for-sale: | | |
| Gross realised gains | 621 | 1 416 |
| Gross realised losses | –670 | –2 443 |
| Equity securities available-for-sale: | | |
| Gross realised gains | 1 714 | 927 |
| Gross realised losses | –159 | –1 250 |
| Other-than-temporary impairments | –647 | –2 868 |
| Net realised investment gains/losses on trading securities | –917 | –2 689 |
| Change in net unrealised investment gains on trading securities | 298 | –5 712 |
| Other investments: | | |
| Gross realised/unrealised gains/losses | 356 | 1 799 |
| Foreign exchange gains/losses | –1 335 | 1 338 |
| **Net realised investment gains/losses** | –739 | **–9 482** |

Proceeds from the sales of fixed income securities available-for-sale amounted to CHF 44 356 million and CHF 77 491 million for 2007 and 2008, respectively. Sales of equity securities available-for-sale were CHF 6 668 million and CHF 8 916 million for 2007 and 2008, respectively.

For 2007, foreign exchange gains and losses on investments are included in the respective line items. For 2008, all foreign exchange gains and losses on remeasurement are included in the line item "Foreign exchange gains/losses".

Net realised investment gains/losses include income on unit-linked and with-profit business, which are credited to policyholders.

| CHF millions | 2007 | 2008 |
|---|---|---|
| Unit-linked realised gains/losses | 512 | –4 052 |
| With-profit realised gains/losses | –67 | –741 |

**Investments available-for-sale**

Amortised cost or cost and estimated fair values of investments in fixed income and equity securities classified as available-for-sale were as follows:

| As of 31 December 2007<br>CHF millions | Amortised cost or cost | Gross un-realised gains | Gross un-realised losses | Estimated fair value |
|---|---|---|---|---|
| Debt securities issued by governments and government agencies: | | | | |
| US Treasury and other US government corporations and agencies | 22 743 | 678 | –96 | 23 325 |
| States of the United States and political subdivisions of the states | 1 417 | 46 | –11 | 1 452 |
| United Kingdom | 11 096 | 261 | –65 | 11 292 |
| Canada | 3 708 | 1 040 | –4 | 4 744 |
| Germany | 2 228 | 50 | –22 | 2 256 |
| France | 1 196 | 11 | –24 | 1 183 |
| Other | 7 293 | 281 | –41 | 7 533 |
| Total | 49 681 | 2 367 | –263 | 51 785 |
| Corporate debt securities | 25 117 | 650 | –747 | 25 020 |
| Mortgage-backed and asset-backed securities | 31 197 | 246 | –438 | 31 005 |
| **Fixed income securities available-for-sale** | 105 995 | 3 263 | –1 448 | 107 810 |
| **Equity securities available-for-sale** | 9 039 | 2 205 | –485 | 10 759 |

| As of 31 December 2008<br>CHF millions | Amortised cost or cost | Gross un-realised gains | Gross un-realised losses | Estimated fair value |
|---|---|---|---|---|
| Debt securities issued by governments and government agencies: | | | | |
| US Treasury and other US government corporations and agencies | 22 545 | 2 962 | –339 | 25 168 |
| States of the United States and political subdivisions of the states | 45 | | –4 | 41 |
| United Kingdom | 10 302 | 488 | –278 | 10 512 |
| Canada | 3 620 | 478 | –180 | 3 918 |
| Germany | 1 193 | 92 | –16 | 1 269 |
| France | 1 302 | 93 | –14 | 1 381 |
| Other | 8 060 | 391 | –269 | 8 182 |
| Total | 47 067 | 4 504 | –1 100 | 50 471 |
| Corporate debt securities | 24 781 | 411 | –2 535 | 22 657 |
| Mortgage-backed and asset-backed securities | 34 368 | 319 | –4 377 | 30 310 |
| **Fixed income securities available-for-sale** | **106 216** | **5 234** | **–8 012** | **103 438** |
| **Equity securities available-for-sale** | **675** | **184** | **–26** | **833** |

**Investments trading**

Fixed income securities and equity securities classified as trading as of 31 December were as follows:

| CHF millions | 2007 | **2008** |
|---|---|---|
| Debt securities issued by governments and government agencies | 14 738 | 9 026 |
| Corporate debt securities | 18 894 | 3 429 |
| Mortgage-backed and asset-backed securities | 18 161 | 1 506 |
| **Fixed income securities trading** | 51 793 | **13 961** |
| **Equity securities trading** | 22 103 | **15 355** |

**Reclass of fixed income securities from trading to available-for-sale**

SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities" requires that investments are classified into one of three categories: trading, available-for-sale, and held-to-maturity. The criterion for classification is management's plan for holding or disposing of the investment, rather than the characteristics of the asset. Reclassification between categories is only possible under rare circumstances.

As a reaction to the current unprecedented market turmoil, Swiss Re revised its business strategy and therefore its related investment strategy. Under the revised strategy, the majority of the fixed income securities classified as trading are no longer held for the purpose of selling or repurchasing over the short term. To reflect this change, as of 1 October 2008, the Group transferred CHF 22 441 million of fixed income securities from the trading into the available-for-sale category.

Fixed income securities, which remain in the trading category, include assets related to unit-linked and with-profit business and assets designated to match monetary liabilities to balance the foreign exchange remeasurement impact under SFAS No. 52 "Foreign Currency Translation".

**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 2007 and 2008, CHF 5 169 million and CHF 8 648 million, respectively, of fixed income securities available-for-sale were callable.

| As of 31 December<br>CHF millions | Amortised cost or cost | 2007<br>Estimated fair value | Amortised cost or cost | **2008**<br>Estimated fair value |
|---|---|---|---|---|
| Due in one year or less | 6 643 | 4 149 | 6 369 | 6 384 |
| Due after one year through five years | 20 156 | 23 241 | 15 468 | 15 095 |
| Due after five years through ten years | 17 819 | 18 075 | 17 931 | 17 506 |
| Due after ten years | 30 180 | 31 340 | 36 291 | 37 510 |
| Mortgage and asset-backed securities with no fixed maturity | 31 197 | 31 005 | 30 157 | 26 943 |
| **Total fixed income securities available-for-sale** | 105 995 | 107 810 | **106 216** | **103 438** |

**Assets on deposit or pledged**

As of 31 December 2007 and 2008, investments with the carrying value of CHF 1 438 million and 1 566 CHF million, respectively, were on deposit with regulatory agencies in accordance with local requirements.

As of 31 December 2007 and 2008, investments (including cash and cash equivalents) with a carrying value of approximately CHF 9 262 million and CHF 8 689 million, respectively, were placed on deposit or pledged to secure certain reinsurance liabilities.

As of 31 December 2008, securities of CHF 10 707 million are pledged as collateral in securities lending transactions and repurchase agreements. The associated liabilities of CHF 4 465 million are recognised in accrued expenses and other liabilities.

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

As of 31 December 2007 and 2008, the fair value of the government and corporate bond securities received as collateral, was CHF 13 969 million and CHF 8 272 million, respectively. Of this, the amount that has been sold or repledged as of 31 December 2007 and 2008 was CHF 7 995 million and CHF 2 554 million, respectively, which is used to settle short Government bond positions. The sources of the collateral are typically highly rated banking market counterparties.

The Group has revised the presentation of collateral, which can be sold or repledged, for 2007. The revision has no impact on balance sheet items, shareholders' equity or net income.

**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 2007 and 2008. A continuous decline in the value of equity securities available-for-sale for longer than twelve months is considered other-than-temporary and recognised as net realised investment gains/losses in the income statement. Therefore, as of 31 December 2007 and 2008, the gross unrealised loss on equity securities available-for-sale of CHF 485 million, respectively, and CHF 26 million relates to declines in value for less than 12 months.

| As of 31 December 2007<br>CHF millions | Less than 12 months<br>Fair value | <br>Unrealised losses | 12 months or more<br>Fair value | <br>Unrealised losses | Total<br>Fair value | <br>Unrealised losses |
|---|---|---|---|---|---|---|
| Debt securities issued by governments and government agencies | 6 960 | 79 | 6 349 | 184 | 13 309 | 263 |
| Corporate debt securities | 9 379 | 432 | 3 495 | 315 | 12 874 | 747 |
| Mortgage and asset-backed securities | 11 044 | 317 | 4 573 | 121 | 15 617 | 438 |
| **Total** | 27 383 | 828 | 14 417 | 620 | 41 800 | 1 448 |

| As of 31 December 2008<br>CHF millions | **Less than 12 months**<br>Fair value | <br>Unrealised losses | **12 months or more**<br>Fair value | <br>Unrealised losses | **Total**<br>Fair value | <br>Unrealised losses |
|---|---|---|---|---|---|---|
| Debt securities issued by governments and government agencies | 11 266 | 864 | 867 | 236 | 12 133 | 1 100 |
| Corporate debt securities | 11 511 | 1 605 | 3 080 | 930 | 14 591 | 2 535 |
| Mortgage and asset-backed securities | 13 033 | 3 240 | 5 061 | 1 137 | 18 094 | 4 377 |
| **Total** | **35 810** | **5 709** | **9 008** | **2 303** | **44 818** | **8 012** |

The unprecedented market volatility and relative illiquidity in certain asset sectors had an adverse impact on the valuation of certain of the Group's investments.

An assessment of whether an other-than-temporary decline in the value of equity and fixed income securities available-for-sale has occurred as of the balance sheet date is based on a case-by-case evaluation of the reasons behind the decline in value. This evaluation includes: (a) an assessment of the duration and extent of the decline in value; (b) review of the financial performance and outlook for the economic environment and industry in which the issuer operates; (c) review of the financial performance and outlook for the issuer compared to industry peers; and (d) analysis of any other factors, including credit rating, that may adversely affect the Group's intent and ability to hold the investment long enough to allow for any anticipated recovery. Considering these factors, the Group deems the unrealised loss of CHF 8 012 million on fixed income securities available-for-sale to be temporary, as it has the ability and the intent as of 31 December 2008 to hold these securities until recovery of fair value. Other-than-temporary declines in the value of equity and fixed income securities available-for-sale are recognised as net realised investment gains/losses in the income statement.

The Group may sell available-for-sale equity or fixed income securities at a loss in subsequent periods having previously asserted the intent and ability to hold such securities until recovery. Such sales may only take place in response to changes in market conditions or other circumstance that occur after the balance sheet date. As a result, the Group recognises the associated realised losses in the period in which the decision to sell the securities is taken.

### Mortgages, loans and real estate

As of 31 December, investments in mortgages and other loans and real estate comprised the following:

| | | 2007 | | **2008** |
|---|---|---|---|---|
| CHF millions | Carrying value | Fair value | Carrying value | Fair value |
| Policy loans, mortgages and other loans | 7 414 | 7 414 | 6 611 | 6 611 |
| Investment real estate | 2 682 | 3 937 | 2 143 | 3 093 |

As of 31 December 2007 and 2008, the Group's investment in mortgages and other loans included CHF 216 million and CHF 200 million, respectively, of loans due from employees and CHF 415 million and CHF 444 million, respectively, due from officers. These loans generally consist of mortgages offered at variable and fixed interest rates.

As of 31 December 2007 and 2008, investments in real estate included CHF 64 million and CHF 9 million, respectively, of real estate held for sale.

Depreciation expense related to income-producing properties was CHF 57 million and CHF 38 million for 2007 and 2008, respectively. Accumulated depreciation on investment real estate totalled CHF 508 million and CHF 493 million as of 31 December 2007 and 2008, respectively.

Substantially all mortgages and other loans receivable are secured by buildings, land or the underlying policies. The ultimate collectibility of the receivables is evaluated regularly and an appropriate allowance for uncollectible amounts is established.

## 3 Fair value disclosures

As of 1 January 2008, the Swiss Re Group adopted SFAS No.157 "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It requires disclosures of the Group's assets and liabilities that are measured at fair value.

Fair value, as defined by SFAS 157, 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.

SFAS 157 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 (e.g. markets which have few transactions and 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 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 Group does not adjust the quoted price for such instruments, even in situations where it holds a large position and a sale could reasonably impact the quoted price.

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, state and municipal and provincial obligations. Such instruments are generally classified within level 2 of the fair value hierarchy.

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

Certain financial instruments are classified within level 3 of the fair value hierarchy because they trade infrequently and therefore have little or no price transparency. Such instruments include private equity, less liquid corporate debt securities and certain asset-backed securities. Certain over-the-counter derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. Such instruments are classified within level 3 of the fair value hierarchy. Pursuant to the election of the fair value option, the Group classifies certain Life & Health policy reserves to 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 have resulted in a net realised gain from assets and liabilities measured at fair value using significant unobservable inputs. 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 level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value.

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

As of 31 December 2008, the fair values of assets and liabilities measured on a recurring basis by level of input were as follows:

| CHF millions | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Impact of netting[1] | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Fixed income securities | 11 646 | 94 232 | 11 521 | | 117 399 |
| Equity securities | 15 185 | 783 | 220 | | 16 188 |
| Derivative financial instruments | 382 | 80 897 | 14 917 | –88 174 | 8 022 |
| Other assets | 36 | | 1 580 | | 1 616 |
| **Total assets at fair value** | **27 249** | **175 912** | **28 238** | **–88 174** | **143 225** |
| | | | | | |
| **Liabilities** | | | | | |
| Derivative financial instruments | –416 | –76 358 | –18 547 | 85 750 | –9 571 |
| Liabilities for life and health policy benefits | | | –494 | | –494 |
| Accrued expenses and other liabilities | –607 | –58 | | | –665 |
| **Total liabilities at fair value** | **–1 023** | **–76 416** | **–19 041** | **85 750** | **–10 730** |

[1] FIN 39 permits the netting of derivative receivables and derivative payables when a legally enforceable master netting agreement exists between two counterparties. A master netting agreement provides for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default or on the termination of any one contract.

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

| CHF millions | Fixed income securities | Equity securities | Derivative financial instruments | Other assets | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Opening balance as of 1 January 2008 | 8 887 | 140 | 9 389 | 1 498 | 19 914 |
| Realised/unrealised gains/losses: | | | | | |
| Included in net income | –1 554 | 116 | 3 878 | –324 | 2 116 |
| Included in other comprehensive income | –2 689 | 19 | | –248 | –2 918 |
| Purchases, issuances, and settlements | 1 733 | –236 | 1 723 | 187 | 3 407 |
| Transfers in and/or out of Level 3 | 5 877 | 273 | 106 | 493 | 6 749 |
| Impact of foreign exchange movements | –733 | –92 | –179 | –26 | –1 030 |
| **Closing balance as of 31 December 2008** | **11 521** | **220** | **14 917** | **1 580** | **28 238** |

| | Liabilities for life and health policy benefits | Derivative financial instruments | Accrued expenses and other liabilities | Total |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Opening balance as of 1 January 2008 | –102 | –10 200 | –170 | –10 472 |
| Realised/unrealised gains/losses: | | | | |
| Included in net income | –376 | –7 074 | | –7 450 |
| Included in other comprehensive income | | 10 | | 10 |
| Purchases, issuances, and settlements | | –1 391 | 145 | –1 246 |
| Transfers in and/or out of Level 3 | | 14 | 34 | 48 |
| Impact of foreign exchange movements | –16 | 94 | –9 | 69 |
| **Closing balance as of 31 December 2008** | **–494** | **–18 547** | **0** | **–19 041** |

**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 twelve months ended 31 December 2008 were as follows:

| CHF millions | Net realised investment gains/losses |
|---|---|
| Gains/losses included in net income for the period | –5 334 |
| Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date | –3 605 |

## Fair value option

SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities", 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:

**Fixed income securities trading**
In the second quarter of 2008, the Group elected the fair value option for specific investments acquired within a transaction. These securities are classified as debt securities under the Group's accounting policies. Upon election of the fair value option the securities are classified as trading, with changes in fair value recorded in earnings. The primary reason for electing the fair value option is to mitigate volatility in earnings as a result of using different measurement attributes.

**Equity securities trading**
As of 1 January 2008, 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. According to the nature of the investment, the Group revised the presentation in the current period and included it in equity securities held for trading.

**Liabilities for life and health policy benefits**
As of 1 January 2008, the Group elected the fair value option for existing SOP 03-01 guaranteed minimum death benefit (GMDB) reserves related to certain variable annuity contracts which are classified as universal life-type contracts. The Group has applied the fair value option as the equity risk associated with those contracts is managed on a fair value basis, and it is economically hedged with derivative options in the market.

## Cumulative effect due to initial adoption of the fair value option

The initial adoption of the fair value option for existing transactions had a one-time effect on the corresponding balance sheet positions and retained earnings. The following table shows the adjustment for each balance sheet item as of 1 January 2008:

| As of 1 January 2008<br>CHF millions | Carrying value prior to adoption | Impact upon adoption | Fair value after adoption |
|---|---|---|---|
| **Assets** | | | |
| Equity securities trading[1] | 576 | | 576 |
| | | | |
| **Liabilities** | | | |
| Liabilities for life and health policy benefits | –108 | –40 | –148 |

[1] Prior to the election of the fair value option, the investment was reported in other invested assets.

The net impact on retained earnings from the fair value elections described above was an increase of CHF 33 million and a decrease of CHF 40 million, respectively.

**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 2008 were as follows:

| As of 31 December<br>CHF millions | 2008 |
|---|---|
| **Assets** | |
| Fixed income securities trading | 13 961 |
| of which at fair value pursuant to the fair value option | 681 |
| Equity securities trading | 15 355 |
| of which at fair value pursuant to the fair value option | 121 |
| **Liabilities** | |
| Liabilities for life and health policy benefits | –39 911 |
| of which at fair value pursuant to the fair value option | –494 |

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

Total losses included in earnings for the year ended 31 December 2008, including foreign exchange impact, were CHF 1 150 million.

Fair value changes from fixed income securities trading (CHF –349 million) and equity securities trading (CHF –455 million) are reported in net realised investment gains/losses. Fair value changes from the guaranteed minimum death benefit reserves (CHF –346 million) are shown in life and health benefits.

## 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 fair values below are not an indication of credit risk, as many over-the-counter transactions are contracted and documented under ISDA master agreements or their equivalent. Management believes that such agreements provide for legally enforceable set-off in the event of default, which substantially reduces credit exposure.

The fair value of derivatives outstanding as of 31 December 2007 and 31 December 2008 was as follows:

| | As of 31 December 2007 | | | **As of 31 December 2008** | | |
|---|---|---|---|---|---|---|
| CHF millions | Positive fair value | Negative fair value | Carrying value assets /liabilities | Positive fair value | Negative fair value | Carrying value assets /liabilities |
| **Interest rate contracts** | | | | | | |
| Forwards and futures | 88 | –396 | –308 | 253 | –333 | –80 |
| Swaps | 5330 | –5483 | –153 | 15354 | –15292 | 62 |
| Other | 101 | –101 | | 749 | –432 | 317 |
| **Total** | 5519 | –5980 | –461 | **16356** | **–16057** | **299** |
| **Equity and index contracts** | | | | | | |
| Forwards and futures | 670 | –672 | –2 | 311 | –265 | 46 |
| Options | 2763 | –1997 | 766 | 3360 | –1220 | 2140 |
| Swaps | 290 | –131 | 159 | 10 | –138 | –128 |
| Other | 57 | –11 | 46 | 21 | –23 | –2 |
| **Total** | 3780 | –2811 | 969 | **3702** | **–1646** | **2056** |
| **Foreign currency** | | | | | | |
| Options | 407 | –359 | 48 | 396 | –286 | 110 |
| Swaps | 2034 | –2821 | –787 | 2118 | –3363 | –1245 |
| Other | | | | 25 | –18 | 7 |
| **Total** | 2441 | –3180 | –739 | **2539** | **–3667** | **–1128** |
| **Other derivatives** | | | | | | |
| Credit derivatives | 4011 | –4071 | –60 | 15710 | –15008 | 702 |
| Catastrophe derivatives | 1 | –11 | –10 | 2 | –1 | 1 |
| Weather derivatives | 3 | –12 | –9 | 1130 | –1284 | –154 |
| Other | 40 | –97 | –57 | 661 | –3986 | –3325 |
| **Total** | 4055 | –4191 | –136 | **17503** | **–20279** | **–2776** |
| **Total derivative financial instruments** | 15795 | –16162 | –367 | **40100** | **–41649** | **–1549** |

The Group offsets derivative assets and liabilities, including certain derivative related collateral contracts in the balance sheet, for which a right of offset under master netting agreements exists.

According to FIN 39-1, the fair value amounts recognised for the right to reclaim cash collateral or the obligation to return cash collateral that have been offset are CHF 2 748 million for assets and CHF 2 548 million for liabilities as of 31 December 2007, and CHF 6 189 million for assets and CHF 3 765 million for liabilities as of 31 December 2008, respectively. The fair value amounts that have not been offset are CHF 302 million and nil as of 31 December 2007 and 31 December 2008, respectively.

The maximum potential loss assuming non-performance by all counterparties, and based on the market replacement cost as of 31 December 2007 and 31 December 2008, approximated CHF 6 713 million and CHF 14 032 million, respectively. These values are net of amounts offset pursuant to rights of set-off and qualifying master netting arrangements with various counterparties.

As of 31 December 2007 and 31 December 2008, other invested assets included derivative financial instruments with a fair value of CHF 6 168 million and CHF 8 022 million, respectively.

As of 31 December 2007 and 31 December 2008, other accrued expenses and other liabilities included derivative financial instruments with a fair value of CHF 6 535 million and CHF 9 571 million, respectively.

These derivative financial instruments include cash flow hedges with a fair value of CHF 21 million and CHF 6 million as of 31 December 2007 and 31 December 2008, respectively.

**Hedges of net investment in foreign operations**

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

For the year ended 31 December 2007 and 31 December 2008, the Group recorded net unrealised foreign currency remeasurement losses in shareholders' equity of CHF 668 million and CHF 210 million, respectively. This offsets translation gains and losses on the hedged net investment.

**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 credit derivatives, which protect the counterparty against credit risk, are classified as credit derivatives under FAS 133-1. The total return swaps, for which the Group assumes asset risks mainly of variable interest entities, qualify as guarantees under FIN 45-4. 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 table below shows the fair values and the maximum potential payout of the written/sold credit derivatives as of 31 December 2008, categorised by the type of the credit derivative and credit spreads which are 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.

| | | | | | **As of 31 December 2008** |
|---|---|---|---|---|---|
| | Total fair values of written/ sold credit | Maximum potential payout (time to maturity)[1] | | | Total maximum potential |
| CHF millions | derivatives | 0 – 5 years | 5 – 10 years | Over 10 years | payout |
| **Credit Default Swaps** | | | | | |
| Credit spread in basis points | | | | | |
| 0 – 250 | –2 310 | 38 109 | 20 784[2] | 1 180 | 60 073 |
| 251 – 500 | –1 233 | 19 464 | 1 943 | 115 | 21 522 |
| 501 – 1000 | –1 795 | 12 965 | 1 448 | 85 | 14 498 |
| Greater than 1000 | –6 373 | 13 029 | 587 | 3 392[3] | 17 008 |
| No credit spread available | –149 | 2 685 | 330 | 173 | 3 188 |
| **Total** | **–11 860** | **86 252** | **25 092** | **4 945** | **116 289** |
| | | | | | |
| **Credit Spread Options** | | | | | |
| Credit spread in basis points | | | | | |
| 0 – 250 | –35 | 2 372 | | | 2 372 |
| **Total** | **–35** | **2 372** | **0** | **0** | **2 372** |
| | | | | | |
| **Credit Index Products** | | | | | |
| Credit spread in basis points | | | | | |
| 0 – 250 | –4 290 | 16 849 | 23 572 | 134 | 40 555 |
| No credit spread available | 116 | 44 | 439 | 493 | 976 |
| **Total** | **–4 174** | **16 893** | **24 011** | **627** | **41 531** |
| | | | | | |
| **Total Return Swaps[4]** | | | | | |
| Credit spread in basis points | | | | | |
| No credit spread available | –534 | 7 227 | 716 | | 7 943 |
| **Total** | **–534** | **7 227** | **716** | **0** | **7 943** |
| | | | | | |
| **Total credit derivatives written/sold** | **–16 603** | **112 744** | **49 819** | **5 572** | **168 135** |

[1] The maximum potential payout is based on notional values of the credit derivatives.
[2] Including Corporate Portfolio CDS, which consists predominantly of large investment grade and SME corporate loans.
[3] Including Structured CDS.
[4] The Group enters total return swaps mainly with variable interest entities which issue insurance-linked and credit-linked securities.

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 with credit derivatives. As of 31 December 2008, the total purchased credit protection was CHF 169 682 million based on notional values. Thereof CHF 90 491 million was 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 performed with non-identical offsetting positions.

## 5 Acquisitions

**Determination of purchase price**

On 31 October 2008, the Group completed the acquisition of Barclays Life Assurance Company Ltd in a GBP 762 million cash transaction. The Group acquired 100% of the equity share capital of Barclays Life Assurance Company Ltd. The total cost of investment amounted to GBP 765 million, including GBP 3 million transaction cost.

The Group has acquired approximately 760 000 life insurance and pension policies and annuity contracts, representing approximately GBP 5.9 billion in invested assets. The Barclays Life book comprises unit-linked life and pension policies, non-linked annuity policies and a smaller block of protection business, including term life and permanent health insurance. The acquisition provides further scale and infrastructure for the Group's Admin Re® business in the United Kingdom.

| | As of 31 October 2008 | |
|---|---|---|
| CHF millions | GBP | CHF |
| Cash | 762 | 1 439 |
| Transaction cost | 3 | 5 |
| **Total cost of investment** | **765** | **1 444** |

**Allocation of purchase price**

The purchase price has been allocated based on the fair value of assets acquired and liabilities at the date of acquisition. The allocation of the purchase price included adjustments to the following assets and liabilities:

| CHF millions | As of 31 October 2008 |
|---|---|
| Net assets acquired | 688 |
| Adjustments to assets acquired and liabilities assumed | |
| Present value of future profits (PVFP) | 969 |
| Liabilities for policy benefits for Life & Health | 73 |
| Tax impact of above adjustments and other tax adjustments | –286 |
| **Total cost of investment** | **1 444** |

**Investments**

Fair values have been attributed to investments mainly according to quoted market prices. If quoted market prices were not available, valuation models were applied.

**Present value of future profits and Life & Health policy benefits**

The present value of future profits (PVFP) has been estimated based on the best estimate of expected future profits. As of the purchase date the PVFP amounted to a value of CHF 969 million with an amortisation period of 50 years. The Life & Health policy benefit reserves have been adjusted based on best estimate assumptions at the time of the acquisition.

**Restructuring provision**

The Group has not recognised any restructuring provision related to the acquisition.

**Deferred taxes**

Deferred tax has been recognised on the fair value adjustments summarised above. Historic deferred tax assets and liabilities have been adjusted to the expected payable and recoverable amounts which the Group expects to realise.

**Pro forma financial result (unaudited)**

The unaudited pro forma financial information as of 31 December 2008 is presented to illustrate the effect on the Group's income statement of the acquisition.

The unaudited pro forma result is based on the estimated revenues and net income of the acquired business in 2007 and 2008 and includes estimates for the impact of purchase accounting. This pro forma information is not necessarily indicative of what would have occurred had the acquisition and related transactions been made on the dates indicated, or of future results of the company.

| Unaudited pro forma results after the Barclays acquisition<br>CHF millions (except share data) | 2007 | **As of 31 December<br>2008** |
|---|---|---|
| Total revenues | 44 227 | 23 311 |
| **Net income/loss** | 4 237 | **–810** |
| Net income/loss per share in CHF – basic | 12.17 | –2.45 |
| Net income/loss per share in CHF – diluted | 11.42 | –2.45 |

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

| | | 2007 | | **2008** |
|---|---|---|---|---|
| CHF millions | DAC | PVFP | DAC | PVFP |
| Balance as of 1 January | 5 270 | 7 550 | 5 152 | 6 769 |
| Deferred | 4 123 | | 2 719 | |
| Effect of acquisitions/disposals and retrocessions | | 265 | | 1 204 |
| Amortisation | −3 984 | −977 | −2 842 | −926 |
| Interest accrued on unamortised PVFP | | 382 | | 330 |
| Effect of foreign currency translation | −257 | −458 | −718 | −1 143 |
| Effect of change in unrealised gains/losses | | 7 | | −95 |
| **Balance as of period end** | 5 152 | 6 769 | **4 311** | **6 139** |

The amortisation of DAC in 2008 represents CHF 2 676 million and CHF 166 million for the Property & Casualty and Life & Health business segments, respectively.

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

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

## 7 Debt

The Group enters into long- and short-term debt arrangements to obtain funds for general corporate use and specific transaction financing. The Group defines short-term debt as debt having a maturity at the balance sheet date of less than one year and long-term debt as having a maturity of greater than one year. Interest expense is classified accordingly. The Group's debt as of 31 December 2007 and 2008 was as follows:

| CHF millions | 2007 | **2008** |
|---|---|---|
| Senior financial debt | 1 254 | 1 437[1] |
| Senior operational debt | 10 478 | 5 085 |
| Subordinated financial debt | 926 | |
| **Short-term debt – financial and operational debt** | 12 658 | **6 522** |
| Senior financial debt | 1 367 | 415 |
| Senior operational debt | 8 074 | 9 467 |
| Subordinated financial debt | 6 330 | 5 474 |
| Subordinated operational debt | 7 566 | 5 097 |
| **Long-term debt – financial and operational debt** | 23 337 | **20 453** |
| **Total debt** | 35 995 | **26 975** |

[1] A mandatory convertible bond matured in December 2008, which converted to Swiss Re shares using the conversion rate of CHF 95.6. This balance now includes one other mandatory convertible bond issued in June 2006, due in June 2009, with a book value of CHF 610 million.

### Maturity of long-term debt

As of 31 December 2007 and 2008, long-term debt as reported above had the following maturities:

| CHF millions | 2007 | **2008** |
|---|---|---|
| Due in 2009 | 2 381 | 0[1] |
| Due in 2010 | 1 245 | 1 474 |
| Due in 2011 | 1 730 | 1 742 |
| Due in 2012 | 1 167 | 1 098 |
| Due in 2013 | 37 | 38 |
| Due after 2013 | 16 777 | 16 101 |
| **Total carrying value** | 23 337 | **20 453** |
| **Total fair value** | 23 266 | **19 360** |

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

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 strong 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. As of 31 December 2007 and 2008, operational leverage and financial intermediation liabilities amounted to CHF 52.4 billion (thereof CHF 9.8 billion non-recourse) and CHF 34.2 billion (thereof CHF 5.2 billion non-recourse), respectively.

## Senior long-term debt

| Maturity | Instrument | Issued in | Currency | Nominal in millions | Interest rate | Book value in CHF millions |
|---|---|---|---|---|---|---|
| 2010 | Senior note[1] | 2000 | USD | 350 | 7.50% | 421 |
| 2010 | EMTN (amortising bond) | 2003 | GBP | 20 | 4.38% | 31 |
| 2010 | 2 EMTN | 2005 | CHF | 625 | various | 625 |
| 2010 | EMTN | 2005 | CZK | 300 | 2.88% | 17 |
| 2010 | EMTN | 2008 | USD | 280 | 3M Libor | 298 |
| 2011 | Credit-linked note | 2006 | USD | 735 | 3M Libor – 95.51bp | 782 |
| 2011 | EMTN | 2007 | CHF | 250 | 3.13% | 250 |
| 2011 | Insurance-linked placement | 2007 | EUR | 110 | 3.83% | 59 |
| 2011 | EMTN | 2008 | EUR | 25 | 4.73% | 37 |
| 2012 | Credit-linked note | 2007 | USD | 980 | 3M Libor – 89.87bp | 1 043 |
| 2013 | Credit-linked note | 2008 | USD | 2 | 3M Libor + 50bp | 2 |
| 2015 | EMTN (straight bond) | 2001 | CHF | 150 | 4.00% | 151 |
| 2016 | Credit-linked note | 2007 | USD | 621 | 3M Libor | 1 769 |
| 2019 | Senior note[1] | 1999 | USD | 400 | 6.45% | 543 |
| 2026 | Senior note[1] | 1996 | USD | 600 | 7.00% | 931 |
| 2028 | Senior note[2] | 2005 | GBP | 100 | 1M Libor | 153 |
| 2028 | Senior note[2] | 2008 | GBP | 240 | 4.98% | 367 |
| 2030 | Senior note[1] | 2000 | USD | 350 | 7.75% | 605 |
| 2032 | Principal protected structured note | 2007 | USD | 35 | zero coupon | 37 |
| Various | Payment undertaking agreements | various | USD | 932 | various | 1 761 |
| **Total senior debt as of 31 December 2008** | | | | | | **9 882** |
| Total senior debt as of 31 December 2007 | | | | | | 9 441 |

[1] Assumed in the acquisition of GE Insurance Solutions.

[2] Reclassified from internal to external debt in 2008.

## Subordinated long-term debt

| Maturity | Instrument | Issued in | Currency | Nominal in millions | Interest rate ... | ... first call in | Book value in CHF millions |
|---|---|---|---|---|---|---|---|
| 2021 | Convertible bond | 2001 | USD | 1 150 | 3.25% | 2011 | 1 209 |
| 2047 | Subordinated private placement (amortising)[1] | 2007 | GBP | 1 537 | 4.96% | | 2 352 |
| 2057 | Subordinated private placement (amortising)[1] | 2007 | GBP | 1 796 | 4.79% | | 2 745 |
| | Subordinated perpetual loan | 1998 | DEM | 110 | 6M Libor + 45bp | 2010 | 83 |
| | Subordinated perpetual bond (SUPERBs) | 1999 | CHF | 600 | 3.75% | 2011 | 596 |
| | Subordinated perpetual loan note | 2006 | EUR | 1 000 | 5.25% | 2016 | 1 471 |
| | Subordinated perpetual loan note | 2006 | USD | 752 | 6.85% | 2016 | 800 |
| | Subordinated perpetual loan note | 2007 | GBP | 500 | 6.30% | 2019 | 761 |
| | 2 subordinated perpetual loan notes | 2007 | AUD | 750 | various | 2017 | 554 |
| **Total subordinated debt as of 31 December 2008** | | | | | | | **10 571** |
| Total subordinated debt as of 31 December 2007 | | | | | | | 13 896 |

[1] This debt position resulted from a single transaction and is non-recourse.

## Interest expense on long-term debt

Interest expense on long-term debt for the years ended 31 December 2007 and 2008, respectively, was as follows:

| CHF millions | 2007 | **2008** |
|---|---|---|
| Senior financial debt | 83 | 36 |
| Senior operational debt | 424 | 324 |
| Subordinated financial debt | 327 | 330 |
| Subordinated operational debt | 163 | 323 |
| **Total** | 997 | **1 013** |

## Long-term debt issued in 2008

In January 2008, the Group issued a credit-linked note of USD 2 million, due in 2013, bearing interest of three-month USD Libor plus 50 basis points.

In May 2008, the Group issued a structured EMTN of USD 280 million, due in 2010, bearing interest of three-month USD Libor, and a EUR 25 million EMTN with a three-year maturity and a coupon of 4.73%.

In November 2008, the Group deconsolidated an entity, which provided funding to other Group companies. Prior to the deconsolidation, two existing loans were classified as intercompany transactions and therefore not reported as liabilities to external parties. Subsequent to deconsolidation, the Group shows these positions as Senior notes which mature in 2028, one note with a nominal value of GBP 240 million and the other with a nominal of GBP 100 million, bearing interest of 4.98% and one-month GBP Libor flat, respectively.

## Additional funding resources

As additional resources to meet funding requirements, the Group has access to the US commercial paper market through its USD 1.5 billion programme, as well as back-up credit lines and committed repurchase facilities in place with various banks.

## 8 Unpaid claims and claim adjustment expenses

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

| CHF millions | 2007 | **2008** |
|---|---|---|
| Non-life | 73 171 | 62 802 |
| Life & Health | 15 357 | 12 708 |
| **Total** | 88 528 | **75 510** |

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:

| CHF millions | 2007 | **2008** |
|---|---|---|
| Balance as of 1 January | 80 391 | 73 171 |
| Reinsurance recoverable | –7 622 | –5 041 |
| Deferred expense on retroactive reinsurance | –875 | –723 |
| **Net** | 71 894 | **67 407** |
| | | |
| Incurred related to: | | |
| Current year | 11 945 | 10 092 |
| Prior year | –205 | –462 |
| Amortisation of deferred expense on retroactive reinsurance and impact of commutations | 92 | 125 |
| **Total incurred** | 11 832 | **9 755** |
| | | |
| Paid related to: | | |
| Current year | –1767 | –1 521 |
| Prior year | –12285 | –12 131 |
| **Total paid** | –14 052 | **–13 652** |
| | | |
| Foreign exchange | –2567 | –6 527 |
| Effect of acquisitions, disposals, new retroactive reinsurance and other items | 300 | 578 |
| | | |
| Net | 67 407 | 57 561 |
| Reinsurance recoverable | 5041 | 4 701 |
| Deferred expense on retroactive reinsurance | 723 | 540 |
| **Balance as of 31 December** | 73 171 | **62 802** |

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.

### 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 1985, in particular in the area of US asbestos and environmental liability.

Due to the inherent uncertainties and assumptions on which these estimates are based, however, the Group cannot exclude the need to make further additions to these provisions in the future.

At the end of 2008 the Group carried net reserves for US asbestos, environmental and other long-latent health hazards equal to CHF 2 280 million. During 2008, the Group incurred net losses of CHF 137 million and paid net against these liabilities CHF 266 million.

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.

### Prior year development

Claims development on prior years was favourable during 2008. Adverse developments in America were balanced by favourable development in Europe and the rest of the world.

Reserves for asbestos and environmental pollution claims in the US were increased slightly during 2008. Experience on the workers' compensation line of business again showed adverse development for which the Group strengthened its reserves. Financial Guarantee Re also showed adverse development during 2008.

The favourable development arose mostly from Property, Marine, Engineering and Aviation from 2001 and subsequent years.

## 9 Reinsurance information

For the years ended 31 December

**Premiums written, premiums earned and fees assessed against policyholders**

| CHF millions | 2007 Non-Life | 2007 Life & Health | 2007 Total | 2008 Non-Life | 2008 Life & Health | 2008 Total |
|---|---|---|---|---|---|---|
| **Premiums written** | | | | | | |
| Direct | 2742 | 2147 | 4889 | 2204 | 1520 | 3724 |
| Assumed | 17436 | 12029 | 29465 | 16280 | 10847 | 27127 |
| Ceded | –1539 | –1598 | –3137 | –3886 | –1306 | –5192 |
| **Total premiums written** | 18639 | 12578 | 31217 | **14598** | **11061** | **25659** |
| **Premiums earned** | | | | | | |
| Direct | 2838 | 2148 | 4986 | 2201 | 1519 | 3720 |
| Assumed | 17537 | 12101 | 29638 | 15418 | 10851 | 26269 |
| Ceded | –1376 | –1584 | –2960 | –3208 | –1280 | –4488 |
| **Total premiums earned** | 18999 | 12665 | 31664 | **14411** | **11090** | **25501** |
| **Fee income from policyholders** | | | | | | |
| Direct | | 798 | 798 | | 654 | 654 |
| Assumed | | 293 | 293 | | 271 | 271 |
| Ceded | | –136 | –136 | | –117 | –117 |
| **Total fee income from policyholders** | | 955 | 955 | | **808** | **808** |

**Claims and claim adjustment expenses**

| CHF millions | 2007 Non-Life | 2007 Life & Health | 2007 Total | 2008 Non-Life | 2008 Life & Health | 2008 Total |
|---|---|---|---|---|---|---|
| **Claims** | | | | | | |
| Claims paid, gross | –17897 | –10971 | –28868 | –15749 | –12226 | –27975 |
| Claims paid, retro | 3845 | 1384 | 5229 | 2097 | 1429 | 3526 |
| Claims paid, net | –14052 | –9587 | –23639 | –13652 | –10797 | –24449 |
| Change in unpaid claims and claim adjustment expenses; life and health benefits, gross | 4846 | –1810 | 3036 | 3813 | 2928 | 6741 |
| Change in unpaid claims and claim adjustment expenses; life and health benefits, retro | –2859 | 285 | –2574 | –168 | –1196 | –1364 |
| Change in unpaid claims and claim adjustment expenses; life and health benefits, net | 1987 | –1525 | 462 | 3645 | 1732 | 5377 |
| **Claims and claim adjustment expenses; life and health benefits** | –12065 | –11112 | –23177 | **–10007** | **–9065** | **–19072** |

**Acquisition costs**

| CHF millions | 2007 Non-Life | 2007 Life & Health | 2007 Total | 2008 Non-Life | 2008 Life & Health | 2008 Total |
|---|---|---|---|---|---|---|
| **Acquisition costs** | | | | | | |
| Acquisition costs, gross | –3901 | –3021 | –6922 | –3532 | –3128 | –6660 |
| Acquisition costs, retro | 67 | 356 | 423 | 792 | 502 | 1294 |
| **Acquisition costs, net** | –3834 | –2665 | –6499 | **–2740** | **–2626** | **–5366** |

## Reinsurance assets and liabilities

| CHF millions | Non-Life | Life & Health | 2007 Total | Non-Life | Life & Health | 2008 Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Reinsurance recoverable | 5 041 | 9 191 | 14 232 | 4 701 | 7 233 | 11 934 |
| Deferred acquisition costs | 1 417 | 3 735 | 5 152 | 1 189 | 3 122 | 4 311 |
| **Liabilities** | | | | | | |
| Unpaid claims and claim adjustment expenses | 73 171 | 15 357 | 88 528 | 62 802 | 12 708 | 75 510 |
| Life and health policy benefits | | 50 026 | 50 026 | | 39 911 | 39 911 |
| Policyholder account balances | | 41 340 | 41 340 | | 34 518 | 34 518 |

## 10 Financial guarantee reinsurance

For reporting periods ending on or after 1 January 2009, the Swiss Re Group will fully adopt SFAS No. 163 "Accounting for Financial Guarantee Insurance Contracts" (SFAS 163) as per the Statement requirements. For the reporting period ended 31 December 2008, SFAS 163 requires selected disclosures about financial guarantee reinsurance business based on existing accounting policies. The disclosures relate to risk management practices and exposures that have experienced credit deterioration.

The Group reinsures monoline insurers against the risk of default on insured financial obligations. The Group's exposure encompasses public finance and structured finance exposures. In total, the notional exposure as of 31 December 2008 amounted to CHF 15 857 million, whereof 24% is attributable to structured finance. The main driver of the Group's exposure is the credit risk of the underlying insured obligation.

The Group tracks and monitors credit deterioration in insured financial obligations. This is based on the surveillance activities of its cedents and internal reviews of its reinsured portfolio. Each cedent maintains a process for identifying credits that require higher levels of scrutiny or intervention. The cedent is required to notify the Swiss Re Group when a transaction falls under increased scrutiny.

The Group maintains a watch list based on the information provided by the cedents and the Group's internal monitoring activities. Obligations with credit deterioration are split into two categories. Category 1 (Special mention) encompasses transactions that are still currently performing, but where indicators point to an increased risk of default. Category 2 (Workout) includes insured financial obligations that are characterised as non-performing and a reserve has been reported by the cedent. A default may have occurred or is seen as likely to occur in the future. As of 31 December 2008, the notional exposures and claims liabilities allocated to categories 1 and 2 were as follows:

| As of 31 December 2008<br>CHF millions | Notional exposure | % of total notional<br>(CHF 15 857 million) | Claims liabilities |
|---|---|---|---|
| Category 1 | 728 | 5% | 7 |
| Category 2 | 607 | 4% | 142 |

As of 31 December 2008, total technical provisions for financial guarantee reinsurance amounted to CHF 512 million, which includes unpaid claims and claims adjustment expenses of CHF 149 million and unearned premiums of CHF 363 million.

## 11 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. For the years ended 31 December 2007 and 2008, the Group's dividends per share were CHF 3.40 and CHF 4.00, respectively.

| CHF millions (except share data) | 2007 | **2008** |
|---|---|---|
| **Basic earnings per share** | | |
| Income/loss available to common shares | 4 162 | **–864** |
| Weighted average common shares outstanding | 348 214 512 | **331 024 378** |
| Net income/loss per share in CHF | 11.95 | **–2.61** |
| | | |
| **Effect of dilutive securities** | | |
| Change in income available to common shares due to convertible bonds | 143 | |
| Change in average number of shares due to convertible bonds and employee options | 35 261 146 | |
| | | |
| **Diluted earnings per share** | | |
| Net income assuming debt conversion and exercise of options | 4 305 | |
| Weighted average common shares outstanding | 383 475 658 | |
| **Net income/loss per share in CHF** | 11.23 | **–2.61** |

The effects of debt conversion and the issuance of employee options have not been included in the 2008 earnings/losses per share. The resulting change of 26 887 844 shares for the year ended 31 December 2008 was anti-dilutive.

At the company's 144th Ordinary General Meeting held on 18 April 2008, the shareholders approved the cancellation of 17.3 million shares with a total value of CHF 1.45 billion. These shares were repurchased under the share buy-back programme agreed at the 2007 Ordinary General Meeting. The shares were cancelled in accordance with Article 733 of the Swiss Code of Obligations.

## 12 Income taxes

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

| CHF millions | 2007 | **2008** |
|---|---|---|
| Current tax expense | 482 | 560 |
| Deferred tax expense/benefit | 543 | –1 046 |
| **Income tax expense/benefit** | 1 025 | **–486** |

### Tax rate reconciliation

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

| CHF millions | 2007 | **2008** |
|---|---|---|
| Income tax at the Swiss statutory rate of 21.0% | 1 089 | –284 |
| Increase (decrease) in the income tax charge resulting from: | | |
| Foreign income taxed at different rates | 247 | 384 |
| Impact of foreign exchange movements | –125 | –30 |
| Disallowed expenses | 75 | 9 |
| Tax exempt income/dividends received deduction | –141 | –39 |
| Change in valuation allowance | –41 | 604 |
| Basis differences in subsidiaries | –21 | –517 |
| Change in statutory tax rates | –170 | –21 |
| FIN 48 including interest and penalties | 83 | –88 |
| Business restructuring | 45 | –250 |
| Life tax adjustments | –15 | –79 |
| Other, net | –1 | –175 |
| **Total** | 1 025 | **–486** |

### Deferred and other non-current taxes

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

| CHF millions | 2007 | 2008 |
|---|---|---|
| **Deferred tax assets** | | |
| Income accrued/deferred | 667 | 509 |
| Technical provisions | 1849 | 651 |
| Unrealised losses on investments | 191 | 650 |
| Pension provisions | 148 | 264 |
| Benefit on loss carryforwards | 2084 | 4 396 |
| Currency translation adjustments | 265 | 574 |
| Other | 941 | 1 388 |
| **Gross deferred tax asset** | 6145 | **8 432** |
| Valuation allowance | –994 | –2 007 |
| **Total** | 5 151 | **6 425** |
| | | |
| **Deferred tax liabilities** | | |
| Present value of future profits | –1710 | –1586 |
| Income accrued/deferred | –500 | –147 |
| Bond amortisation | –203 | –223 |
| Deferred acquisition costs | –632 | –724 |
| Technical provisions | –1113 | –840 |
| Unrealised gains on investments | –553 | –169 |
| Foreign exchange provisions | –446 | –666 |
| DFI losses | –277 | –389 |
| Other | –1 705 | –1 561 |
| **Total** | –7 139 | **–6 305** |
| | | |
| **Deferred income taxes** | –1 988 | **120** |
| | | |
| **FIN 48 liabilities including interest and penalites** | –1 829 | **–1 449** |
| | | |
| **Deferred and other non-current taxes** | –3 817 | **–1 329** |

Deferred taxes have not been recognised on the undistributed earnings of certain foreign subsidiaries to the extent the Company considers such earnings as being indefinitely reinvested abroad and does not expect to repatriate these earnings in the foreseeable future. The amount of such earnings included in consolidated retained earnings as of 31 December 2008 was approximately 6 769 million CHF. It is not practicable to estimate the amount of additional tax that might be payable if such earnings were not reinvested indefinitely.

As of 31 December 2008, the Group had CHF 14 231 million net operating tax loss carryforwards, including mark to market losses, expiring as follows: CHF 25 million in 2009, CHF 28 million in 2010, CHF 45 million in 2011, CHF 14 million in 2012, CHF 1 484 million in 2013, CHF 6 931 million after 2013 and CHF 5 704 million do not expire. The Group also had capital loss carryforwards of CHF 453 million, expiring as follows: CHF 113 million in 2009, CHF 46 million in 2011, CHF 17 million in 2012, CHF 275 million in 2013, and CHF 2 million never expire. Net operating losses of CHF 726 million were utilised or expired during the period ended 31 December 2008.

Income taxes paid in 2007, as revised from prior report, and through 31 December 2008 were CHF 376 million and 147 million, respectively.

**FIN 48**

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

| CHF millions | 2007 | **2008** |
|---|---|---|
| Balance as of 1 January | 1667 | 1964 |
| Additions based on tax positions of current year | 233 | 123 |
| Additions for tax positions of prior years | 259 | 33 |
| Reductions for tax positions of prior years | –89 | –538 |
| Settlements | –106 | –174 |
| **Balance as of 31 December 2008** | 1964 | **1408** |

The amount of gross unrecognised tax benefits within the tabular reconciliation that, if recognised, would affect the effective tax rate were approximately CHF 1 535 million and CHF 856 million as of 1 January 2008 and 31 December 2008, respectively. Interest and penalties related to unrecognised tax benefits are recorded in income tax expense. Such expense for the period ending 31 December 2008 was CHF 63 million. As of 1 January 2008 and 31 December 2008, CHF 240 million and CHF 268 million, respectively, has been accrued for the payment of interest (net of tax benefits) and penalties. The 31 December 2008 accrued interest balance is included within the deferred and other non-current taxes section reflected above and in the statement of financial position.

The 31 December 2008 balance of gross unrecognised tax benefits presented in the table above is less than the FIN 48 liability reflected in the deferred and other non-current taxes section due to the impact of tax positions which offset loss carryforwards (CHF 227 million) and the removal of interest expense (CHF 268 million). Unrecognised tax benefits which have created certain loss carryforwards are net, whereby the statement of financial position does not reflect a deferred tax asset for the attribute or a liability for the unrecognised tax benefit.

During the year, the Group had met the effectively settled definition within FIN 48 for various tax positions and audits in Switzerland, the United Kingdom and the United States.

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

The following table summarises tax years that remain subject to examination in jurisdictions of significance to the Group:

| | |
|---|---|
| Switzerland | 2004 – 2008 |
| Germany | 1997 – 2008 |
| United States | 2005 – 2008 |
| United Kingdom | 2005 – 2008 |
| Canada | 2002 – 2008 |

## 13 Benefit plans

**Defined benefit pension plans and post-retirement benefits**

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

In June 2008, the Group communicated its intention to change the structure of its Swiss other post-retirement benefits plan. The change is effective as of 1 July 2009 and results in a decrease of the accumulated benefit obligation of CHF 130 million in the current period.

Effective as of 1 January 2007, Swiss Re Group has changed the structure of its Swiss pension plan to a defined contribution scheme. The plan will continue to be accounted for as a defined benefit plan under US GAAP.

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

The measurement date of these plans is 30 September (except for one UK pension plan with a measurement date as of 31 December) for the year 2007, and 31 December for the year 2008.

| CHF millions | Swiss plans pension benefits 2007 | **2008** | Foreign plans pension benefits 2007 | **2008** | Other benefits 2007 | **2008** |
|---|---|---|---|---|---|---|
| Benefit obligation as of 1 January | 2 893 | 2 743 | 2 349 | 2 212 | 670 | 462 |
| Adjustment to retained earnings | | 48 | | 39 | | 11 |
| Service cost | 98 | 98 | 70 | 54 | 28 | 15 |
| Interest cost | 88 | 93 | 122 | 115 | 20 | 17 |
| Amendments | | | | | | –130 |
| Actuarial gains/losses | –209 | 27 | –183 | –235 | –231 | –22 |
| Benefits paid | –158 | –204 | –73 | –83 | –13 | –15 |
| Employee contribution | 16 | 22 | 1 | 1 | | |
| Acquisitions/disposals/ additions | | | 8 | 6 | | |
| Effect of curtailment and termination benefits | 15 | | –2 | –27 | | |
| Effect of foreign currency translation | | | –80 | –440 | –12 | –13 |
| **Benefit obligation as of 31 December** | 2 743 | **2 827** | 2 212 | **1 642** | 462 | **325** |
| | | | | | | |
| Fair value of plan assets as of 1 January | 2 920 | 3 169 | 1 543 | 1 970 | | |
| Adjustment to retained earnings | | 38 | | 29 | | |
| Actual return on plan assets | 275 | –432 | 146 | –294 | | |
| Company contribution | 116 | 83 | 410 | 172 | 13 | 15 |
| Benefits paid | –158 | –204 | –73 | –83 | –13 | –15 |
| Employee contribution | 16 | 22 | 1 | 1 | | |
| Acquisitions/disposals/ additions | | | 10 | –29 | | |
| Effect of foreign currency translation | | | –67 | –404 | | |
| **Fair value of plan assets as of 31 December** | 3 169 | **2 676** | 1 970 | **1 362** | | |
| **Funded status** | 426 | **–151** | –242 | **–280** | –462 | **–325** |

Amounts recognised in the balance sheet in 2008 consist of:

| CHF millions | Swiss plan | Foreign plans | Other benefits | Total |
|---|---|---|---|---|
| Non current assets | | 93 | | 93 |
| Current liabilities | | | –14 | –14 |
| Non current liabilities | –151 | –373 | –311 | –835 |
| **Net amount recognised** | **–151** | **–280** | **–325** | **–756** |

Amounts recognised in accumulated other comprehensive income, gross of tax, in 2008 consist of:

| | Swiss plan | Foreign plans | Other benefits | Total |
|---|---|---|---|---|
| Net gain/loss | 710 | 242 | –170 | 782 |
| Prior service cost/credit | 63 | | –153 | –90 |
| **Total** | **773** | **242** | **–323** | **692** |

**Components of net periodic benefit cost**

Components of net periodic benefit cost and other amounts recognised in other comprehensive income consist of:

| | Swiss plans pension benefits | | Foreign plans pension benefits | | Other benefits | |
|---|---|---|---|---|---|---|
| CHF millions | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** |
| Service cost (net of participant contributions) | 98 | 98 | 70 | 54 | 28 | 15 |
| Interest cost | 88 | 93 | 122 | 115 | 20 | 17 |
| Expected return on assets | –141 | –152 | –101 | –118 | | |
| Amortisation of: | | | | | | |
| Net gain/loss | 17 | | 28 | 6 | –7 | –10 |
| Prior service cost | 7 | 7 | 1 | | –8 | –11 |
| Effect of settlement, curtailment and termination | 15 | | –2 | –9 | | |
| **Net periodic benefit cost** | 84 | **46** | 118 | **48** | 33 | **11** |

Other changes in plan assets and benefit obligations recognised in other comprehensive income consist of:

| CHF millions | Swiss plan | Foreign plans | Other benefits | **Total** |
|---|---|---|---|---|
| Adjustment to retained earnings | –2 | –2 | 4 | 0 |
| Net gain/loss | 610 | 177 | –22 | 765 |
| Prior service cost/credit | | | –130 | –130 |
| Amortisation of: | | | | |
| Net gain/loss | | –4 | 10 | 6 |
| Prior service cost | –7 | | 11 | 4 |
| Exchange rate gain/loss recognised during the year | | –54 | 2 | –52 |
| **Total recognised in other comprehensive income, gross of tax** | **601** | **117** | **–125** | **593** |
| **Total recognised in net periodic benefit cost and other comprehensive income, gross of tax** | **647** | **165** | **–114** | **698** |

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortised from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are CHF 12 million and CHF 7 million, respectively. The estimated net gain and prior service credit for the other defined post-retirement benefits that will be amortised from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is CHF 10 million and CHF 14 million, respectively.

The accumulated benefit obligation (the current value of accrued benefits excluding future salary increases) for pension benefits was CHF 4 642 million and CHF 4 282 million as of 31 December 2007 and 2008, respectively.

Pension plans with an accumulated benefit obligation in excess of plan assets consist of:

| CHF millions | 2007 | **2008** |
|---|---|---|
| Projected benefit obligation | 1 096 | 3 634 |
| Accumulated benefit obligation | 981 | 3 512 |
| Fair value of plan assets | 784 | 3 149 |

## Principal actuarial assumptions

| | Swiss plans pension benefits | | Foreign plans pension benefits weighted average | | Other benefits weighted average | |
|---|---|---|---|---|---|---|
| | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** |
| **Assumptions used to determine obligations at the end of the year** | | | | | | |
| Discount rate | 3.5% | 3.3% | 5.8% | 5.9% | 4.5% | 4.6% |
| Rate of compensation increase | 2.3% | 2.3% | 4.7% | 3.3% | 4.5% | 4.1% |
| **Assumptions used to determine net periodic pension costs for the year ended** | | | | | | |
| Discount rate | 3.2% | 3.5% | 5.2% | 5.8% | 3.9% | 4.5% |
| Expected long-term return on plan assets | 5.0% | 5.0% | 6.4% | 6.4% | | |
| Rate of compensation increase | 2.3% | 2.3% | 4.5% | 4.7% | 4.5% | 4.5% |
| **Assumed medical trend rates at year end** | | | | | | |
| Medical trend – initial rate | | | | | 7.1% | 7.2% |
| Medical trend – ultimate rate | | | | | 4.6% | 4.5% |
| Year that the rate reaches the ultimate trend rate | | | | | 2015 | 2015 |

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

Assumed health-care cost trend rates have a significant effect on the amounts reported for the health-care plans. A one percentage point change in assumed health-care cost trend rates would have had the following effects for 2008:

| CHF millions | 1 percentage point increase | 1 percentage point decrease |
|---|---|---|
| Effect on total of service and interest cost components | 2 | –2 |
| Effect on post-retirement benefit obligation | 34 | –27 |

**Plan asset allocation by asset category**

The actual asset allocation by major asset category for defined benefit pension plans as of the respective measurement dates in 2007 and 2008, are as follows:

| | Swiss plans actual allocation | | Foreign plans actual allocation | | Swiss plans | Foreign plans |
|---|---|---|---|---|---|---|
| | 2007 | **2008** | 2007 | **2008** | Target allocation | |
| **Asset category** | | | | | | |
| Equity securities | 34% | 12% | 51% | 35% | 30% | 39% |
| Debt securities | 45% | 52% | 46% | 60% | 42% | 57% |
| Real estate | 14% | 18% | 1% | 2% | 18% | 3% |
| Other | 7% | 18% | 2% | 3% | 10% | 1% |
| **Total** | 100% | **100%** | 100% | **100%** | **100%** | **100%** |

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

Equity securities include Swiss Re common stock of CHF 11 million (0.2% of total plan assets) and CHF 3 million (0.1% of total plan assets) as of 31 December 2007 and 2008, respectively.

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

**Expected contributions and estimated future benefit payments**

The employer contributions expected to be made in 2009 to the defined benefit pension plans are CHF 190 million and to the post-retirement benefit plan are CHF 14 million.

As of 31 December 2008, the projected benefit payments, which reflect expected future service, not adjusted for transfers in and for employees voluntary contributions, are as follows:

| CHF millions | Swiss plans pension benefits | Foreign plans pension benefits | Other benefits |
|---|---|---|---|
| 2009 | 127 | 61 | 14 |
| 2010 | 132 | 63 | 16 |
| 2011 | 142 | 67 | 17 |
| 2012 | 135 | 71 | 18 |
| 2013 | 137 | 75 | 19 |
| Years 2014 – 2018 | 764 | 447 | 111 |

**Defined contribution pension plans**

The Group sponsors a number of defined contribution plans to which employees and the Group make contributions. The accumulated balances are paid as a lump sum at the earlier of retirement, termination, disability or death. The amount expensed in 2007 and in 2008 was CHF 48 million and CHF 48 million, respectively.

**Impact of new accounting guidance**

The Group changed the measurement date for its employee benefit plans from 30 September to 31 December for its 2008 financial statements in accordance with new generally accepted accounting guidance effective as of 1 January 2008. The corresponding adjustment to the opening balance of retained earnings and accumulated other comprehensive income was CHF 31 million and nil, respectively.

## 14 Share-based payments

As of 31 December 2007 and 2008, the Group had the share-based compensation plans described below.

Total compensation cost for share-based compensation plans recognised in net income was CHF 31 million and CHF 41 million in 2007 and 2008, respectively. The related tax benefit was CHF 7 million and CHF 9 million, respectively.

**Stock option plans**

Stock option plans include the long-term equity award programme, the fixed-option plan and an additional grant to certain members of executive management.

The long-term equity award programme was provided to members of the Executive Board and certain members of management. Under the scheme, the beneficiary was allowed to choose between the fixed-option plan and a restricted-share plan.

Under the fixed-option plan, the exercise price of each option is equal to the market price of the shares on the date of the grant. Options issued vest at the end of the fourth year and have a maximum life of ten years.

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

| | | **2008** |
|---|---|---|
| | Weighted average exercise price in CHF | Number of Shares |
| Outstanding as of 1 January | 123 | 7 936 234 |
| Options exercised | 68 | –10 000 |
| Options sold | 105 | –94 700 |
| Options forfeited or expired | 147 | –850 492 |
| **Outstanding as of 31 December** | **120** | **6 981 042** |
| **Exercisable as of 31 December** | 127 | 5 853 192 |

No options were granted under this plan from 2007 onwards.

The following table summarises the status of stock options outstanding as of 31 December 2008:

| Range of exercise prices in CHF | Number of options | Weighted average remaining contractual life in years | Weighted average exercise price in CHF |
|---|---|---|---|
| 67 – 99 | 3 345 994 | 7.0 | 82 |
| 128 – 187 | 3 635 048 | 10.3 | 155 |
| **67 – 187** | **6 981 042** | **8.7** | **120** |

The fair value of each option grant was estimated on the date of grant using a binomial option-pricing model, with the following weighted average assumptions used for grants in 2006: dividend yield of 3.8%; expected volatility of 20.0%; risk-free interest rate of 2.4%; expected life of 6.0.

### Options exercisable

The status of stock options exercisable as of 31 December 2008 is summarised as follows:

| Range of exercise prices in CHF | Number exercisable (vested) | Weighted average remaining contractual life in years | Weighted average exercise price in CHF |
|---|---|---|---|
| 67 – 99 | 2 218 144 | 6.5 | 81 |
| 128 – 187 | 3 635 048 | 7.8 | 155 |
| **67 – 187** | **5 853 192** | **7.3** | **127** |

### Restricted shares

The Group introduced a restricted-share plan during 2004 to complement the fixed-option plan. In 2007 and 2008, nil and 772 248 restricted shares were issued under this plan, respectively. In addition, restricted bonus shares were issued during 2007 and 2008 of 69 770 and 389 506 shares, respectively.

A summary of shares relating to outstanding awards granted under the above-mentioned plans as of 31 December 2008 is presented below:

| | Number of shares | Weighted average grant date fair value |
|---|---|---|
| Non-vested at January 1 | 665 885 | 79 |
| Granted | 1 161 754 | 82 |
| Delivery of restricted shares | –139 509 | 93 |
| Forfeited | –25 877 | 85 |
| **Outstanding as of 31 December** | **1 662 253** | **84** |

The weighted average fair value of restricted shares, which equals the market price of the shares on the date of the grant, was CHF 108 and CHF 84 in 2007 and 2008, respectively.

### Long-term Incentive plan

Starting in 2006, the Group annually grants a Long-term Incentive plan (LTI) to selected employees with a three-year vesting period. The plans are expected to be settled in cash. The requisite service periods as well as the maximum contractual term for each plan is three years. The method to estimate fair value is based on a risk neutral approach that uses the current share price as an estimate of the share price at the end of the vesting period. In order to determine the fair value the following key performance indicators are also taken into consideration: three-year average return on equity (ROE) and three-year earnings per share compound annual growth rate (EPS CAGR). Fair value is revised at every balance sheet date.

### Stock appreciation rights

In 2006, the Group issued 3 million stock appreciation rights (SAR) as an extraordinary grant following the Insurance Solutions acquisition. The plan will be settled in cash. The requisite service period is 2 years, which vested in June 2008, while the maximum contractual term is 5 years. The fair value of the appreciation rights are estimated at date of grant using a binomial option-pricing model and is revised at every balance sheet date until exercise.

### Unrecognised compensation costs

As of 31 December 2008, the total unrecognised compensation cost (net of expected forfeitures) related to non-vested, share-based compensation awards was CHF 15 million and the weighted average period over which that cost is expected to be recognised was 2.1 years.

The number of shares authorised for the Group's share-based payments to employees was 1 204 155 and 649 773 as of 31 December 2007 and 2008, respectively.

For the Groups outstanding LTI plans, the unrecognised compensation costs are based on the fair value that is revised at every balance sheet date. Based on the calculated fair value as at 31 December 2008, the Group does not expect to recognise further compensation costs related to outstanding LTI plans.

### Employee participation plan

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

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

In 2007 and 2008, 980 711 and 1 222 339 options, respectively, were issued to employees and the Group contributed CHF 19 million and CHF 18 million, respectively, to the plan.

## 15 Compensation, participations and loans of members of governing bodies

The section below follows articles 663b$^{bis}$ and 663c para. 3 of the Swiss Code of Obligations, which require disclosure of the elements of compensation, paid to Swiss Re Group's Board of Directors and Executive Committee, as well as their shareholdings and loans.

**Compensation for acting members of governing bodies**

Article 663b$^{bis}$ of the Swiss Code of Obligations requires disclosure of total compensation paid to members of the Board of Directors and the Executive Committee. Compensation to members of the Board of Directors and the highest paid member of the Executive Committee are shown by individual. For a description of the elements of this compensation, please see page 118 in the corporate governance and compensation report.

**Board of Directors**

Members of the Board of Directors received an honorarium, a mandatory 40% of which is in the form of shares; the remainder may be taken either in the form of cash or shares with a four-year deferral period. Prior to 2008, the Chairman and Vice Chairman were remunerated through a fixed honorarium and a variable bonus. The share price as of 2 March 2007 of CHF 107.90 and the share price as of 29 February 2008 of CHF 84.10 have been used for calculating the number of shares awarded based upon the amount of the honorarium received in shares. There was one exception for an honorarium granted in September 2008 where the share price of CHF 64.00 was used to calculate the number of shares awarded.

Total compensation of the members of the Board of Directors was as follows:

| CHF thousands | 2007 | **2008** |
|---|---|---|
| Honorarium and cash allowances | 5 761 | 5 772 |
| Honorarium shares | 4 248 | 4 561 |
| Funding of pension benefits | 223 | 167 |
| **Total** | 10 232 | **10 500** |

Individual compensation of the Chairman and the Vice Chairman of the Board of Directors for 2007 was as follows:

| 2007<br>CHF thousands | Honorarium and cash allowances | Honorarium shares | Pension | Total |
|---|---|---|---|---|
| Peter Forstmoser, Chairman | 2 600 | 667 | | 3 267 |
| Walter B. Kielholz, Vice Chairman | 1 288 | 1 382 | 223 | 2 893 |
| **Total** | 3 888 | 2 049 | 223 | 6 160 |

Individual compensation of the remaining members of the Board of Directors for 2007 was as follows:

| 2007<br>CHF thousands | Honorarium and cash allowances | Honorarium shares | Total |
|---|---|---|---|
| Jakob Baer, Chairman of the Audit Committee | 392 | 393 | 785 |
| Thomas W. Bechtler, Member | 195 | 130 | 325 |
| Raymund Breu, Member | | 325 | 325 |
| John R. Coomber, Chairman of the Finance and Risk Committee | 354 | 233 | 587 |
| Dennis D. Dammerman, Former member[1] | 59 | 39 | 98 |
| Rajna Gibson Brandon, Member | 163 | 162 | 325 |
| Bénédict G.F. Hentsch, Member | 195 | 130 | 325 |
| Hans Ulrich Maerki, Member[2] | | 227 | 227 |
| Robert A. Scott, Chairman of the Compensation Committee | 255 | 170 | 425 |
| John F. Smith, Jr., Member | 97 | 228 | 325 |
| Kaspar Villiger, Member | 163 | 162 | 325 |
| **Total** | 1 873 | 2 199 | 4 072 |

[1] Retired from the Board of Directors at the Annual General Meeting of 20 April 2007.
[2] Elected to the Board of Directors at the Annual General Meeting of 20 April 2007.

Individual compensation of the Chairman and the Vice Chairman of the Board of Directors granted in 2008 was as follows:

| **2008**<br>CHF thousands | Honorarium and cash allowances | Honorarium shares | Pension | Total |
|---|---|---|---|---|
| Peter Forstmoser, Chairman | 1 980 | 1 320 | | 3 300 |
| Walter B. Kielholz, Vice Chairman | 1 302 | 1 244 | 167 | 2 713 |
| **Total** | **3 282** | **2 564** | **167** | **6 013** |

Honorariums are set at the beginning of each year and as such are not subject to the performance of the company. In recognition of the difficulties faced by the company in the current financial environment, the Chairman and the Vice Chairman have each elected to forego 50% of their 2008 honorarium in 2009.

Individual compensation of the remaining members of the Board of Directors granted in 2008 was as follows:

| **2008**<br>CHF thousands | Honorarium and cash allowances | Honorarium shares | Total |
|---|---|---|---|
| Jakob Baer, Chairman of the Audit Committee | 480 | 320 | 800 |
| Thomas W. Bechtler, Member | 195 | 130 | 325 |
| Raymund Breu, Member | | 325 | 325 |
| Mathis Cabiallavetta, Chairman of the Investment Committee[1] | 200 | 133 | 333 |
| Raymond K.F. Ch'ien, Member[2] | 137 | 91 | 228 |
| John R. Coomber, Chairman of the Finance and Risk Committee | 395 | 260 | 655 |
| Rajna Gibson Brandon, Member | 195 | 130 | 325 |
| Bénédict G.F. Hentsch, Member | 195 | 130 | 325 |
| Hans Ulrich Maerki, Member | 195 | 130 | 325 |
| Robert A. Scott, Chairman of the Compensation Committee | 255 | 170 | 425 |
| John F. Smith, Jr., Former member[3] | 48 | 48 | 96 |
| Kaspar Villiger, Member | 195 | 130 | 325 |
| **Total** | **2 490** | **1 997** | **4 487** |

[1] Elected to the Board of Directors at the Annual General Meeting of 18 April 2008, with effect as of 1 September 2008.
[2] Elected to the Board of Directors at the Annual General Meeting of 18 April 2008.
[3] Retired from the Board of Directors at the Annual General Meeting of 18 April 2008.

## Executive Committee

Total compensation for members of the Executive Committee was as follows:

| CHF thousands | 2007 | **2008** |
|---|---|---|
| Base salary and allowances | 8 868 | 8 417 |
| Cash variable pay for performance | 10 229 | 5 625 |
| **Total cash** | 19 097 | **14 042** |
| Value alignment incentive (VAI)[1] | 12 243 | 4 219 |
| Shares | 2 862 | 2 500 |
| Long-term Incentive plan grant (LTI) [2] | 16 000 | 17 500 |
| **Subtotal** | 50 202 | **38 261** |
| Compensation due to member leaving | 2 280 | |
| Contractual commitments due to new members | | 9 124 |
| Funding of pension benefits | 1 494 | 1 084 |
| **Total** | 53 976 | **48 469** |
| Change in fair value of plans vesting over several years | 4 671 | **–53 087** |

[1] Includes 25% uplift on nominal value, which will be paid out at vesting after three years.
[2] For 2007 disclosure, the LTI plan granted was presented net of grant which included an adjustment to fair value as at balance sheet date. For 2008 and going forward, the amounts for LTI represent the grant value of the plan for the respective year and the changes in the fair value of the LTI plan as at balance sheet date are reflected in the line "Change in fair value of plans vesting over several years". 2007 numbers have been revised accordingly.

The fair values of the Value Alignment Incentive (VAI) granted in the current year are based on the nominal amount of the grant and a mark-up of 25% on nominal value. Subsequently, the fair values of VAI's granted are updated based on actual results for the years covered by the grants. For a description of the VAI plans, see page121 of the corporate governance and compensation report.

Amounts reported under shares relate to bonus shares and restricted stock units granted. The bonus plan stipulates that Executive Committee members decide on the split between cash and bonus shares and the shares granted are subject to a one-year blocking period.

Members of the Executive Committee are granted Long-term Incentive (LTI) plans. The plans are expected to be settled in cash and the requisite service periods as well the maximum contractual term for each plan is three years. The method to estimate fair value is based on a risk neutral approach that uses the current share price as an estimate of the share price at the end of the vesting period. In order to determine the fair value, the following key performance indicators are also taken into consideration: three-year average return on equity (ROE) and three-year earnings per share compound annual growth rate (EPS CAGR). The fair values of the LTI plans were based on the actual results for those years and the forecast years covered by the plans. For further information on LTI plans, see page 121 of the corporate governance and compensation report.

For US GAAP reporting purposes, the cost of the bonus shares, VAI and LTI awards are accrued over the period during which they are earned. For the current compensation disclosure purposes the value of awards granted is included as compensation in the year of grant and the change in the fair value of both current and prior-year awards are reflected separately from the grant value.

Contractual commitments due to new members represent long-term incentives granted to replace agreements with former employers that were forgone upon joining Swiss Re Group.

As of 1 January 2007, Swiss Re Group converted the pension fund in Switzerland from a defined benefit plan to a defined contribution plan (as defined under Swiss Law), requiring actuarially determined one-off contributions to the plan, which did not give rise to higher pension entitlement. The remuneration for 2007 disclosed above excludes these one-off contributions arising from the conversion. The actuarially determined contribution amounts were approximately CHF 4.8 million in total for the Board of Directors and the Executive Committee. Therefore, certain members of the Board of Directors and the Executive Committee are now in a defined contribution scheme and their pension funding compensation in the remuneration tables above reflects the actual employer contributions. Where defined benefit arrangements persist, the funding is determined on an actuarial basis, which can vary substantially from year to year depending on age and years of service of the benefiting Executive Committee members.

## Highest paid member of the Executive Committee

In 2007, Jacques Aigrain, Chief Executive Officer, was the highest paid member of the Executive Committee. In 2008, the highest paid member was David J. Blumer, Head of Asset Management. Their respective compensation was as follows:

Jacques Aigrain, Chief Executive Officer

| CHF thousands | 2007 | 2008 |
|---|---|---|
| Base salary and allowances | 1 475 | 1 486 |
| Cash variable pay for performance | 2 600 | |
| **Total cash** | 4 075 | **1 486** |
| Value alignment incentive (VAI)[1] | 4 875 | |
| Long-term Incentive plan grant (LTI) [2] | 5 000 | 5 000 |
| **Subtotal** | 13 950 | **6 486** |
| Funding of pension benefits | 223 | 167 |
| **Total** | 14 173 | **6 653** |
| Change in fair value of plans vesting over several years | 1 557 | **–16 900** |

[1] Includes 25% uplift on nominal value, which will be paid out at vesting after three years.
[2] For 2007 disclosure, the LTI plan granted was presented net of grant which included an adjustment to fair value as at balance sheet date. For 2008 and going forward, the amounts for LTI represent the grant value of the plan for the respective year and the changes in the fair value of the LTI plan as at balance sheet date are reflected in the line "Change in fair value of plans vesting over several years". 2007 numbers have been revised accordingly.

David J. Blumer, Head of Asset Management

| CHF thousands | 2008 |
|---|---|
| Base salary and allowances | 854 |
| Cash variable pay for performance | 1 500 |
| **Total cash** | **2 354** |
| Shares | 2 500 |
| Long-term Incentive plan grant | 2 500 |
| **Subtotal** | **7 354** |
| Contractual commitments[1] | 6 998 |
| Funding of pension benefits | 111 |
| **Total** | **14 463** |
| Change in fair value of plans vesting over several years | **–2 500** |

[1] Represents long-term incentives granted by the former employer which were replaced in the form of Swiss Re shares at a value of CHF 86.40 per share.

## Compensation of former members of governing bodies

The compensation of former members of the Executive Committee relates to residual payments made to a former member.

| CHF thousands | 2007 | 2008 |
|---|---|---|
| Former members of the Executive Committee | 530 | 10 |
| **Total** | 530 | **10** |

## Share ownership, options and related instruments

The disclosure below follows article 663c para. 3 of the Swiss Code of Obligations which requires disclosure of share ownership, options and related instruments individually for each member of the Board of Directors and Executive Committee, including shares, options and related instruments held by persons closely related to, and by companies controlled by members of the Board of Directors and Executive Committee.

The numbers of shares held as of 31 December 2007 and 2008 were as follows:

| Members of the Board of Directors | 2007 | 2008 |
|---|---|---|
| Peter Forstmoser, Chairman | 98 775 | 132 398 |
| Walter B. Kielholz, Vice Chairman | 123 775 | 155 301 |
| Jakob Baer, Chairman of the Audit Committee | 10 336 | 14 141 |
| Thomas W. Bechtler, Member | 17 673 | 13 081 |
| Raymund Breu, Member | 12 208 | 16 072 |
| Mathis Cabiallavetta, Chairman of the Investment Committee | | 1 961 |
| Raymond K.F. Ch'ien, Member | | 1 086 |
| John R. Coomber, Chairman of the Finance and Risk Committee | 113 541 | 116 633 |
| Rajna Gibson Brandon, Member | 11 440 | 12 986 |
| Bénédict G.F. Hentsch, Member | 9 755 | 11 301 |
| Hans Ulrich Maerki, Member | 3 819 | 7 762 |
| Robert A. Scott, Chairman of the Compensation Committee | 9 249 | 11 271 |
| John F. Smith, Jr., Former Member | 9 878 | |
| Kaspar Villiger, Member | 4 833 | 6 379 |
| **Total** | 425 282 | **500 372** |

| Members of the Executive Committee | 2007 | 2008 |
|---|---|---|
| Jacques Aigrain, Chief Executive Officer | 236 275 | 249 620 |
| Stefan Lippe, Deputy Chief Executive Officer and Chief Operating Officer | 39 100 | 55 371 |
| Andreas Beerli, Head of Associated Units and Special Projects | 30 828 | 38 178 |
| Brian Gray, Chief Underwriting Officer[1] | | 3 207 |
| Michel M. Liès, Head of Client Markets | 48 093 | 51 482 |
| George Quinn, Chief Financial Officer | 14 929 | 17 145 |
| Christian Mumenthaler, Former Chief Risk Officer[2] | 2 419 | |
| **Total** | 371 644 | **415 003** |

[1] Appointed to the Executive Committee on 1 September 2008.
[2] Stepped down from the Executive Committee on 31 December 2007.

## Restricted shares

In 2004 and 2005, the beneficiaries of the Long-term equity award programme received, as an alternative to stock options, the right to opt for restricted shares. The applicable ratio of stock options to restricted shares was four to one. The restricted shares vest after four years. During the vesting period, there is a risk of forfeiture.

The following unvested restricted shares were held by members of governing bodies as of 31 December 2007 and 2008:

| Members of the Board of Directors | As of 31 December 2007 | | **As of 31 December 2008** |
|---|---|---|---|
| Grant year | 2004 | 2005 | 2005 |
| Share price in CHF as of grant date | 93.00 | 82.85 | **82.85** |
| Peter Forstmoser, Chairman | 10000 | 5000 | **5000** |

| Members of the Executive Committee | As of 31 December 2007 | | **As of 31 December 2008** | |
|---|---|---|---|---|
| Grant year | 2004 | 2005 | 2005 | 2008 |
| Average share price in CHF as of grant date | 93.00 | 82.85 | **82.85** | **86.29** |
| Jacques Aigrain, Chief Executive Officer | | 13750 | 13750 | |
| Stefan Lippe, Deputy Chief Executive Officer and Chief Operating Officer | | 9125 | 8750 | |
| Andreas Beerli, Head of Associated Units and Special Projects | 7500 | 7500 | 7500 | |
| David J. Blumer, Head of Asset Management | | | | 81000 |
| Brian Gray, Chief Underwriting Officer | | | 750 | |
| Michel M. Liès, Head of Client Markets | | 3750 | 3750 | |
| Raj Singh, Chief Risk Officer | | | | 4000 |
| Christian Mumenthaler, Former Chief Risk Officer | 1250 | 5000 | | |
| **Total** | 8750 | 39125 | **34500** | **85000** |

## Unvested options

The following unvested options were held by members of governing bodies as of 31 December 2007 and 2008:

| Members of the Board of Directors | Number of options 2007 | 2008 |
|---|---|---|
| Average strike price in CHF as of grant date | 87.12 | **82.85** |
| Peter Forstmoser, Chairman | 20 000 | 20 000 |
| Walter B. Kielholz, Vice Chairman | 40 000 | 20 000 |
| John R. Coomber, Chairman of the Finance and Risk Committee | 130 000 | 70 000 |
| **Total** | 190 000 | **110 000** |

| Members of the Executive Committee | Number of options 2007 | 2008 |
|---|---|---|
| Average strike price in CHF as of grant date | 92.95 | **93.51** |
| Jacques Aigrain, Chief Executive Officer | 150 000 | 100 000 |
| Stefan Lippe, Deputy Chief Executive Officer and Chief Operating Officer | 41 000 | |
| Brian Gray, Chief Underwriting Officer | | 3 000 |
| Michel M. Liès, Head of Client Markets | 42 000 | 15 000 |
| George Quinn, Chief Financial Officer | 25 000 | 10 000 |
| **Total** | 258 000 | **128 000** |

Options have a four-year vesting period, during which there is a risk of forfeiture, and an exercise period of six years. The exchange ratio is 1:1, meaning each option entitles the beneficiary to purchase one share at a non-adjustable strike price.

The range of expiry years for unvested options held by members of governing bodies was 2014 to 2015 as of 31 December 2007 and 2015 as of 31 December 2008.

## Vested options

The following vested options were held by members of governing bodies as of 31 December 2007 and 2008:

| Members of the Board of Directors | Number of options 2007 | 2008 |
|---|---|---|
| Average strike price in CHF as of grant date | 111.68 | **129.72** |
| Peter Forstmoser, Chairman | 30 000 | 30 000 |
| Walter B. Kielholz, Vice Chairman | 337 950 | 230 000 |
| John R. Coomber, Chairman of the Finance and Risk Committee | 207 000 | 256 000 |
| **Total** | 574 950 | **516 000** |

| Members of the Executive Committee | Number of options 2007 | 2008 |
|---|---|---|
| Average strike price in CHF as of grant date | 123.53 | **114.94** |
| Jacques Aigrain, Chief Executive Officer | 90 000 | 140 000 |
| Stefan Lippe, Deputy Chief Executive Officer and Chief Operating Officer | 86 400 | 112 400 |
| Andreas Beerli, Head of Associated Units and Special Projects | 103 600 | 101 200 |
| Brian Gray, Chief Underwriting Officer | | 16 200 |
| Michel M. Liès, Head of Client Markets | 104 000 | 123 000 |
| George Quinn, Chief Financial Officer | 24 600 | 39 600 |
| Christian Mumenthaler, Former Chief Risk Officer | 2 000 | |
| **Total** | 410 600 | **532 400** |

The range of expiry years for vested options held by members of governing bodies as of 31 December 2007 and 2008 was 2008 to 2013 and 2009 to 2014, respectively.

## Loans to members of governing bodies

The following loans were granted to members of governing bodies as of 31 December 2007 and 2008:

| CHF thousands | 2007 | 2008 |
|---|---|---|
| Mortgages and loans to members of the Board of Directors | | |
| Walter B. Kielholz, Vice Chairman | 2 000 | 2 000 |
| Total mortgages and loans to members of the Executive Committee | 8 585 | 6 004 |
| Highest mortgages and loans to an individual member of the Executive Committee | | |
| Andreas Beerli, Head of Associated Units and Special Projects | 3 000 | 3 000 |
| Total mortgages and loans not at market conditions to former members of the Executive Committee | 4184 | 4 528 |

All credit is secured against real estate or pledged shares. The terms and conditions of loans and mortgages are the same as those available to all of Swiss Re Groups employees in the respective locations. Fixed-rate mortgages have a maturity of five years and interest rates that correspond to the five-year Swiss franc swap rate plus a margin of 10 basis points. Adjustable-rate mortgages have no agreed maturity dates. The basic preferential interest rates equal the corresponding interest rates applied by the Zurich Cantonal Bank minus one percentage point. To the extent that fixed or adjustable interest rates are preferential, such values have been factored into the compensation sums given to the governing body members.

## 16 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 2008 | CHF millions |
|---|---|
| 2009 | 78 |
| 2010 | 73 |
| 2011 | 65 |
| 2012 | 57 |
| 2013 | 48 |
| After 2013 | 509 |
| **Total operating lease commitments** | **830** |
| Less minimum non-cancellable sublease rentals | –95 |
| **Total net future minimum lease commitments** | **735** |

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):

| CHF millions | 2007 | **2008** |
|---|---|---|
| Minimum rentals | 69 | 74 |
| Sublease rental income | –3 | –4 |
| **Total** | 66 | **70** |

**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 2008 were CHF 2 757 million.

The Group enters into a number of contracts in the ordinary course of reinsurance and asset management 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.

**Putative class action suit**

On 27 February 2008, a putative securities class action complaint was filed in the United States District Court for the Southern District of New York against Swiss Re Zurich and certain executive officers alleging false and misleading statements in connection with the two credit default swaps in violation of the antifraud provisions of the U.S. securities laws. The original complaint purports to be brought on behalf of U.S. purchasers of our stock between 8 May 2007 and 19 November 2007. On 28 July 2008, the court appointed Plumbers' Union Local No. 12 Pension Fund as the lead plaintiff for the class action. On 10 September 2008, an amended complaint was filed which, among other things, seeks to expand the class period to 1 March 2007 through 19 November 2007. On 10 November 2008, Swiss Re Zurich filed a motion seeking to dismiss the amended complaint on legal grounds. The lead plaintiff filed its response to the motion on 9 January 2009, and Swiss Re Zurich's reply brief is due in February 2009. We intend to vigorously defend against the action.

### 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 or any other legal matters, except as disclosed in this note, is not expected to have a material adverse effect on the Group's business, consolidated financial position or results of operations.

## 17 Information on business segments

The Group provides reinsurance, insurance and capital market solutions for clients that complement our (re)insurance offering 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 result of the Group.

As a reaction to the current unprecedented market turmoil, Swiss Re had to reassess its business strategy with respect to its Asset Management function and the way this impacts its reportable segments.

The former Financial Markets Segment has been split into two areas: Asset Management which focuses on generating stable risk adjusted investment returns on assets generated through (re)insurance activities and the provision of certain specific capital markets insurance solutions and Legacy which contains discontinued activities formerly in Financial Markets or Property and Casualty.

Following the new structure, the Group presents four operating business segments: Property & Casualty, Life & Health, Asset Management and Legacy. Items not allocated to these four business segments are included in the "Group items" column.

The Property & Casualty segment consists of the following sub-segments: Property traditional, Casualty traditional, Specialty traditional and non-traditional business. The Specialty traditional sub-segment includes certain parts of the former Credit Solutions business, Credit Reinsurance, Bank Trade Finance, and Credit securitisations. Certain parts of the former Financial Markets unit are included in the Property & Casualty business segment, including Property & Casualty insurance-linked securities.

The Life & Health segment continues to consist of the following sub-segments: Life traditional, Health traditional and Admin Re®. Certain parts of the former Financial Markets unit are now included in the Life & Health business segment, including variable annuity business.

The Asset Management business segment includes two separate sub-segments " Credit & Rates" and "Equity and Alternative Investments" resulting from the aggregation of Asset Management Risk Stripes. The Asset Management business segment includes proprietary returns on the Group's invested fixed income securities, equity securities and alternative investments. Third-party asset management is included in Credit & Rates.

Non-core activities have been consolidated into the new segment Legacy. These activities, which have been in run-off since November 2007, are managed separately from the Asset Management division. Legacy includes Financial Guarantee Re business, SCDS, PCDS and further assets in the former Group's trading book including Credit Correlation, Collateralised Fund Obligations and other non-core activities.

Group items include certain costs of Corporate Centre functions not allocated to the business segments, certain foreign exchange items, interest expenses on operating and financial debt and other items not considered for the performance of the operating segments.

With the new segment structure, the allocation of investment results has been revised. Certain investment results, including investment income and realised gains on unit-linked business, with-profit business and reinsurance derivatives, are excluded from the performance of the Asset Management business segment and directly allocated to the Property & Casualty and Life & Health business segments.

The allocation of investment result to Property & Casualty and Life & Health is determined based on US GAAP reinsurance liabilities. The new methodology applies a risk-free return to the nominal net reserves at the end of the prior quarter. The risk-free interest rate applied to the reserves is determined by currency and duration of the underlying Property & Casualty and Life & Health reserves. The Allocation column eliminates the calculated investment result allocated to either the Property & Casualty or the Life & Health business segments.

2007 information is disclosed accordingly to 2008 segments presentation basis.

The accounting policies of the business segments are in line with those described in the summary of significant accounting policies (see Note 1).

### a) Business segment results

For the years ended 31 December

| 2007<br>CHF millions | Property & Casualty | Life & Health | Asset Management | Legacy | Group items | Allocation | Total |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Premiums earned | 18977 | 12665 | | 22 | | | 31664 |
| Fee income from policyholders | | 955 | | | | | 955 |
| Net investment income | 3188 | 4106 | 7895 | 3 | 469 | –4969 | 10692 |
| Net realised investment gains/losses | –283 | 799 | 427 | –1506 | –176 | | –739 |
| Other revenues | 97 | 5 | 125 | | 75 | | 302 |
| **Total revenues** | 21979 | 18530 | 8447 | –1481 | 368 | –4969 | 42874 |
| | | | | | | | |
| **Expenses** | | | | | | | |
| Claims and claim adjustment expenses; life and health benefits | –12049 | –11112 | | –16 | | | –23177 |
| Return credited to policyholders | | –2120 | | | | | –2120 |
| Acquisition costs | –3826 | –2665 | | –8 | | | –6499 |
| Other expenses | –1633 | –1313 | | | –626 | –505 | –4077 |
| Interest expenses | | | | | –1814 | | –1814 |
| **Total expenses** | –17508 | –17210 | 0 | –24 | –2440 | –505 | –37687 |
| | | | | | | | |
| **Operating income/loss** | 4471 | 1320 | 8447 | –1505 | –2072 | –5474 | 5187 |

| **2008**<br>CHF millions | Property & Casualty | Life & Health | Asset Management | Legacy | Group items | Allocation | Total |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Premiums earned | 14379 | 11090 | | 32 | | | 25501 |
| Fee income from policyholders | | 808 | | | | | 808 |
| Net investment income | 2607 | 3648 | 5360 | 231 | 575 | –4540 | 7881 |
| Net realised investment gains/losses | –145 | –5022 | 480 | –5997 | 1202 | | –9482 |
| Other revenues | 54 | | 72 | 4 | 140 | | 270 |
| **Total revenues** | **16895** | **10524** | **5912** | **–5730** | **1917** | **–4540** | **24978** |
| | | | | | | | |
| **Expenses** | | | | | | | |
| Claims and claim adjustment expenses; life and health benefits | –9857 | –9065 | | –150 | | | –19072 |
| Return credited to policyholders | | 2822 | | | | | 2822 |
| Acquisition costs | –2730 | –2626 | | –10 | | | –5366 |
| Other expenses | –1562 | –958 | | | –561 | –130 | –3211 |
| Interest expenses | | | | | –1501 | | –1501 |
| **Total expenses** | **–14149** | **–9827** | **0** | **–160** | **–2062** | **–130** | **–26328** |
| | | | | | | | |
| **Operating income/loss** | **2746** | **697** | **5912** | **–5890** | **–145** | **–4670** | **–1350** |

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

For the years ended 31 December

| 2007<br>CHF millions | Property traditional | Casualty traditional | Specialty traditional | Total traditional | Non-traditional | Total |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Premiums earned | 6464 | 7446 | 4701 | 18611 | 366 | 18977 |
| Net investment income | 496 | 1936 | 477 | 2909 | 279 | 3188 |
| Net realised investment gains/losses | –300 | | | –300 | 17 | –283 |
| Other revenues | –7 | | 112 | 105 | –8 | 97 |
| **Total revenues** | 6653 | 9382 | 5290 | 21325 | 654 | 21979 |
| | | | | | | |
| **Expenses** | | | | | | |
| Claims and claim adjustment expenses | –2800 | –6634 | –2077 | –11511 | –538 | –12049 |
| Acquisition costs | –1143 | –1417 | –1123 | –3683 | –143 | –3826 |
| Other expenses | –510 | –732 | –326 | –1568 | –65 | –1633 |
| **Total expenses** | –4453 | –8783 | –3526 | –16762 | –746 | –17508 |
| | | | | | | |
| **Operating income/loss** | 2200 | 599 | 1764 | 4563 | –92 | 4471 |
| | | | | | | |
| Claims ratio in % | 43.3 | 89.1 | 44.2 | 61.9 | | |
| Expense ratio in % | 25.6 | 28.9 | 30.8 | 28.2 | | |
| Combined ratio in % | 68.9 | 118.0 | 75.0 | 90.1 | | |

| **2008**<br>CHF millions | Property traditional | Casualty traditional | Specialty traditional | Total traditional | Non-traditional | Total |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Premiums earned | 4884 | 5187 | 3815 | 13886 | 493 | 14379 |
| Net investment income | 345 | 1658 | 434 | 2437 | 170 | 2607 |
| Net realised investment gains/losses | –153 | 15 | 22 | –116 | –29 | –145 |
| Other revenues | | | 15 | 15 | 39 | 54 |
| **Total revenues** | **5076** | **6860** | **4286** | **16222** | **673** | **16895** |
| | | | | | | |
| **Expenses** | | | | | | |
| Claims and claim adjustment expenses | –2654 | –4545 | –2367 | –9566 | –291 | –9857 |
| Acquisition costs | –623 | –1010 | –972 | –2605 | –125 | –2730 |
| Other expenses | –463 | –691 | –274 | –1428 | –134 | –1562 |
| **Total expenses** | **–3740** | **–6246** | **–3613** | **–13599** | **–550** | **–14149** |
| | | | | | | |
| **Operating income/loss** | **1336** | **614** | **673** | **2623** | **123** | **2746** |
| | | | | | | |
| Claims ratio in % | 54.4 | 87.6 | 62.0 | 68.9 | | |
| Expense ratio in % | 22.2 | 32.8 | 32.7 | 29.0 | | |
| Combined ratio in % | 76.6 | 120.4 | 94.7 | 97.9 | | |

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

For the years ended 31 December

| 2007<br>CHF millions | Life traditional | Health traditional | Admin Re® | Total |
|---|---|---|---|---|
| **Revenues** | | | | |
| Premiums earned | 8 311 | 2 950 | 1 404 | 12 665 |
| Fee income from policyholders | 48 | | 907 | 955 |
| Net investment income | 963 | 457 | 2 686 | 4 106 |
| Net realised investment gains/losses | –182 | –65 | 1 046 | 799 |
| Other revenues | 5 | | | 5 |
| **Total revenues** | 9 145 | 3 342 | 6 043 | 18 530 |
| | | | | |
| **Expenses** | | | | |
| Claims and claim adjustment expenses; life and health benefits | –6 226 | –2 239 | –2 647 | –11 112 |
| Return credited to policyholders | 255 | | –2 375 | –2 120 |
| Acquisition costs | –1 697 | –596 | –372 | –2 665 |
| Other expenses | –684 | –159 | –470 | –1 313 |
| **Total expenses** | –8 352 | –2 994 | –5 864 | –17 210 |
| | | | | |
| **Operating income/loss** | 793 | 348 | 179 | 1 320 |
| | | | | |
| **Operating result, excluding non-participating net realised investment gains/losses** | 554 | 413 | –1 | 966 |
| | | | | |
| Net investment income – unit-linked | 111 | | 638 | 749 |
| Net investment income – with-profit business | | | 311 | 311 |
| Net investment income – non-participating | 852 | 457 | 1 737 | 3 046 |
| Net realised investment gains/losses – unit-linked | –421 | | 933 | 512 |
| Net realised investment gains/losses – with-profit business | | | –67 | –67 |
| Net realised investment gains/losses – non-participating | 239 | –65 | 180 | 354 |
| | | | | |
| **Operating revenues[1]** | 9 216 | 3 407 | 4 048 | 16 671 |
| | | | | |
| Management expense ratio in % | 7.4 | 4.7 | 11.6 | 7.9 |
| Benefit ratio[2] in % | | | | 87.0 |

[1] Operating revenues exclude net investment income and net realised investment gains/losses from unit-linked and with-profit business as these are passed through to contract holders and therefore do not have an impact on the operating result. Operating revenues also exclude net realised investment gains/losses from non-participating business.
[2] The benefit ratio is calculated as claims divided by premiums earned, both of which exclude unit-linked and with-profit business.

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

For the years ended 31 December

| 2008<br>CHF millions | Life traditional | Health traditional | Admin Re® | Total |
|---|---|---|---|---|
| **Revenues** | | | | |
| Premiums earned | 7 773 | 2 434 | 883 | 11 090 |
| Fee income from policyholders | 66 | | 742 | 808 |
| Net investment income | 943 | 412 | 2 293 | 3 648 |
| Net realised investment gains/losses | –1 225 | –250 | –3 547 | –5 022 |
| Other revenues | | | | |
| **Total revenues** | **7 557** | **2 596** | **371** | **10 524** |
| | | | | |
| **Expenses** | | | | |
| Claims and claim adjustment expenses; life and health benefits | –6 162 | –1 671 | –1 232 | –9 065 |
| Return credited to policyholders | 884 | | 1 938 | 2 822 |
| Acquisition costs | –1 663 | –453 | –510 | –2 626 |
| Other expenses | –480 | –179 | –299 | –958 |
| **Total expenses** | **–7 421** | **–2 303** | **–103** | **–9 827** |
| | | | | |
| **Operating income/loss** | **136** | **293** | **268** | **697** |
| | | | | |
| **Operating result, excluding non-participating net realised investment gains/losses** | **335** | **543** | **48** | **926** |
| | | | | |
| Net investment income – unit-linked | 120 | | 647 | 767 |
| Net investment income – with-profit business | | | 249 | 249 |
| Net investment income – non-participating | 823 | 412 | 1 397 | 2 632 |
| Net realised investment gains/losses – unit-linked | –1 026 | | –3 026 | –4 052 |
| Net realised investment gains/losses – with-profit business | | | –741 | –741 |
| Net realised investment gains/losses – non-participating | –199 | –250 | 220 | –229 |
| | | | | |
| **Operating revenues[1]** | **8 662** | **2 846** | **3 022** | **14 530** |
| | | | | |
| Management expense ratio in % | 5.5 | 6.3 | 9.9 | 6.6 |
| Benefit ratio[2] in % | | | | 85.5 |

[1] Operating revenues exclude net investment income and net realised investment gains/losses from unit-linked and with-profit business as these are passed through to contract holders and therefore do not have an impact on the operating result. Operating revenues also exclude net realised investment gains/losses from non-participating business.
[2] The benefit ratio is calculated as claims divided by premiums earned, both of which exclude unit-linked and with-profit business.

**d) Asset Management**

For the years ended 31 December

| 2007<br>CHF millions | Credit & Rates | Equity & Alternative Investments | Total |
|---|---|---|---|
| **Revenues** | | | |
| Premiums earned | | | |
| Net investment income | 7390 | 505 | 7895 |
| Net realised investment gains/losses | –1045 | 1472 | 427 |
| Other revenues | 125 | | 125 |
| **Total revenues** | 6470 | 1977 | 8447 |
| | | | |
| **Expenses** | | | |
| Claims and claim adjustment expenses | | | |
| Acquisition costs | | | |
| Other expenses | | | |
| **Total expenses** | 0 | 0 | 0 |
| | | | |
| **Operating income/loss** | 6470 | 1977 | 8447 |

| **2008**<br>CHF millions | Credit & Rates | Equity & Alternative Investments | Total |
|---|---|---|---|
| **Revenues** | | | |
| Premiums earned | | | |
| Net investment income | 6297 | –937 | 5360 |
| Net realised investment gains/losses | 807 | –327 | 480 |
| Other revenues | 80 | –8 | 72 |
| **Total revenues** | **7184** | **–1272** | **5912** |
| | | | |
| **Expenses** | | | |
| Claims and claim adjustment expenses | | | |
| Acquisition costs | | | |
| Other expenses | | | |
| **Total expenses** | **0** | **0** | **0** |
| | | | |
| **Operating income/loss** | **7184** | **–1272** | **5912** |

**e) Net premiums earned and fees income from policyholders by country**

| CHF millions | 2007 | **2008** |
|---|---|---|
| United States | 13 387 | 10 558 |
| United Kingdom | 4 788 | 3 677 |
| Germany | 1 983 | 1 486 |
| Canada | 1 314 | 1 069 |
| Australia | 997 | 943 |
| France | 1 220 | 896 |
| Italy | 994 | 849 |
| Switzerland | 832 | 713 |
| Spain | 704 | 642 |
| Netherlands | 623 | 632 |
| Japan | 563 | 521 |
| Other | 5 214 | 4 323 |
| **Total** | 32 619 | **26 309** |

## 18 Subsidiaries, equity investees and variable interest entities

**Subsidiaries and equity investees**

| **Subsidiaries and equity investees** | Share capital (CHF millions) | Affiliation in % as of 31.12.2008 | Method of consolidation |
|---|---|---|---|
| **Europe** | | | |
| **Denmark** | | | |
| Swiss Re Denmark Holding ApS | 0 | 100 | f |
| Swiss Re Denmark Reinsurance A/S | 0 | 100 | f |
| **France** | | | |
| Frasecur Société d'Investissement à Capital Variable [1] | 170 | 99 | f |
| Protegys Assurance | 37 | 34 | e |
| **Germany** | | | |
| ROLAND Partner Beteiligungsverwaltung GmbH | 0 | 20 | e |
| Swiss Re Frankona Rückversicherungs AG | 74 | 100 | f |
| Swiss Re Germany AG | 67 | 100 | f |
| Swiss Re Germany Holding GmbH | 38 | 100 | f |
| **Hungary** | | | |
| Swiss Re Treasury (Hungary) Ltd | 0 | 100 | f |
| **Ireland** | | | |
| Swiss Re International Treasury (Ireland) Ltd | 0 | 100 | f |
| Swiss Reinsurance Ireland Ltd | 118 | 100 | f |
| **Liechtenstein** | | | |
| Elips Life AG | 15 | 48 | e |
| **Luxembourg** | | | |
| Swiss Re Europe S. A. | 518 | 100 | f |
| Swiss Re Finance (Luxembourg) S. A. | 0 | 100 | f |
| Swiss Re Funds (LUX) I [1] | 12 171 | 100 | f |
| Swiss Re Management (Luxembourg) S. A. | 294 | 100 | f |
| Swiss Re Treasury (Luxembourg) S. A. | 155 | 100 | f |
| Swiss Re International SE | 196 | 100 | f |
| **Malta** | | | |
| Swiss Re Finance (Malta) Ltd | 740 | 100 | f |
| Swiss Re Treasury (Malta) Ltd | 740 | 100 | f |
| **Netherlands** | | | |
| Algemene Levensherverzekering Maatschappij N. V. | 7 | 100 | f |
| Atradius | 84 | 25 | e |
| Swiss Re Nederland Holding B.V. | 1 | 100 | f |

**Method of consolidation**

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

| | Share capital (CHF millions) | Affiliation in % as of 31.12.2008 | Method of consolidation |
|---|---|---|---|
| **Switzerland** | | | |
| European Reinsurance Company of Zurich | 312 | 100 | f |
| SR Institutional Funds [1] | 0 | 0 | f |
| Tertianum AG | 10 | 20 | e |
| | | | |
| **United Kingdom** | | | |
| Admin Re UK Ltd | 112 | 100 | f |
| Banian Investments UK Ltd | 1 | 100 | f |
| Calico Leasing (GB) Ltd | 54 | 100 | f |
| Cyrenaic Investments (UK) Ltd | 918 | 100 | f |
| Dex Name Ltd | 18 | 100 | f |
| European Credit and Guarantee Insurance PCC Ltd | 9 | 100 | f |
| NM Insurance Holdings Ltd | 201 | 100 | f |
| NM Life Group Ltd | 229 | 100 | f |
| NM Life Ltd | 145 | 100 | f |
| NM Pensions Ltd | 230 | 100 | f |
| PRO Insurance Solutions Ltd | 1 | 100 | f |
| Reassure UK Life Assurance Company Ltd | 590 | 100 | f |
| SR Delta Investments (UK) Ltd | 15 | 100 | f |
| SRNY Ltd | 51 | 100 | f |
| Swiss Re BHI Ltd | 0 | 100 | f |
| Swiss Re Capital Markets Ltd | 64 | 100 | f |
| Swiss Re Financial Services Ltd | 11 | 100 | f |
| Swiss Re Frankona LM Ltd | 11 | 100 | e |
| Swiss Re GB Plc | 977 | 100 | f |
| Swiss Re Life & Health Ltd | 0 | 100 | f |
| Swiss Re Services Ltd | 4 | 100 | f |
| Swiss Re Specialised Investments Holdings (UK) Ltd | 2 | 100 | f |
| Swiss Re Specialty Insurance (UK) Ltd | 28 | 100 | f |
| Swiss Reinsurance Company UK Ltd | 0 | 100 | f |
| The Mercantile & General Reinsurance Company Ltd | 29 | 100 | f |
| The Palatine Insurance Company Ltd | 11 | 100 | f |
| Windsor Life Assurance Company Ltd | 402 | 100 | f |
| XSMA Ltd | 23 | 100 | f |

| | Share capital (CHF millions) | Affiliation in % as of 31.12.2008 | Method of consolidation |
|---|---|---|---|
| **North America and Caribbean** | | | |
| | | | |
| **Barbados** | | | |
| Accra Holdings Corporation | 17 | 100 | f |
| Atlantic International Reinsurance Company Ltd | 5 | 100 | f |
| European Finance Reinsurance Company Ltd | 5 | 100 | f |
| European International Holding Company Ltd | 3 282 | 100 | f |
| European International Reinsurance Company Ltd | 3 277 | 100 | f |
| Gasper Funding Corporation | 18 | 100 | f |
| Stockwood Reinsurance Company, Ltd | 1 | 100 | f |
| Underwriters Reinsurance Company (Barbados) Ltd | 17 | 100 | f |
| | | | |
| **Bermuda** | | | |
| CORE Reinsurance Company Ltd | 0 | 100 | f |
| Englewood Ltd | 0 | 100 | f |
| Old Fort Insurance Company Ltd | 1 | 100 | f |
| Swiss Re Global Markets Ltd | 0 | 100 | f |
| SwissRe Capital Management (Bermuda) Ltd | 0 | 100 | f |
| SwissRe Finance (Bermuda) Ltd | 0 | 100 | f |
| SwissRe Investments (Bermuda) Ltd | 0 | 100 | f |
| | | | |
| **Canada** | | | |
| Swiss Re Holdings (Canada) Inc. | 101 | 100 | f |
| Swiss Re Life & Health Canada | 98 | 100 | f |
| Swiss Reinsurance Company Canada | 0 | 100 | f |
| | | | |
| **Cayman Islands** | | | |
| Ampersand Investments (UK) Ltd | 918 | 100 | f |
| Cobham Funding Ltd | 0 | 100 | f |
| Dunstanburgh Finance (Cayman) Ltd | 0 | 100 | f |
| Epping Funding Ltd | 0 | 100 | e |
| Kilgallon Finance Ltd | 0 | 100 | f |
| Swiss Re Alternative Financing I SPC | 0 | 100 | f |
| Swiss Re Alternative Financing II SPC | 0 | 100 | f |
| SR Cayman Holdings Ltd | 0 | 100 | f |
| SR York Ltd | 77 | 100 | f |
| Swiss Re Strategic Investments (UK) Ltd | 0 | 100 | f |

| | Share capital (CHF millions) | Affiliation in % as of 31.12.2008 | Method of consolidation |
|---|---|---|---|
| **United States** | | | |
| Conning & Company | 0 | 100 | f |
| Core Insurance Holdings Inc. | 0 | 100 | f |
| Facility Insurance Corporation | 0 | 100 | f |
| Facility Insurance Holding Corporation | 0 | 100 | f |
| First Specialty Insurance Coporation | 5 | 100 | f |
| Industrial Risk Insurers | 0 | 100 | f |
| North American Capacity Insurance Company | 4 | 100 | f |
| North American Elite Insurance Company | 4 | 100 | f |
| North American Specialty Insurance Company | 5 | 100 | f |
| Reassure America Life Insurance Company | 3 | 100 | f |
| Rialto Re I Inc. | 151 | 100 | f |
| SR IS North America Group | 7 | 100 | f |
| SR PA Finance Inc. | 280 | 100 | f |
| Swiss Re America Holding Corporation | 0 | 100 | f |
| Swiss Re Atrium Corporation | 1 | 100 | f |
| Swiss Re Capital Markets Corporation | 0 | 100 | f |
| Swiss Re Financial Products Corporation | 0 | 100 | f |
| Swiss Re Financial Services Corporation | 0 | 100 | f |
| Swiss Re Solutions Holding Corporation | 9 | 100 | f |
| Swiss Re Life & Health America Holding Company | 5 | 100 | f |
| Swiss Re Life & Health America Inc. | 4 | 100 | f |
| Swiss Re Partnership Holding, LLC | 392 | 100 | f |
| Swiss Re Treasury (US) Corporation | 0 | 100 | f |
| Swiss Reinsurance America Corporation | 12 | 100 | f |
| Washington International Insurance Company | 9 | 100 | f |
| Westport Insurance Corporation | 7 | 100 | f |
| **Australia** | | | |
| Swiss Re Australia Ltd | 15 | 100 | f |
| Swiss Re Life & Health Australia Ltd | 115 | 100 | f |
| **Africa** | | | |
| **South Africa** | | | |
| Swiss Re Africa Ltd | 1 | 100 | f |
| Swiss Re Life & Health Africa Ltd | 0 | 100 | f |

| | Share capital (CHF millions) | Affiliation in % as of 31.12.2008 | Method of consolidation |
|---|---|---|---|
| **Middle East** | | | |
| **United Arab Emirates** | | | |
| GlobeMed Gulf FZ-LLC | 3 | 39 | e |
| **Asia** | | | |
| **China** | | | |
| Beijing Prestige Health Consulting Services Company Ltd | 6 | 100 | e |
| **Singapore** | | | |
| ERC Asia Pacific Pte Ltd | 4 | 100 | f |
| **Vietnam** | | | |
| Vietnam National Reinsurance Corporation | 31 | 25 | e |

## 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 due to a modified coinsurance agreement, certain insurance-linked and credit-linked securitisations, private equity limited partnerships, hedge funds, debt financing and other entities, which meet the definition of a VIE.

When analysing the status of an entity, Swiss Re Group mainly assesses if (1) the equity is sufficient to finance the entity's activities without additional subordinated financial support, (2) the equity owners 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, these entities need to be assessed for consolidation under FIN46(R).

The party that will absorb the majority of the expected losses, receive the majority of the expected residual return, or both, is considered the primary beneficiary according to FIN46(R). To determine the primary beneficiary of a VIE, a qualitative analysis is performed in which the nature and design, capital structure, contractual terms and relationships among the variable interest holders are evaluated. When the qualitative analysis is not conclusive, a quantitative analysis is performed. For this, the Group determines under various probability-weighted scenarios the cash flows that the variable interest holders will receive based on the explicit and implicit variable interests they hold. Swiss Re Group consolidates a VIE when it is the primary beneficiary.

The assessment if Swiss Re Group is the primary beneficiary is reviewed whenever circumstances qualify as a reconsideration event under FIN 46(R). These events include:
- the VIE's governing documents or contractual arrangements are changed in a manner that changes the characteristics of the Group's involvement;
- the Group's assumption of additional variable interests; and
- the Group's sale or disposal of variable interests, or the issuance of variable interests by the VIE to unrelated parties.

In general, third parties invested in consolidated VIEs do not have recourse to the Group in the event of a default, except in cases where the Group has protected the assets with a derivative contract or has provided a guarantee. In these cases, the recourse is limited to the notional of the guarantee or the value of the assets protected by the derivative contract.

**Modified coinsurance agreement**
Swiss Re Group assumes insurance risk via a modified coinsurance agreement from a direct insurer, which qualifies as a VIE. Swiss Re Group takes the majority of the mortality risk, which makes the Group the primary beneficiary. Consequently, Swiss Re Group will incur losses when mortality risk develops unfavourably.

**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 initially assumes the insurance risk through insurance contracts. In credit-linked securitisations, the securitisation vehicle initially assumes the credit risk through credit default swaps.

The securitisation vehicle generally retains the issuance proceeds as collateral. To determine if Swiss Re Group is the primary beneficiary or has a significant variable interest, the Group considers the insurance or credit risk assumed by the bondholders of the vehicles, the investment risk of the securities held as collateral, and any derivative contracts or other guarantees Swiss Re Group has entered into with the VIE. Typically, the variable interests held by the Group arise through ownership of insurance-linked and credit-linked securities, or through protection provided for the value of the collateral held.

The collateral held predominantly consists of investment grade securities. Swiss Re Group would incur losses when some or all of these securities drop in value or default. The Group's maximum exposure to loss equals the higher of the carrying amount of the collateral protected or the carrying amount of the insurance-linked or credit-linked securities held.

**Investment vehicles**
Investment vehicles include private equity limited partnerships and hedge funds, in which the Group invested as part of its investment strategy. The Group's variable interests arise through an ownership interest in the vehicle. To determine if the Group is the primary beneficiary or holds a significant portion of the variable interests, the Group assesses its ownership share in relation to the total equity outstanding. 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.

**Debt financing vehicles**
Debt financing vehicles issue preference shares or loan notes to provide the Group with funding. Swiss Re 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 and others.

**Others**
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 exposure of Swiss Re Group is either retroceded or hedged. The assets held by the VIEs consist of investment grade securities, private equity investments, residential real estate and others.

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

The following table shows the total assets and liabilities in the Group's balance sheet related to VIEs of which the Group is the primary beneficiary:

| As of 31 December<br>CHF millions | 2008 |
|---|---|
| Fixed income securities: | |
| Available-for-sale (whereof restricted 8 144) | 8 953 |
| Trading | 131 |
| Policy loans, mortgages and other loans (whereof restricted 260) | 260 |
| Other invested assets (whereof restricted 162) | 162 |
| Cash and cash equivalents (whereof restricted 411) | 411 |
| Acquired present value of future profits (whereof restricted 84) | 84 |
| Accrued investment income (whereof restricted 80) | 80 |
| Other assets (whereof restricted 33) | 33 |
| **Total assets** | **10 114** |
| Liabilities for life and health policy benefits | 1 327 |
| Policyholder account balances | 1 718 |
| Deferred and other non-current taxes | 162 |
| Accrued expenses and other liabilities | 525 |
| Long-term debt | 5 155 |
| Net unrealised investment gains/losses, net of deferred taxes | –187 |
| Cumulative translation adjustments, net of deferred taxes | 1 204 |
| Additional paid in capital | 241 |
| Retained earnings | –31 |
| **Total liabilities and equity** | **10 114** |

For investment vehicles, the assets and liabilities above are presented net of minority interest.

The total assets of VIEs of which the Group is the primary beneficiary, but does not hold a majority voting interest for periods ended 31 December 2007 and 2008, respectively, were as follows:

| As of 31 December<br>CHF millions | 2007 | 2008 |
|---|---|---|
| Insurance-linked/Credit-linked securitisations | | 163 |
| Investment vehicles | 241 | 162 |
| Debt financing | 7 766 | 6 097 |
| Modified coinsurance agreement | 4 022 | 3 830 |
| Other | 1 | 34 |
| **Total** | **12 030** | **10 286** |

The following table shows the total assets and liabilities in the Group's balance sheet related to VIEs in which the Group holds a significant variable interest:

| As of 31 December 2008<br>CHF millions | Assets | Liabilities |
|---|---|---|
| Other invested assets | 2 166 | |
| Accrued expenses and other liabilities | | 752 |
| **Total** | **2 166** | **752** |

The total assets of VIEs of which the Group holds a significant variable interest for periods ended 31 December 2007 and 2008, respectively, were as follows:

| As of 31 December<br>CHF millions | 2007 | 2008 |
|---|---|---|
| Insurance-linked/Credit-linked securitisations | 10 874 | 6 510 |
| Investment vehicles | 17 684 | 3 939 |
| Debt financing | 7 753 | 5 074 |
| Other | 1 690 | 1 721 |
| **Total** | **38 001** | **17 244** |

The following table shows the Group's maximum exposure to loss and the liabilities related to VIEs in which the Group holds a significant variable interest:

| As of 31 December<br>CHF millions | Maximum exposure to loss 2007 | Maximum exposure to loss 2008 | Total liabilities 2008 | Difference 2008 |
|---|---|---|---|---|
| Insurance-linked/Credit-linked securitisations | 10 874 | 6 255 | 865 | 5 390 |
| Investment vehicles | 2 089 | 1 664 | | 1 664 |
| Debt financing | 526 | 266 | | 266 |
| Other | 1 137 | 991 | 213 | 778 |
| **Total** | **14 626** | **9 176** | **1 078** | **8 098** |

The liabilities of CHF 865 million for insurance-linked and credit-linked securitisations represent the negative fair value of the total return swaps Swiss Re Group has entered into with the securitisation vehicles. The negative fair value is caused by a decrease of value of some of the assets held as collateral by the vehicles.

When the net asset values of the investment vehicles decrease, the carrying amount of the investment is adjusted accordingly and a loss is recognised in the income statement. Consequently, no liabilities are set up for investment vehicles when losses occur.

The liabilities of CHF 213 million for the debt financing and the other categories represent the decline in value of VIE assets which are guaranteed by Swiss Re Group. For VIEs where the variable interests consist in an equity stake, a loss is recognised in the income statement rather than a liability is set up when the net asset value declines.

As of 31 December 2008, the consolidation of the VIEs resulted in a minority interest in the balance sheet of CHF 420 million (2007: CHF 435 million). The minority interest is included in accrued expenses and other liabilities. The net minority interest in income was CHF 37 million and CHF 10 million net of tax for the years ended 31 December 2007 and 2008, respectively. The income statement impacts are generally included in the relevant segment with the underlying movement in income or expenses.

Reconsideration events under FIN 46(R) required the review of the consolidation assessment of certain VIEs. As a result, the Group consolidated and deconsolidated some VIEs. The effect of this on the financial statements is immaterial.

## 19 Restructuring provision

In 2008, the Property & Casualty and the Life & Health business segments set up provisions of CHF 72 million and CHF 19 million, respectively, related to the German offices and alignment of IT activities. The Property & Casualty business segment released provisions of CHF 24 million, mostly related to the business acquired from Insurance Solutions, and utilised CHF 14 million related to IT activities.

The Asset Management business segment increased the provision by CHF 46 million following the realignment of the former Financial Markets unit announced in 2007. Costs of CHF 39 million were charged against the provision.

**2008**

| CHF millions | Property & Casualty | Life & Health | Asset Management | Total |
|---|---|---|---|---|
| Balance as of 1 January | 43 | 10 | 28 | 81 |
| Increase in provision | 72 | 19 | 46 | 137 |
| Release of provision | –24 | –1 | –1 | –26 |
| Costs incurred | –14 | –12 | –39 | –65 |
| Effect of foreign currency translation | –4 | –1 | –4 | –9 |
| **Balance as of 31 December** | **73** | **15** | **30** | **118** |

## 20 Risk assessment

The section below follows article 663b para. 12 of the Swiss Code of Obligations, which requires disclosure of the Group's performance of a risk assessment.

The Board of Directors is ultimately responsible for the Group's risk management principles and policies, as well as for approving Swiss Re's overall risk tolerance. The Board committees dealing with risk management include two committees:

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

The Executive Committee is responsible for implementing the risk management framework through two further committees. The Group Risk and Capital Committee has responsibility for allocating capital and capacity, approving investment risk limits, and deciding changes to the internal risk and capital methodology. The Group Products and Limits Committee determines Swiss Re's product policy and standards, grants reinsurance limits, and decides on large or non-standard transactions.

The Chief Risk Officer is a member of the Executive Committee. He leads the global Risk Management function, which is responsible for risk controlling across the Group.

The global Risk Management function is organised by risk categories, with dedicated departments for property and casualty risk, life and health risk, and credit and financial market risk. Each of these units is entrusted with Group-wide responsibility for identifying, assessing and controlling their allocated risks, including operational risks which arise in their area of control.

## 21 Subsequent event

Swiss Re Group and Berkshire Hathaway Inc. have agreed in principle, as announced on 5 February 2009, that Berkshire Hathaway Inc. will invest CHF 3 billion in Swiss Re Group. The final closing of the investment is subject to the shareholder approval.

The investment is expected to be in the form of a subordinated convertible perpetual capital instrument issued by Swiss Reinsurance Company Ltd or one of its subsidiaries with a 12% coupon. At the holder's option, it will be convertible after three years into Swiss Re shares, at a price of CHF 25 per share (subject to adjustments).

# Report of the statutory auditor

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

**Report of the statutory auditor on the Consolidated Financial Statements**
As statutory auditor, we have audited the consolidated financial statements of Swiss Re Group, which comprise the income statement, balance sheet, statement of shareholders' equity, statement of comprehensive income, statement of cash flow and notes (pages 135 to 220), for the year ended 31 December 2008.

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

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

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

*Opinion*
In our opinion, the consolidated financial statements for the year ended 31 December 2008 present fairly, in all material respects, the financial position, the results of operations and the cash flows in accordance with accounting principles generally accepted in the United States of America (US GAAP) and comply with Swiss law.

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

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

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

PricewaterhouseCoopers AG

| | |
|---|---|
| David JA Law | Dawn M Kink |
| Audit expert | Audit expert |
| Auditor in charge | |

Zurich, 18 February 2009