Financial statements

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Income statement

For the years ended 31 December

USD millions	Note	2009[1]	2010
Revenues			
Premiums earned	8, 15	22664	**19652**
Fee income from policyholders	8, 15	847	**918**
Net investment income	2, 15	6399	**5422**
Net realised investment gains/losses (total impairments for the years ended 31 December were 3450 in 2009 and 683 in 2010, of which 1784 and 423, respectively, were recognised in earnings)	2, 15	875	**2783**
Other revenues	15	178	**60**
Total revenues		30963	**28835**
Expenses			
Claims and claim adjustment expenses	8, 15	–8336	**–7254**
Life and health benefits	8, 15	–8639	**–8236**
Return credited to policyholders	15	–4597	**–3371**
Acquisition costs	8, 15	–4495	**–3679**
Other expenses	15	–2965	**–2526**
Interest expenses	15	–1011	**–1094**
Total expenses		–30043	**–26160**
Income before income tax expense		920	**2675**
Income tax expense	10	–221	**–541**
Net income before attribution of non-controlling interests		699	**2134**
Income attributable to non-controlling interests			**–154**
Net income after attribution of non-controlling interests		699	**1980**
Convertible perpetual capital instrument		–203	**–1117**
Net income attributable to common shareholders		496	**863**
Earnings per share in USD			
Basic	9	1.46	**2.52**
Diluted	9	1.45	**2.43**
Earnings per share in CHF[2]			
Basic	9	1.49	**2.64**
Diluted	9	1.48	**2.54**

[1] The Group changed its reporting currency from CHF to USD. Please refer to Note 1.
[2] The translation from USD to CHF is shown for informational purposes only and has been calculated at the Group's average exchange rates for the years ended 31 December 2009 and 2010, respectively.

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

Balance sheet

As of 31 December

Assets

USD millions	Note	2009[1]	2010
Investments	2, 3, 4		
Fixed income securities:			
Available-for-sale, at fair value (including 9 011 in 2009 and 5 157 in 2010 subject to securities lending and repurchase agreements) (amortised cost: 2009: 89 031; 2010: 79 443)		87 182	**80 950**
Trading (including 518 in 2009 and 2 187 in 2010 subject to securities lending and repurchase agreements)		11 562	**11 252**
Equity securities:			
Available-for-sale, at fair value (cost: 2009: 392; 2010: 1 241)		554	**1 474**
Trading		19 591	**19 513**
Policy loans, mortgages and other loans		5 606	**5 630**
Investment real estate		2 052	**2 040**
Short-term investments, at amortised cost which approximates fair value (including 673 in 2009 and 1 319 in 2010 subject to securities lending and repurchase agreements)		10 144	**21 446**
Other invested assets		14 650	**14 642**
Total investments		151 341	**156 947**
Cash and cash equivalents (including 4 314 in 2009 and 4 139 in 2010 subject to securities lending)		27 810	**16 928**
Accrued investment income		1 565	**1 085**
Premiums and other receivables		11 773	**11 095**
Reinsurance recoverable on unpaid claims and policy benefits	8	11 251	**12 637**
Funds held by ceding companies		9 605	**9 346**
Deferred acquisition costs	5, 8	3 894	**3 571**
Acquired present value of future profits	5	6 054	**4 565**
Goodwill		4 134	**4 083**
Income taxes recoverable		601	**426**
Other assets		4 720	**7 720**
Total assets		232 748	**228 403**

[1] The Group changed its reporting currency from CHF to USD. Please refer to Note 1.

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

Liabilities and equity

USD millions	Note	2009[1]	2010
Liabilities			
Unpaid claims and claim adjustment expenses	7	68 412	**64 690**
Liabilities for life and health policy benefits	3, 8	39 944	**39 551**
Policyholder account balances	8	36 692	**36 478**
Unearned premiums		6 528	**6 305**
Funds held under reinsurance treaties		4 029	**4 399**
Reinsurance balances payable		4 756	**4 376**
Income taxes payable		608	**708**
Deferred and other non-current taxes		928	**1 716**
Short-term debt[2]	6	8 105	**10 798**
Accrued expenses and other liabilities		18 218	**14 049**
Long-term debt	6	19 184	**18 427**
Total liabilities		207 404	**201 497**
Equity			
Convertible perpetual capital instrument[2]		2 670	
Common stock, CHF 0.10 par value			
2009: 370 701 168; 2010: 370 704 153 shares authorised and issued		35	**35**
Additional paid-in capital		10 472	**10 530**
Treasury shares, net of tax		–1 477	**–1 483**
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax		–993	**1 042**
Other-than-temporary impairment, net of tax		–397	**–169**
Cumulative translation adjustments, net of tax		–3 560	**–3 742**
Accumulated adjustment for pension and post-retirement benefits, net of tax		–453	**–522**
Total accumulated other comprehensive income		–5 403	**–3 391**
Retained earnings		19 047	**19 651**
Shareholders' equity		25 344	**25 342**
Non-controlling interests			**1 564**
Total equity		25 344	**26 906**
Total liabilities and equity		232 748	**228 403**

[1] The Group changed its reporting currency from CHF to USD. Please refer to Note 1.
[2] The CPCI was reclassified from equity to short-term debt upon termination in the fourth quarter of 2010. Please refer to Note 9 Earnings per share for details on the accounting for the CPCI.

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

Statement of shareholders' equity

For the years ended 31 December

USD millions	2009[1]	2010
Convertible perpetual capital instrument		
Balance as of 1 January	0	**2670**
Issued	2670	
Reclassification of convertible perpetual capital instrument[2]		**–2670**
Balance as of period end	2670	**0**
Common shares		
Balance as of 1 January	34	**35**
Issue of common shares	1	
Balance as of period end	35	**35**
Additional paid-in capital		
Balance as of 1 January	10125	**10472**
Issue of common shares[3]	311	
Convertible perpetual capital instrument issuance costs	–9	
Share-based compensation	–10	**48**
Realised gains/losses on treasury shares	55	**10**
Balance as of period end	10472	**10530**
Treasury shares, net of tax		
Balance as of 1 January	–1540	**–1477**
Cumulative effect of adoption of EITF 07-5[4]	60	
Purchase of treasury shares	–54	**–49**
Sales of treasury shares	57	**43**
Balance as of period end	–1477	**–1483**
Net unrealised gains/losses, net of tax		
Balance as of 1 January	–2262	**–993**
Other changes during the period	1269	**2070**
Cumulative effect of adoption of ASU No. 2009-17[5]		**–35**
Balance as of period end	–993	**1042**
Other-than-temporary impairment, net of tax		
Balance as of 1 January[6]	–263	**–397**
Other changes during the period	–134	**228**
Balance as of period end	–397	**–169**
Foreign currency translation, net of tax		
Balance as of 1 January	–4709	**–3560**
Other changes during the period	1149	**–182**
Balance as of period end	–3560	**–3742**
Adjustment for pension and other post-retirement benefits, net of tax		
Balance as of 1 January	–497	**–453**
Change during the period	44	**–69**
Balance as of period end	–453	**–522**
Retained earnings		
Balance as of 1 January	18069	**19047**
Net income after non-controlling interests	699	**1980**
Convertible perpetual capital instrument (net income)[2]	–203	**–1117**
Dividends on common shares	–30	**–319**
Cumulative effect of adoption of FSP SFAS 115-2[6]	334	
Cumulative effect of adoption of EITF 07-5[4]	178	
Cumulative effect of adoption of ASU No. 2009-17[5]		**60**
Balance as of period end	19047	**19651**
Shareholders' equity	25344	**25342**
Non-controlling interests[7]		
Balance as of 1 January	0	**0**
Change during the period		**1410**
Income attributable to non-controlling interests		**154**
Balance as of period end	0	**1564**
Total equity	25344	**26906**

[1] The Group changed its reporting currency from CHF to USD. Please refer to Note 1.
[2] The CPCI was reclassified from equity to short-term debt upon termination in the fourth quarter of 2010. Please refer to Note 9 Earnings per share for details on the accounting for the CPCI.
[3] The balance represents the premium from the conversion of mandatory convertible bonds that matured in June 2009.
[4] The Group adopted a new accounting pronouncement, EITF 07-5, as of 1 January 2009, which resulted in a change in accounting principle for certain types of instruments and embedded features linked to Swiss Re's own shares. The cumulative impact upon adoption resulted in a net increase in retained earnings of USD 178 million, a decrease in treasury shares of USD 60 million, an increase in other invested assets of USD 285 million and a tax income of USD 47 million.
[5] The Group adopted a new accounting pronouncement, ASU No. 2009-17 (FAS167), an update to Topic 810 – Consolidation, as of 1 January 2010, which resulted in the full consolidation of certain VIEs. This resulted in a transition impact to retained earnings of USD 60 million and to net unrealised gains/losses of USD –35 million, and other balance sheet items. Please refer to Note 16 for more details.
[6] Retained earnings as of 31 December 2008 were increased by USD 71 million to reflect the release of a valuation allowance against deferred tax assets associated with investment impairment losses.
[7] Non-controlling interests relate to a modified coinsurance treaty and the acquisition of the management company of private equity funds, resulting in the consolidation of all the investees' assets and liabilities even though the Group does not own the majority of the equity.

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

Statement of comprehensive income

For the years ended 31 December

USD millions	2009[1]	2010
Net income before attribution of non-controlling interests[2]	496	**1 017**
Other comprehensive income, net of tax:		
Change in unrealised gains/losses (tax: –38 in 2009 and –930 in 2010)	1 269	**2 035**
Change in other-than-temporary impairment (tax: 58 in 2009 and –115 in 2010)	–397	**228**
Change in foreign currency translation (tax: –63 in 2009 and –226 in 2010)	1 149	**–182**
Change in adjustment for pension benefits (tax: –8 in 2009 and 8 in 2010)	44	**–69**
Total comprehensive income before attribution of non-controlling interests	2 561	**3 029**
Comprehensive income attributable to non-controlling interests		**–154**
Total comprehensive income attributable to common shareholders	2 561	**2 875**

[1] The Group changed its reporting currency from CHF to USD. Please refer to Note 1.
[2] After interest on convertible perpetual capital instrument.

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

Statement of cash flow

For the years ended 31 December

USD millions	2009[1]	2010
Cash flows from operating activities		
Net income attributable to common shareholders	496	**863**
Add net income attributable to non-controlling interests		**154**
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items	–13	**272**
Net realised investment gains/losses	–875	**–2 783**
Convertible perpetual capital instrument	203	**1 117**
Change in:		
Technical provisions, net	–3 434	**–1 745**
Funds held by ceding companies and other reinsurance balances	–508	**13**
Reinsurance recoverable on unpaid claims and policy benefits	–194	**–1 366**
Other assets and liabilities, net	–254	**–1 610**
Income taxes payable/recoverable	–561	**85**
Income from equity-accounted investees, net of dividends received	–187	**–265**
Trading positions, net	295	**1 452**
Securities purchased/sold under agreement to resell/repurchase, net	–2 664	**–2 273**
Net cash provided/used by operating activities	–7 696	**–6 086**
Cash flows from investing activities		
Fixed income securities:		
Sales and maturities	178 268	**137 361**
Purchases	–161 825	**–127 848**
Net purchase/sale/maturities of short-term investments	–4 118	**–10 621**
Equity securities:		
Sales	544	**102**
Purchases	–108	**–923**
Cash paid/received for acquisitions/disposal of reinsurance transactions, net	99	
Net purchases/sales/maturities of other investments	1 224	**–123**
Net cash provided/used by investing activities	14 084	**–2 052**
Cash flows from financing activities		
Issuance/repayment of long-term debt	3 134	**1 052**
Issuance/repayment of short-term debt	–1 235	**–4 165**
Equity issued	1	
Proceeds from the issuance of convertible perpetual capital instrument, net of issuance cost	2 661	
Purchase/sale of treasury shares	3	**–6**
Interest on convertible perpetual capital instrument	–222	**–323**
Dividends paid to shareholders	–30	**–319**
Net cash provided/used by financing activities	4 312	**–3 761**
Total net cash provided/used	10 700	**–11 899**
Effect of foreign currency translation	885	**224**
Change in cash and cash equivalents	11 585	**–11 675**
Cash and cash equivalents as of 1 January	16 225	**27 810**
Impact of adoption of ASU No. 2009-17[2]		**793**
Cash and cash equivalents as of 31 December	27 810	**16 928**

[1] The Group changed its reporting currency from CHF to USD. Please refer to Note 1.
[2] The Group adopted a new accounting pronouncement, ASU No. 2009-17 (FAS167), an update to Topic 810 – Consolidation, as of 1 January 2010, which resulted in the full consolidation of certain VIEs.

Interest paid during 2009 and 2010 was USD 957 million and USD 1 278 million, respectively. Tax paid was USD 696 million and USD 476 million for the twelve months ended 31 December 2009 and 2010, respectively.

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

Notes to the Group financial statements

1 Organisation and summary of significant accounting policies

Nature of operations
The Swiss 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 20 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. All significant inter-company transactions and balances have been eliminated on consolidation.

From 1 January 2010, Swiss Re changed its presentation currency from Swiss francs (CHF) to US dollars (USD). US dollar is the currency in which a significant part of the reinsurance business of the Group is written and assets are invested. Comparative periods have been retranslated at the closing rates for balance sheet items and at average rates for income statement items.

Following the acquisition of certain private equity funds in the first quarter of 2010, the Group presents interests attributable to non-controlling owners of its subsidiaries in its statement of equity as a separate component. The income attributable to the non-controlling interests is presented as a deduction from net income on the face of the income statement.

Principles of consolidation
The Group's financial statements include the consolidated financial statements of Swiss Re Zurich and its subsidiaries. Voting entities which Swiss Re Zurich directly or indirectly controls through holding a majority of the voting rights are consolidated in the Group's accounts. Variable interest entities (VIEs) are consolidated when the Group is the primary beneficiary. The Group is the primary beneficiary when it has power over the activities that impact the VIE's economic performance and at the same time has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Companies which 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 US dollars are translated from the functional currency to US dollars at closing rates. Revenues and expenses are translated at average exchange rates. Translation adjustments are reported in 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 derivative instruments and other over-the-counter financial assets. In determining the fair value of these financial instruments, the assessment of the Group's exposure to the credit risk of its counterparties incorporates consideration of existing collateral and netting arrangements entered into with each counterparty. The measure of the counterparty credit risk is estimated with incorporation of the observable credit spreads, where available, or credit spread estimates derived based on the benchmarking techniques where market data is not available. The impact of the Group's own risk of non-performance is analysed in the manner consistent with the aforementioned approach; with consideration of the Group's observable credit spreads. The value representing such risk is incorporated into the fair value of the financial instruments (primarily derivatives), in a liability position as of the measurement date. The change in this adjustment from period to period is reflected in realised gains and losses in the income statement.

For assets or derivative structures at fair value, the Group uses market prices or inputs derived from market prices. A separate internal price verification process, independent of the trading function, provides an additional control over the market prices or market input used to determine the fair values of such assets. Whilst management considers that appropriate values have been ascribed to such assets, there is always a level of uncertainty and judgment over these valuations. Subsequent valuations could differ significantly from the results of the process described above. The Group may become aware of counterparty valuations, either directly through the exchange of information or indirectly, for example, through collateral demands. Any implied differences are considered in the independent price verification process and may result in adjustments to initially indicated valuations. As of 31 December 2010, the Group had not provided any collateral on financial instruments in excess of its own market value estimates.

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

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

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

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

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

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

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

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

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

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

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

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

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 12%. Assumed mortality rates are generally based on experience multiples applied to the actuarial select and ultimate tables based on industry experience. Liabilities for policy benefits are increased 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 3% to 9%.

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

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

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

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.

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

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

Share-based payment transactions
The Group has a long-term incentive plan, a fixed option plan, a restricted share plan, and an employee participation plan. These plans are described in more detail in Note 12. 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.

Subsequent events
Subsequent events for the current reporting period have been evaluated up to 23 March 2011. This is the date on which the financial statements are available to be issued.

Financial Review 2010
Swiss Re published its unaudited Financial Review for the year 2010 on 17 February 2011. In the Financial Report, the Group has revised the disclosure on unpaid claims and claims adjustment expenses. The split between claims incurred for the current year and the prior year has been updated accordingly. The change had no impact on the net income or shareholders' equity.

The Group also updated Note 19 Subsequent events to reflect the announcement made by the Group on 2 March 2011 regarding the provisional estimate for its claims cost from the earthquake in New Zealand on 22 February 2011, the Australian cyclone Yasi (announced by the Group on 17 February 2011), and for the earthquake and the tsunami in Japan, on 11 March 2011 (announced by the Group on 21 March 2011).

Recent accounting guidance
In June 2009, the Financial Accounting Standards Board ("FASB") issued "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (VIEs)" (ASU No. 2009-17), an update to Topic 810 – Consolidation. This ASU requires companies to assess VIEs under a new method for consolidation. The Group adopted this new standard as of 1 January 2010. Please refer to Note 16 for further information.

Also in June 2009, the FASB issued "Accounting for Transfers of Financial Assets" (ASU No. 2009-16), an update to Topic 860 – Transfers and Servicing. This ASU requires additional disclosures about transfer of financial assets and continuing exposure to the risks related to transferred assets. It also changes the requirements for derecognising financial assets. The Group adopted this new standard as of 1 January 2010. The adoption did not have a material impact on the Group's financial statements.

In January 2010, the FASB issued "Improving Disclosures about Fair Value Measurements" (ASU No. 2010-06), an update to Topic 820 – Fair Value Measurements and Disclosures. This new standard implements additional disclosure requirements for the three fair value levels. The requirements, which are applicable from 1 January 2010 on, are disclosed in Note 3.

In February 2010, the FASB issued "Amendments to Certain Recognition and Disclosure Requirements"(ASU No. 2010-9), an update to Topic 855 – Subsequent Events. As the Swiss Re Group is not a SEC filer, only the clarification on the reissuance disclosure provisions related to subsequent events applies to the Group. The Group adopted this standard as of the first quarter of 2010. It did not have an impact on the Group's financial statements.

In March 2010, the FASB issued "Scope Exception Related to Embedded Credit Derivatives" (ASU No. 2010-11), an update to Topic 815 – Derivatives and Hedging. This ASU clarifies how embedded credit-derivative features should be analysed to determine whether those features should be accounted for separately. The Group adopted this new standard as of 1 July 2010. The adoption did not have a material impact on the Group's financial statements.

In July 2010, the FASB issued "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" (ASU No. 2010-20), an update to Topic 310 – Receivables. This ASU requires additional disclosures about an entity's allowance for credit losses and the credit quality of its financing receivables. The Group adopted this update as of the fourth quarter of 2010. The new disclosure requirements are included in Notes 1, 2 and 8.

2 Investments

Investment income

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

USD millions	2009	2010
Fixed income securities	5 073	4 031
Equity securities	498	509
Policy loans, mortgages and other loans	413	428
Investment real estate	184	188
Short-term investments	42	88
Other current investments	93	–32
Share in earnings of equity-accounted investees	239	351
Cash and cash equivalents	77	102
Deposits with ceding companies	624	513
Gross investment income	7 243	**6 178**
Investment expenses	–575	–591
Interest charged for funds held	–269	–165
Net investment income	6 399	**5 422**

Dividends received from investments accounted for using the equity method were USD 53 million and USD 86 million for 2009 and 2010, respectively.

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

USD millions	2009	2010
Unit-linked investment income	549	593
With-profit investment income	152	145

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:

USD millions	2009	2010
Fixed income securities available-for-sale:		
Gross realised gains	3 608	2 193
Gross realised losses	–1 758	–1 149
Equity securities available-for-sale:		
Gross realised gains	199	22
Gross realised losses	–31	–1
Other-than-temporary impairments	–1 784	–423
Net realised investment gains/losses on trading securities	–18	108
Change in net unrealised investment gains/losses on trading securities	4 469	2 372
Other investments:		
Net realised/unrealised gains/losses	–2 581	213
Foreign exchange gains/losses	–1 229	–552
Net realised investment gains/losses	875	**2 783**

Proceeds from sales of fixed income securities available-for-sale amounted to USD 176 286 million and USD 118 947 million for 2009 and 2010, respectively. Sales of equity securities available-for-sale were USD 559 million and USD 105 million for 2009 and 2010, respectively.

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

USD millions	2009	**2010**
Unit-linked realised gains/losses	3 332	2 034
With-profit realised gains/losses	289	196

Impairment on fixed income securities related to credit losses

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

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

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

USD millions	2009	**2010**
Balance as of 1 January	551	1 409
Credit losses for which an other-than-temporary impairment was not previously recognised	984	196
Reductions for securities sold during the period	–528	–775
Increase of credit losses for which an other-than-temporary impairment has been recognised previously, when the Group does not intend to sell, or more likely than not will not be required to sell before recovery	417	96
Impact of increase in cash flows expected to be collected	–17	–69
Impact of foreign exchange movements	2	–28
Balance as of 31 December	1 409	**829**

Investments available-for-sale

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

2009 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Other-than-temporary impairments recognised in other comprehensive income	Estimated fair value
Debt securities issued by governments and government agencies:					
US Treasury and other US government corporations and agencies	25 951	263	–933		25 281
States of the United States and political subdivisions of the states	57	2	–4		55
United Kingdom	11 833	276	–476		11 633
Canada	2 300	232	–70		2 462
Germany	2 911	23	–20		2 914
France	2 211	24	–12		2 223
Other	5 909	209	–136		5 982
Total	51 172	1 029	–1 651		50 550
Corporate debt securities	17 419	1 107	–383	–24	18 119
Residential mortgage-backed securities	5 677	115	–713	–359	4 720
Commercial mortgage-backed securities	6 281	49	–871	–119	5 340
Agency securitised products	4 197	162	–7	–8	4 344
Other asset-backed securities	4 285	106	–190	–92	4 109
Fixed income securities available-for-sale	89 031	2 568	–3 815	–602	87 182
Equity securities available-for-sale	392	188	–26		554

2010 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Other-than-temporary impairments recognised in other comprehensive income	Estimated fair value
Debt securities issued by governments and government agencies:					
US Treasury and other US government corporations and agencies	18 868	337	–539		18 666
States of the United States and political subdivisions of the states	172	1	–7		166
United Kingdom	12 221	332	–150		12 403
Canada	3 022	384	–18		3 388
Germany	3 369	33	–28		3 374
France	2 022	32	–21		2 033
Other	5 032	242	–90		5 184
Total	44 706	1 361	–853		45 214
Corporate debt securities	19 234	1 387	–250	–12	20 359
Residential mortgage-backed securities	4 178	180	–155	–183	4 020
Commercial mortgage-backed securities	4 364	155	–178	–37	4 304
Agency securitised products	4 894	123	–22		4 995
Other asset-backed securities	2 067	79	–66	–22	2 058
Fixed income securities available-for-sale	**79 443**	**3 285**	**–1 524**	**–254**	**80 950**
Equity securities available-for-sale	**1 241**	**258**	**–25**		**1 474**

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

Investments trading

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

USD millions	2009	2010
Debt securities issued by governments and government agencies	7 671	8 308
Corporate debt securities	2 248	2 497
Mortgage- and asset-backed securities	1 643	447
Fixed income securities trading	11 562	**11 252**
Equity securities trading	19 591	**19 513**

Fixed income securities and equity securities classified as trading as of 31 December include securities held for unit-linked and with-profit business:

USD millions	2009	2010
Fixed income securities trading held for unit-linked business	2 380	2 302
Fixed income securities trading held for with-profit business	1 619	1 648
Fixed income securities trading	3 999	**3 950**
Equity securities trading held for unit-linked business	17 333	17 405
Equity securities trading held for with-profit business	1 203	1 135
Equity securities trading	18 536	**18 540**

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 2009 and 2010, USD 18 181 million and USD 13 107 million, respectively, of fixed income securities available-for-sale were callable.

		2009		2010
USD millions	Amortised cost or cost	Estimated fair value	Amortised cost or cost	Estimated fair value
Due in one year or less	4 345	4 352	2 342	2 379
Due after one year through five years	19 152	19 281	16 601	16 891
Due after five years through ten years	15 097	15 401	14 628	15 189
Due after ten years	29 902	29 525	30 604	31 360
Mortgage- and asset-backed securities with no fixed maturity	20 535	18 623	15 268	15 131
Total fixed income securities available-for-sale	89 031	87 182	**79 443**	**80 950**

Assets pledged

As of 31 December 2009 and 2010, investments with the carrying value of USD 1 706 million and USD 1 769 million, respectively, were on deposit with regulatory agencies in accordance with local requirements.

As of 31 December 2009 and 2010, investments (including cash and cash equivalents) with a carrying value of approximately USD 9 015 million and USD 8 573 million, respectively, were placed on deposit or pledged to secure certain reinsurance liabilities.

As of 31 December 2009 and 2010, securities of USD 14 516 million and USD 12 802 million, respectively, were pledged as collateral in securities lending transactions and repurchase agreements. The associated liabilities of USD 5 005 million and USD 1 750 million, respectively, were recognised in accrued expenses and other liabilities.

A real estate portfolio with a carrying amount of USD 274 million serves as collateral for short-term senior operational debt of USD 697 million.

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

As of 31 December 2009 and 2010, the fair value of the government bond, corporate bond and equity securities received as collateral was USD 12 221 million and USD 6 539 million, respectively. Of this, the amount that was sold or repledged as of 31 December 2009 and 2010 was USD 758 million and USD nil million, respectively, which is used to settle short government bond positions. The sources of the collateral are typically highly rated banking market counterparties.

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 2009 and 2010. As of 31 December 2009 and 2010, USD 15 million and USD 25 million, respectively, of the gross unrealised loss on equity securities available-for-sale relates to declines in value for less than 12 months and USD 11 million and USD nil million, respectively, to declines in value for more than 12 months.

2009 USD millions	Less than 12 months Fair value	 Unrealised losses	12 months or more Fair value	 Unrealised losses	Total Fair value	 Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	17 622	933	129		17 751	933
States of the United States and political subdivisions of the states	26	1	16	3	42	4
United Kingdom	6 396	395	700	81	7 096	476
Canada	944	70	64		1 008	70
Germany	1 291	20			1 291	20
France	769	12			769	12
Other	2 166	132	53	4	2 219	136
Total	29 214	1 563	962	88	30 176	1 651
Corporate debt securities	3 529	294	1 015	113	4 544	407
Residential mortgage-backed securities	2 727	795	1 244	277	3 971	1 072
Commercial mortgage-backed securities	3 281	640	1 365	350	4 646	990
Agency securitised products	416	12	113	3	529	15
Other asset-backed securities	1 780	246	212	36	1 992	282
Total	40 947	3 550	4 911	867	45 858	4 417

2010 USD millions	Less than 12 months Fair value	 Unrealised losses	12 months or more Fair value	 Unrealised losses	Total Fair value	 Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	10 383	539			10 383	539
States of the United States and political subdivisions of the states	128	7			128	7
United Kingdom	3 623	150			3 623	150
Canada	559	18			559	18
Germany	1 722	28			1 722	28
France	869	21			869	21
Other	1 925	90			1 925	90
Total	19 209	853			19 209	853
Corporate debt securities	4 300	234	95	28	4 395	262
Residential mortgage-backed securities	2 490	338			2 490	338
Commercial mortgage-backed securities	1 516	215			1 516	215
Agency securitised products	2 160	22			2 160	22
Other asset-backed securities	862	88			862	88
Total	**30 537**	**1 750**	**95**	**28**	**30 632**	**1 778**

Mortgages, loans and real estate

As of 31 December, the carrying values of investments in mortgages, policy and other loans, and real estate were as follows:

USD millions	2009	**2010**
Policy loans	3 577	3 658
Mortgage loans	1 343	1 337
Other loans	686	635
Investment real estate	2 052	2 040

The fair value of the real estate as of 31 December 2009 and 2010 was USD 2 961 million and USD 3 306 million, respectively. The carrying value of policy loans, mortgages and other loans approximates fair value.

As of 31 December 2009 and 2010, the Group's investment in mortgages and other loans included USD 187 million and USD 270 million, respectively, of loans due from employees, and USD 400 million and USD 356 million, respectively, due from officers. These loans generally consist of mortgages offered at variable and fixed interest rates.

As of 31 December 2009 and 2010, investments in real estate included USD 7 million and USD 6 million, respectively, of real estate held for sale.

Depreciation expense related to income producing properties was USD 41 million and USD 40 million for 2009 and 2010, respectively. Accumulated depreciation on investment real estate totalled USD 499 million and USD 528 million as of 31 December 2009 and 2010, respectively.

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

3 Fair value disclosures

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

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

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

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

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

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

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

Certain financial instruments are classified within level 3 of the fair value hierarchy, because they trade infrequently and therefore have little or no price transparency. Such instruments include private equity, less liquid corporate debt securities and certain asset-backed securities. Certain over-the-counter derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. Such instruments are classified within level 3 of the fair value hierarchy. Pursuant to the election of the fair value option, the Group classifies certain 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 from assets and liabilities measured at fair value using significant unobservable inputs are recognised in net realised gains and losses. For the year ended 31 December 2010, these adjustments were non-material. Whenever the underlying assets or liabilities are reported in a specific business segment, the valuation adjustment is allocated accordingly. Valuation adjustments not attributable to any business segment are reported in Group items.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Assets and liabilities measured at fair value on a recurring basis

As of 31 December 2009 and 2010, the fair values of assets and liabilities measured on a recurring basis by level of input were as follows:

As of 31 December 2009 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impact of netting[1]	Total
Assets					
Fixed income securities	22 930	70 099	5 715		98 744
Debt securities issued by US government and government agencies	22 930	2 482			25 412
Debt securities issued by non-US governments and government agencies		32 727	82		32 809
Corporate debt securities		18 281	2 085		20 366
Residential mortgage-backed securities		3 894	1 302		5 196
Commercial mortgage-backed securities		5 285	199		5 484
Agency securitised products		4 365			4 365
Other asset-backed securities		3 065	2 047		5 112
Equity securities	19 117	858	170		20 145
Equity securities backing unit-linked and with-profit life and health policies	18 495	41			18 536
Equity securities held for proprietary investment purposes	622	817	170		1 609
Derivative financial instruments	582	8 538	3 821	–8 961	3 980
Other assets	25	1	1 321		1 347
Total assets at fair value	42 654	79 496	11 027	–8 961	124 216
Liabilities					
Derivative financial instruments	–458	–7 558	–5 038	6 879	–6 175
Liabilities for life and health policy benefits			–293		–293
Accrued expenses and other liabilities	–594	–1 333			–1 927
Total liabilities at fair value	–1 052	–8 891	–5 331	6 879	–8 395

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

As of 31 December 2010 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impact of netting[1]	Total
Assets					
Fixed income securities	16043	74278	1881		92202
Debt securities issued by US government and government agencies	16043	3041			19084
Debt securities issued by non-US governments and government agencies		34438			34438
Corporate debt securities		21108	1748		22856
Residential mortgage-backed securities		4210	7		4217
Commercial mortgage-backed securities		4427	3		4430
Agency securitised products		5011			5011
Other asset-backed securities		2043	123		2166
Equity securities	19972	812	203		20987
Equity securities backing unit-linked and with-profit life and health policies	18495	45			18540
Equity securities held for proprietary investment purposes	1477	767	203		2447
Derivative financial instruments	579	6850	2417	–6560	3286
Interest rate contracts	389	4000	839		5228
Foreign exchange contracts	40	1098	162		1300
Derivative equity contracts	142	1170			1312
Credit contracts		369	1214		1583
Other contracts	8	213	202		423
Other assets	20	–12	1411		1419
Total assets at fair value	**36614**	**81928**	**5912**	**–6560**	**117894**
Liabilities					
Derivative financial instruments	–577	–5649	–4532	5772	–4986
Interest rate contracts	–402	–3579	–825		–4806
Foreign exchange contracts	–41	–1103	–72		–1216
Derivative equity contracts	–123	–531	–56		–710
Credit contracts		–317	–1007		–1324
Other contracts	–11	–119	–2572		–2702
Liabilities for life and health policy benefits			–271		–271
Accrued expenses and other liabilities	–398	–1290			–1688
Total liabilities at fair value	**–975**	**–6939**	**–4803**	**5772**	**–6945**

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

Assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (level 3)
As of 31 December 2009 and 2010, the reconciliation of the fair values of assets and liabilities measured on a recurring basis using significant unobservable inputs were as follows:

2009 USD millions	Debt securities issued by non-US governments and government agencies	Corporate debt securities	Residential mortgage-backed securities	Commercial mortgage-backed securities	Agency securitised products	Other asset-backed securities	Equity securities held for proprietary investment purposes	Derivative financial instruments	Other assets	Total
Assets										
Balance as of 1 January 2009	144	6 084	1 687	458		2 451	207	13 422	1 484	25 937
Realised/unrealised gains/losses:										
Included in net income	–10	290	–206	–23	–7	77	111	–10 673	–200	–10 641
Included in other comprehensive income	–15	293	181	16	–3	189	–25		39	675
Purchases, issuances, and settlements	–35	–1 035	163	–69	23	–885	–188	1 662	8	–356
Transfers in and/or out of level 3	–59	–3 482	–965	–245	–13	497	81	–641	–59	–4 886
Impact of foreign exchange movements	57	–65	442	62		–282	–16	51	49	298
Closing balance as of 31 December 2009	82	2 085	1 302	199	0	2 047	170	3 821	1 321	11 027

	Liabilities for life and health policy benefits	Derivative financial instruments	Total
Liabilities			
Balance as of 1 January 2009	–464	–16 833	–17 297
Realised/unrealised gains/losses:			
Included in net income	172	10 699	10 871
Included in other comprehensive income			
Purchases, issuances, and settlements		237	237
Transfers in and/or out of level 3		877	877
Impact of foreign exchange movements	–1	–18	–19
Closing balance as of 31 December 2009	–293	–5 038	–5 331

2010 USD millions	Debt securities issued by non-US governments and government agencies	Corporate debt securities	Residential mortgage-backed securities	Commercial mortgage-backed securities	Other asset-backed securities
Assets					
Balance as of 1 January 2010	82	2 085	1 302	199	2 047
Cumulative effect of adoption of ASU No. 2009-17					–84
Realised/unrealised gains/losses:					
Included in net income	19	115	–4		–36
Included in other comprehensive income	–5	7	29	1	55
Purchases, issuances, and settlements	–115	–77	–73	–4	–1 430
Transfers into level 3[1]	106	87	90	44	176
Transfers out of level 3[1]	–85	–440	–1 333[2]	–238	–600
Impact of foreign exchange movements	–2	–29	–4	1	–5
Closing balance as of 31 December 2010	**0**	**1 748**	**7**	**3**	**123**
Liabilities					
Balance as of 1 January 2010					
Realised/unrealised gains/losses:					
Included in net income					
Included in other comprehensive income					
Purchases, issuances, and settlements					
Transfers into level 3[1]					
Transfers out of level 3[1]					
Impact of foreign exchange movements					
Closing balance as of 31 December 2010					

[1] Transfers are recognised at the date of the event or change in circumstances that caused the transfer.
[2] The Group has mainly transferred residential mortgage-backed securities with a maturity longer than 20 years from level 3 to level 2 as the valuation of those products is based on observable inputs.

	Equity securities held for proprietary investment purposes	Derivative interest rate contracts	Derivative foreign exchange contracts	Derivative equity contracts	Derivative credit contracts	Other derivative contracts	Other assets	Total
	170	1 162	3	57	2 316	283	1 321	11 027
								–84
	–27	–58	54	21	–788	–45	–35	–784
	–2						129	214
	65	–206	48	–88	–314	19	64	–2 111
		91	56	10		2	31	693
		–148				–48	–97	–2 989
	–3	–2	1			–9	–2	–54
	203	**839**	**162**	**0**	**1 214**	**202**	**1 411**	**5 912**

	Liabilities for life and health policy benefits	Derivative interest rate contracts	Derivative foreign exchange contracts	Derivative equity contracts	Derivative credit contracts	Other derivative contracts	Total
	–293	–948	–41	–54	–1 738	–2 257	–5 331
	22	123	–31	–2	731	–95	748
						–220	–220
	–271	**–825**	**–72**	**–56**	**–1 007**	**–2 572**	**–4 803**

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) were as follows:

USD millions	2009	2010
Gains/losses included in net income for the period	194	–36
Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date	1 676	–825

Other assets measured at net asset value
Other assets measured at net asset value as of 31 December 2009 and 2010, respectively, were as follows:

USD millions	2009 Fair value	2010 Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Private equity funds	492	646	514	non-redeemable	na
Hedge funds	356	332		redeemable[1]	90–120 days[2]
Private equity direct	236	232		non-redeemable	na
Real estate funds	132	168	65	non-redeemable[3]	na
Total	1 216	**1 378**	**579**		

[1] The redemption frequency varies from monthly to up to three years.
[2] Cash distribution can be delayed for up to three years depending on the sale of the underlyings.
[3] One exception is a real estate fund that can be redeemed annually based on a 90-day notice period. This redeemable fund had a fair value of USD 15.1 million as of 31 December 2010.

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

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

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

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

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

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

Fixed income securities trading
The Group elected the fair value option for the 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 were 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. In the second quarter of 2010, these fixed income securities matured.

Equity securities trading

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

Liabilities for life and health policy benefits

The Group elected the fair value option for existing 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.

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 2009 and 2010 were as follows:

USD millions	2009	**2010**
Assets		
Fixed income securities trading	11 562	11 252
of which at fair value pursuant to the fair value option	782	0[1]
Equity securities trading	19 591	19 513
of which at fair value pursuant to the fair value option	492	475
Liabilities		
Liabilities for life and health policy benefits	–39 944	39 551
of which at fair value pursuant to the fair value option	–293	–271

[1] These fixed income securities matured in the second quarter of 2010.

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

Gains/losses included in earnings for items measured at fair value pursuant to election of the fair value option including foreign exchange impact were as follows:

USD millions	2009	**2010**
Fixed income securities trading	142	–23
Equity securities trading	379	–17
GMDB reserves	171	22
Total	692	**–18**

Fair value changes from fixed income securities trading and equity securities trading are reported in net realised investment gains/losses. Fair value changes from the GMDB reserves are shown in life and health benefits.

4 Derivative financial instruments

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

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

Fair values and notional amounts of derivative financial instruments

As of 31 December 2009 and 2010, the fair values and notional amounts of the derivatives outstanding were as follows:

As of 31 December 2009 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivatives not designated as hedging instruments				
Interest rate contracts	370 280	4 702	–4 529	173
Foreign exchange contracts	43 398	1 107	–2 155	–1 048
Equity contracts	23 612	2 855	–1 297	1 558
Credit contracts	70 427	2 673	–2 181	492
Other contracts	42 711	1 059	–2 892	–1 833
Total	550 428	12 396	–13 054	–658
Derivatives designated as hedging instruments				
Interest rate contracts	5 071[1]	402		402
Foreign exchange contracts	2 339[1]	143		143
Total	7 410	545	0	545
Total derivative financial instruments	557 838	12 941	–13 054	–113
Amount offset				
Where a right of setoff exists		–6 475	6 475	
Due to cash collateral		–2 486	404	
Total net amount of derivative financial instruments		3 980	–6 175	–2 195

[1] The Group has revised its classification of hedging contracts and, as a result, the notionals of some contracts that were previously classified as foreign exchange contracts are now classified as interest rate contracts.

As of 31 December 2010 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivatives not designated as hedging instruments				
Interest rate contracts	452 349	4 646	–4 796	–150
Foreign exchange contracts	41 372	1 270	–1 201	69
Equity contracts	13 450	1 312	–710	602
Credit contracts	53 087	1 583	–1 324	259
Other contracts	28 949	423	–2 702	–2 279
Total	**589 207**	**9 234**	**–10 733**	**–1 499**
Derivatives designated as hedging instruments				
Interest rate contracts	4 582	582	–10	572
Foreign exchange contracts	3 012	30	–15	15
Total	**7 594**	**612**	**–25**	**587**
Total derivative financial instruments	**596 801**	**9 846**	**–10 758**	**–912**
Amount offset				
Where a right of setoff exists		–5 437	5 437	
Due to cash collateral		–1 123	335	
Total net amount of derivative financial instruments		**3 286**	**–4 986**	**–1 700**

The notional amounts of derivative financial instruments give an indication of the Group's volume of derivative activity. The fair value assets are included in other invested assets and the fair value liabilities are included in accrued expenses and other liabilities. The fair value amounts that were not offset were nil as of 31 December 2009 and 2010, respectively.

Non-hedging activities

The Group primarily uses derivative financial instruments for risk management and trading strategies. Gains and losses of derivative financial instruments not designated as hedging instruments are recorded in net realised investment gains/losses in the income statement. For the years ended 31 December 2009 and 2010, the gains and losses of derivative financial instruments not designated as hedging instruments were as follows:

USD millions	2009	**2010**
Derivatives not designated as hedging instruments		
Interest rate contracts	–85	–64
Foreign exchange contracts	1	494
Equity contracts	–955	–2
Credit contracts	–2723	–73
Other contracts	744	–116
Total gain/loss recognised in income	–3018	**239**

Hedging activities

The Group designates certain derivative financial instruments as hedging instruments. The designation of derivative financial instruments is primarily used for overall portfolio and risk management strategies. As of 31 December 2009 and 2010, the following hedging relationships were outstanding:

Fair value hedges

The Group enters into interest rate and foreign exchange swaps to reduce the exposure to interest rate and foreign exchange volatility for certain of its issued debt positions. These derivative instruments are designated as hedging instruments in qualifying fair value hedges. Gains and losses on derivative financial instruments designated as fair value hedging instruments are recorded in net realised investment gains/losses in the income statement. For the years ended 31 December 2009 and 2010, the gains and losses attributable to the hedged risks were as follows:

		2009		**2010**
USD millions	Gains/losses on derivatives	Gains/losses on hedged items	Gains/losses on derivatives	Gains/losses on hedged items
Fair value hedging relationships				
Interest rate contracts	–605	684	183	–147
Foreign exchange contracts	93	–23	–57	116
Total gain/loss recognised in income	–512	661	**126**	**–31**

Hedges of the net investment in foreign operations

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

For the years ended 31 December 2009 and 2010, the Group recorded an accumulated net unrealised foreign currency remeasurement loss of USD 44 million and a gain of USD 171 million, respectively, in shareholders' equity. These offset translation gains and losses on the hedged net investment.

Maximum potential loss
In consideration of the rights of setoff and the qualifying master netting arrangements with various counterparties, the maximum potential loss as of 31 December 2009 and 2010 was approximately USD 6 466 million and USD 4 409 million, respectively. The maximum potential loss is based on the positive market replacement cost assuming non-performance of all counterparties, net of cash collateral.

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

The total fair value of derivative financial instruments containing credit risk-related contingent features amounted to USD 3 970 million and USD 1 975 million as of 31 December 2009 and 2010, respectively. For derivative financial instruments containing credit risk-related contingent features, the Group posted collateral of USD 403 million and USD 335 million as of 31 December 2009 and 2010, respectively. In the event of a reduction of the Group's credit rating to below investment grade, additional collateral would need to be posted with a fair value of USD 3 567 million and USD 1 640 million as of 31 December 2009 and 2010, respectively. The total equals the amount needed to settle the instruments immediately as of 31 December 2009 and 2010, respectively.

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

The following tables show the fair values and the maximum potential payout of the credit derivatives written/sold as of 31 December 2009 and 2010, categorised by the type of credit derivative and credit spreads, which were based on external market data. The fair values represent the gross carrying values, excluding the effects of netting under ISDA master agreements and cash collateral netting. The maximum potential payout is based on the notional values of the derivatives and represents the gross undiscounted future payments the Group would be required to make, assuming the default of all credit derivatives' underlyings.

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

The Group has purchased protection to manage the performance/payment risks related to credit derivatives. As of 31 December 2009 and 2010, the total purchased credit protection based on notional values was USD 45 462 million and USD 30 304 million, respectively. Thereof USD 14 091 million and USD 12 025 million, respectively, were related to identical underlyings for which the Group sold credit protection. For tranched indexes and baskets, only matching tranches of the respective index were determined as identical. In addition to the purchased credit protection, the Group manages the performance/payment risks through a correlation hedge, which is established with non-identical offsetting positions.

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

As of 31 December 2009 and 2010, the fair values and maximum potential payout of the written credit derivatives outstanding were as follows:

As of 31 December 2009 USD millions	Total fair values of credit derivatives written/sold	Maximum potential payout (time to maturity) 0–5 years	5–10 years	Over 10 years	Total maximum potential payout
Credit Default Swaps					
Credit spread in basis points					
0 – 250	18	7 429	1 836	131	9 396
251 – 500	–33	17		188	205
501 – 1 000	–30	24		90	114
Greater than 1 000	–631	392		838	1 230
No credit spread available		1 033			1 033
Total	–676	8 895	1 836	1 247	11 978
Credit Index Products					
Credit spread in basis points					
0 – 250	–386	3 920	8 080	194	12 194
251 – 500	44	95	138		233
501 – 1 000	–3	422	29		451
Greater than 1 000	–78	109			109
Total	–423	4 546	8 247	194	12 987
Total Return Swaps					
Credit spread in basis points					
No credit spread available	82	5 414	581		5 995
Total	82	5 414	581	0	5 995
Total credit derivatives written/sold	–1 017	18 855	10 664	1 441	30 960

As of 31 December 2010 USD millions	Total fair values of credit derivatives written/sold	Maximum potential payout (time to maturity) 0–5 years	5–10 years	Over 10 years	Total maximum potential payout
Credit Default Swaps					
Credit spread in basis points					
0 – 250	29	5 223	2 416		7 639
251 – 500	–43	285		185	470
501 – 1 000	–9	301			301
Greater than 1 000	–307	85		562	647
No credit spread available		200			200
Total	**–330**	**6 094**	**2 416**	**747**	**9 257**
Credit Index Products					
Credit spread in basis points					
0 – 250	–273	1 436	9 061		10 497
251 – 500	29	2 814	128		2 942
501 – 1 000	43	48	29		77
Greater than 1 000	1		10		10
Total	**–200**	**4 298**	**9 228**	**0**	**13 526**
Total Return Swaps					
Credit spread in basis points					
No credit spread available	95	1 485	581		2 066
Total	**95**	**1 485**	**581**	**0**	**2 066**
Total credit derivatives written/sold	**–435**	**11 877**	**12 225**	**747**	**24 849**

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

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

2009			DAC	PVFP
USD millions	Non-Life	Life & Health	Total	Total
Opening balance as of 1 January 2009	1 086	2 964	4 050	5 768
Cumulative effect of adoption of FSP SFAS 115-2				5
Cumulative effect of adoption of SFAS 163		–23	–23	
Deferred	1 903	171	2 074	
Effect of acquisitions/disposals and retrocessions				372
Amortisation	–2 153	–287	–2 440	–483
Interest accrued on unamortised PVFP				119
Effect of foreign currency translation	33	200	233	267
Effect of change in unrealised gains/losses				6
Closing balance as of 31 December 2009	869	3 025	3 894	6 054

2010			DAC	PVFP
USD millions	Non-Life	Life & Health	Total	Total
Opening balance as of 1 January 2010	869	3 025	3 894	6 054
Deferred	1 734	313	2 047	
Effect of acquisitions/disposals and retrocessions		–212	–212	–1 154
Amortisation	–1 805	–365	–2 170	–449
Interest accrued on unamortised PVFP				247
Effect of foreign currency translation	–6	18	12	–75
Effect of change in unrealised gains/losses				–58
Closing balance as of 31 December 2010	**792**	**2 779**	**3 571**	**4 565**

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 decrease in PVFP in the current year is primarily due to the impact of the US individual life retrocession agreement announced in the first quarter of 2010.

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

6 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.

As of 1 January 2010, the Group adopted ASU No.2009-17 relating to consolidation of variable interest entities. For more information on the transition impact on debt, please refer to Note 16.

The Group's debt as of 31 December 2009 and 2010 was as follows:

USD millions	2009	**2010**
Senior financial debt		33
Senior financial debt – convertible perpetual capital instrument[1]		3 966
Senior operational debt	8 024	5 018
Subordinated financial debt	81	1 781
Short-term debt – financial and operational debt	8 105	**10 798**
Senior financial debt	1 487	2 590
Senior operational debt	7 005	6 976
Subordinated financial debt	5 370	3 634
Subordinated operational debt	5 322	5 227
Long-term debt – financial and operational debt	19 184	**18 427**
Total carrying value	27 289	**29 225**
Total fair value	25 391	**28 017**

[1] The CPCI was reclassified from equity to short-term debt upon termination in the fourth quarter of 2010. Please refer to Note 9 Earnings per share for details on the accounting for the CPCI.

The Group uses debt for general corporate purposes and to fund discrete pools of operational leverage and financial intermediation assets. Operational leverage and financial intermediation are subject to asset and liability matching resulting in little to no risk that the assets will be insufficient to service and settle the liabilities. Debt used for operational leverage and financial intermediation is treated as operational debt and excluded by the rating agencies from financial leverage calculations. Certain debt positions are limited recourse, meaning the debtors' claims are limited to assets underlying the financing. As of 31 December 2009 and 2010, debt related to operational leverage and financial intermediation amounted to USD 20.4 billion (thereof USD 6.0 billion limited recourse) and USD 17.2 billion (thereof USD 7.5 billion limited recourse), respectively.

Maturity of long-term debt

As of 31 December 2009 and 2010, long-term debt as reported above had the following maturities:

USD millions	2009	**2010**
Due in 2011	2 064	0[1]
Due in 2012	1 623	2 310
Due in 2013	1 565	1 621
Due in 2014	1 656	1 773
Due in 2015	150	697
Due after 2015	12 126	12 026
Total carrying value	19 184	**18 427**

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

Senior long-term debt

Maturity	Instrument	Issued in	Currency	Nominal in millions	Interest rate	Book value in USD millions
2012	EMTN	2009	EUR	1 000	6.00%	1 354
2012	EMTN	2010	CHF	250	3M Libor +45bps	268
2013	EMTN	2009	CHF	700	4.25%	765
2013	EMTN	2009	USD	750	4.13%	778
2014	EMTN	2009	EUR	600	7.00%	822
2014	EMTN	2009	CHF	500	3.25%	552
2014	EMTN	2009	CHF	50	2.94%	54
2014	EMTN	2010	CHF	250	1.75%	267
2015	EMTN	2001	CHF	150	4.00%	162
2015	EMTN	2010	CHF	500	2.00%	532
2016	Credit-linked note	2007	USD	382	1M Libor	347
2019	Senior note[1]	1999	USD	400	6.45%	480
2026	Senior note[1]	1996	USD	600	7.00%	766
2030	Senior note[1]	2000	USD	350	7.75%	487
Various	Payment undertaking agreements	various	USD	1 025	various	1 248
Various	Insurance-linked placements[2]	various	USD	366	various	373
Various	Insurance-linked placements[2]	various	EUR	227	various	311
Total senior debt as of 31 December 2010						**9 566**
Total senior debt as of 31 December 2009						8 492

[1] Assumed in the acquisition of Insurance Solutions.
[2] These instruments were consolidated as of 1 January 2010 under ASU No.2009-17 relating to the consolidation of variable interest entities. For more information, refer to Note 16.

Subordinated long-term debt

Maturity	Instrument	Issued in	Currency	Nominal in millions	Interest rate…	…first call in	Book value in USD millions
2047	Subordinated private placement (amortising, limited recourse)	2007	GBP	1 481	4.90%		2 319
2057	Subordinated private placement (amortising, limited recourse)	2007	GBP	1 858	4.77%		2 908
	Subordinated perpetual loan note	2006	EUR	1 000	5.25%	2016	1 336
	Subordinated perpetual loan note	2006	USD	752	6.85%	2016	752
	Subordinated perpetual loan note	2007	GBP	500	6.30%	2019	780
	2 subordinated perpetual loan notes	2007	AUD	750	various	2017	766
Total subordinated debt as of 31 December 2010							**8 861**
Total subordinated debt as of 31 December 2009							10 692

Interest expense on long-term debt

Interest expense on long-term debt for the periods ended 31 December 2009 and 2010 was as follows:

USD millions	2009	**2010**
Senior financial debt	46	75
Senior operational debt	272	349
Subordinated financial debt	272	266
Subordinated operational debt	253	248
Total	843	**938**

Long-term debt issued in 2010

In June 2010, the Group issued CHF 500 million under the EMTN programme with a five-year maturity and a coupon of 2% and CHF 250 million, due in 2012, bearing interest of three-month CHF Libor plus 45 basis points.

In July 2010, the Group issued CHF 250 million under the EMTN programme, with a four-year maturity and a coupon of 1.75%.

Additional funding resources

As additional resources to meet funding requirements, the Group has committed repurchase facilities in place with various banks.

7 Unpaid claims and claim adjustment expenses

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

USD millions	2009	2010
Non-life	57015	53345
Life & Health	11397	11345
Total	68412	**64690**

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

USD millions	2009	2010
Balance as of 1 January	59005	57015
Reinsurance recoverable	–4417	–6307
Deferred expense on retroactive reinsurance	–508	–455
Net	54080	**50253**
Incurred related to:[1]		
Current year	7937	7255
Prior year	128	–240
Amortisation of deferred expense on retroactive reinsurance and impact of commutations	59	66
Total incurred	8124	**7081**
Paid related to:		
Current year	–1426	–1202
Prior year	–10250	–8501
Total paid	–11676	**–9703**
Foreign exchange	1802	–562
Effect of acquisitions, disposals, new retroactive reinsurance and other items	–2077	158
Net	50253	47227
Reinsurance recoverable	6307	5717
Deferred expense on retroactive reinsurance	455	401
Balance as of 31 December	57015	**53345**

[1] The Group has updated the allocation of claims incurred between current and prior year for 2010 compared to the information published in the financial review on 17 February 2011. Please refer to the section "Financial Review" in Note 1 "Organisation and summary of significant accounting policies" on page 124 for further information.

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 2010, the Group carried net reserves for US asbestos, environmental and other long-latent health hazards equal to USD 2 226 million. During 2010, the Group incurred net losses of USD 1 million and paid net against these liabilities USD 27 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 incurred development on prior years includes the impact of the adverse development cover (ADC) entered into with Berkshire Hathaway, covering non-life claims reserves for accident years 2008 and prior, with limited exceptions. The net prior-year development after the ADC cover was influenced by the reserves release below the ADC minimum commutation value, some adverse development on accident year 2009, and a release from the provisions for future claims expenses.

8 Reinsurance information

For the years ended 31 December

Premiums written, premiums earned and fees assessed against policyholders

USD millions	Non-Life	Life & Health	2009 Total	Non-Life	Life & Health	**2010** Total
Premiums written						
Direct	1 837	1 404	3 241	1 760	1 222	2 982
Assumed	13 775	9 242	23 017	12 023	9 751	21 774
Ceded	–3 729	–772	–4 501	–3 114	–2 209	–5 323
Total premiums written	11 883	9 874	21 757	**10 669**	**8 764**	**19 433**
Premiums earned						
Direct	1 892	1 406	3 298	1 721	1 220	2 941
Assumed	14 728	9 212	23 940	12 157	9 752	21 909
Ceded	–3 813	–761	–4 574	–2 985	–2 213	–5 198
Total premiums earned	12 807	9 857	22 664	**10 893**	**8 759**	**19 652**
Fee income from policyholders						
Direct		675	675		682	682
Assumed		252	252		254	254
Ceded		–80	–80		–18	–18
Total fee income from policyholders		847	847		**918**	**918**

Claims and claim adjustment expenses

USD millions	Non-Life	Life & Health	2009 Total	Non-Life	Life & Health	**2010** Total
Claims paid						
Gross	–13 627	–11 166	–24 793	–11 460	–10 475	–21 935
Retro	1 951	954	2 905	1 757	1 831	3 588
Net	–11 676	–10 212	–21 888	–9 703	–8 644	–18 347
Change in unpaid claims and claim adjustment expenses; life and health benefits						
Gross	3 678	1 806	5 484	3 285	–79	3 206
Retro	–338	–233	–571	–836	487	–349
Net	3 340	1 573	4 913	2 449	408	2 857
Claims and claim adjustment expenses; life and health benefits	–8 336	–8 639	–16 975	**–7 254**	**–8 236**	**–15 490**

Acquisition costs

USD millions	Non-Life	Life & Health	2009 Total	Non-Life	Life & Health	**2010** Total
Acquisition costs						
Acquisition costs, gross	–3 234	–2 433	–5 667	–2 739	–2 155	–4 894
Acquisition costs, retro	1 031	141	1 172	886	329	1 215
Acquisition costs, net	–2 203	–2 292	–4 495	**–1 853**	**–1 826**	**–3 679**

Reinsurance assets and liabilities

USD millions	Non-Life	Life & Health	2009 Total	Non-Life	Life & Health	2010 Total
Assets						
Reinsurance recoverable	6 307	4 944	11 251	5 717	6 920	12 637
Deferred acquisition costs	869	3 025	3 894	793	2 778	3 571
Liabilities						
Unpaid claims and claim adjustment expenses	57 015	11 397	68 412	53 345	11 345	64 690
Life and health policy benefits		39 944	39 944		39 551	39 551
Policyholder account balances		36 692	36 692		36 478	36 478

Premium receivables invoiced were USD 1 598 million as of 31 December 2010. The recognised allowance for these receivables was USD 37 million. Claims receivables invoiced from ceded reinsurance business were USD 614 million as of 31 December 2010. The recognised allowance for these receivables was USD 77 million. Assets arising from the application of the deposit method of accounting and meeting the definition of financing receivables were USD 568 million. No allowance has been recognised related to those contracts.

Sales inducements are offered to contract holders of certain universal life and annuity products. The amounts deferred equal the sum of persistency bonuses credited to the account value plus the non-interest related increase in the persistency bonus liability. These costs are amortised in constant proportion to estimated gross profits over the life of the contract, using the credited interest rates as the discount rate. The unamortised balance of sales inducements as of 1 January 2009 and 2010 was USD 901 million and USD 1 035 million, respectively. In the course of 2009 and 2010, USD 272 million and USD 234 million, respectively, of sales inducements were deferred and USD 245 million and USD 219 million, respectively, were amortised. The unamortised balance of sales inducements as of 31 December 2009 and 2010 was USD 1 035 million and USD 1 019 million, respectively.

Policyholder dividends are recognised as an element of policyholder benefits. The relative percentage of participating insurance of the life and health policy benefits was 7% in 2009 and 2010. The amount of policyholder dividend expenses in 2009 and 2010 was USD 105 million and USD 110 million, respectively.

9 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 2009 and 2010, the Group´s dividends per share were CHF 0.10 and CHF 1.00, respectively.

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

USD millions (except share data)	2009	2010
Basic earnings per share		
Net income	699	**2 134**
Non-controlling interests		**–154**
Interest on convertible perpetual capital instrument	–203	**–1 117**
Net income attributable to common shareholders	496	**863**
Weighted average common shares outstanding	339 543 341	**342 524 717**
Net income per share in USD	1.46	**2.52**
Net income per share in CHF[1]	1.49	**2.64**
Effect of dilutive securities		
Change in income available to common shares due to convertible bonds		**229**
Change in average number of shares due to convertible bonds and employee options	2 846 457	**106 778 101**
Diluted earnings per share		
Net income assuming debt conversion and exercise of options	496	**1 092**
Weighted average common shares outstanding	342 389 798	**449 302 818**
Net income per share in USD	1.45	**2.43**
Net income per share in CHF[1]	1.48	**2.54**

[1] The translation from USD to CHF is shown for informational purposes only and has been calculated at the Group's average exchange rates for the years ended 31 December 2009 and 2010, respectively.

In March 2009, Swiss Re Zurich issued to National Indemnity Company, a subsidiary of Berkshire Hathaway Inc, a convertible perpetual capital instrument. The instrument has an aggregate face value of CHF 3 000 000 000, with a fixed coupon at a rate of 12% per annum. The coupon could be settled in cash or shares/warrants in lieu of cash at the option of Swiss Re.

As announced on 4 November 2010, the convertible perpetual capital instrument was terminated in the fourth quarter of 2010. The final cash settlement was made in January 2011. As a result, an amount of USD 2 670 million was reclassified from shareholders' equity to short-term debt due in January 2011.

The impact of early termination in earnings is recognised net of tax in the "Convertible perpetual capital instrument" line. This includes the 20% premium due on redemption under the original contract of USD 613 million and a foreign exchange loss of USD 393 million. The interest on the convertible perpetual capital instrument before 4 November 2010 amounts to USD 290 million for the period between 1 January 2010 and 3 November 2010. An income tax benefit of USD 179 million is recognised in the same line.

Interest expenses of USD 113 million related to the period between 4 November 2010 and 31 December 2010 is recognised gross of tax in the "Interest expenses" line. An additional foreign exchange loss of USD 198 million related to the same period is recognised gross of tax in "Net realised investment gains/losses".

The effect of the potential instrument conversion up until 4 November 2010, which totalled 101 000 000 shares, was included in the diluted earnings per share calculation.

10 Income taxes

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

USD millions	2009	2010
Current taxes	659	696
Deferred taxes	–438	–155
Income tax expense	221	**541**

Tax rate reconciliation

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

USD millions	2009	2010
Income tax at the Swiss statutory tax rate of 21.0%	191	562
Increase (decrease) in the income tax charge resulting from:		
Foreign income taxed at different rates	–110	39
Impact of foreign exchange movements	–17	65
Disallowed expenses	10	2
Tax exempt income/dividends received deduction	–45	–47
Change in valuation allowance	67	68
Basis differences in subsidiaries	37	0
Change in statutory tax rates	19	14
Change in liability for unrecognised tax benefits including interest and penalties	115	–50
Life tax adjustments	–6	14
Other, net	–40	–126
Total	221	**541**

Deferred and other non-current taxes

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

USD millions	2009	2010
Deferred tax assets		
Income accrued/deferred	666	606
Technical provisions	919	785
Unrealised losses on investments	475	63
Pension provisions	236	243
Benefit on loss carryforwards	3 989	4 222
Currency translation adjustments	519	483
Other	1 466	1 004
Gross deferred tax asset	8 270	7 406
Valuation allowance	–1 603	–1 602
Total	6 667	**5 804**
Deferred tax liabilities		
Present value of future profits	–1 522	–1 059
Income accrued/deferred	–622	–591
Bond amortisation	–224	–184
Deferred acquisition costs	–628	–538
Technical provisions	–1 636	–1 642
Unrealised gains on investments	–93	–529
Untaxed realised gains	–448	–336
Foreign exchange provisions	–517	–416
DFI losses	–128	–99
Other	–563	–930
Total	–6 381	**–6 324**
Deferred income taxes	286	**–520**
Liability for unrecognised tax benefits including interest and penalties	–1 214	**–1 196**
Deferred and other non-current taxes	–928	**–1 716**

As of 31 December 2010, the aggregate amount of temporary differences associated with investment in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised amount to approximately USD 2 200 million. In the remote scenario in which these temporary differences were to reverse simultaneously, the resulting tax liabilities would be very limited due to participation exemption rules.

As of 31 December 2010, the Group had USD 13 013 million net operating tax loss carryforwards, expiring as follows: USD 42 million in 2011, USD 9 million in 2012, USD 0 million in 2013, USD 7 605 million in 2014 and beyond and USD 5 357 million never expire. The Group also had capital loss carryforwards of USD 485 million, expiring as follows: USD 0 million in 2011, USD 0 million in 2012, USD 177 million in 2013, USD 202 million in 2014 and beyond and USD 106 million never expire. Net operating tax losses of USD 438 million were utilised or expired during the period ended 31 December 2010.

Income taxes paid in 2010 and 2009 were USD 476 million and USD 707 million, respectively.

Unrecognised tax benefits

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

USD millions	2009	**2010**
Balance as of 1 January	1 323	1 138
Additions based on tax positions of current year	–21	69
Additions for tax positions of prior years	99	–126
Reductions for tax positions of prior years	–262	46
Settlements	–1	–147
Balance as of 31 December	1 138	**980**

The amount of gross unrecognised tax benefits within the tabular reconciliation that, if recognised, would affect the effective tax rate were approximately USD 961 million and USD 630 million at 31 December 2009 and 31 December 2010, respectively. The movement between the opening and closing balance in 2010 includes a significant amount which did not impact the 2010 effective tax rate, due to an equal write-off of certain loss carryforwards previously recorded net of the unrecognised tax benefit.

Interest and penalties related to unrecognised tax benefits are recorded in income tax expense. Such benefit for the period ending 31 December 2010 was USD 21 million (USD 23 million for the period ending 31 December 2009). As of 31 December 2009 and 31 December 2010, USD 237 million and USD 216 million, respectively, were accrued for the payment of interest (net of tax benefits) and penalties. The accrued interest balance as of 31 December 2010 is included within the deferred and other non-current taxes section reflected above and in the balance sheet.

The balance of gross unrecognised tax benefits as of 31 December 2010 presented in the table above is less than the liability for unrecognised tax benefits reflected in the deferred and other non-current taxes section due to the removal of interest expense (USD 216 million).

During the year, certain tax positions and audits in Switzerland, the United Kingdom and the United States were effectively settled.

The Group continually evaluates proposed adjustments by taxing authorities. The Group believes that it is reasonably possible (more than remote and less than likely) that the balance of unrecognised tax benefits could increase or decrease over the next 12 months due to settlements or expiration of statutes. 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	2005 – 2010
Germany	1997 – 2010
United States	2005 – 2010
United Kingdom	2005 – 2010
Canada	2003 – 2010
Mexico	2007 – 2010
Malaysia	1996 – 2010
India	2004 – 2010

11 Benefit plans

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

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

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

2009

USD millions	Swiss plan	Foreign plans	Other benefits	Total
Benefit obligation as of 1 January	2 656	1 543	305	4 504
Service cost	92	40	8	140
Interest cost	85	92	14	191
Amendments			–1	–1
Actuarial gains/losses	–20	253	–13	220
Benefits paid	–201	–64	–13	–278
Employee contribution	19	1		20
Acquisitions/disposals/additions		1		1
Effect of curtailment and termination benefits	–18	–63	–2	–83
Effect of foreign currency translation	75	112	7	194
Benefit obligation as of 31 December	2 688	1 915	305	4 908
Fair value of plan assets as of 1 January	2 514	1 280		3 794
Actual return on plan assets	236	220		456
Company contribution	70	126	13	209
Benefits paid	–201	–64	–13	–278
Employee contribution	19	1		20
Acquisitions/disposals/additions	4	–1		3
Effect of foreign currency translation	81	108		189
Fair value of plan assets as of 31 December	2 723	1 670	0	4 393
Funded status	35	–245	–305	–515

2010 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Benefit obligation as of 1 January	2 688	1 915	305	4 908
Service cost	82	12	6	100
Interest cost	84	101	13	198
Amendments			–7	–7
Actuarial gains/losses	157	–18	12	151
Benefits paid	–149	–61	–13	–223
Employee contribution	20			20
Acquisitions/disposals/additions		1	–3	–2
Effect of curtailment and termination benefits	3	–4		–1
Effect of foreign currency translation	317	–44	17	290
Benefit obligation as of 31 December	**3 202**	**1 902**	**330**	**5 434**
Fair value of plan assets as of 1 January	2 723	1 670		4 393
Actual return on plan assets	128	149		277
Company contribution	73	58	15	146
Benefits paid	–149	–61	–14	–224
Employee contribution	20			20
Acquisitions/disposals/additions	3		–1	2
Effect of foreign currency translation	306	–38		268
Fair value of plan assets as of 31 December	**3 104**	**1 778**	**0**	**4 882**
Funded status	**–98**	**–124**	**–330**	**–552**

Amounts recognised in the balance sheet, as of 31 December 2009 and 2010, respectively, were as follows:

2009 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Non-current assets	35	99		134
Current liabilities			–15	–15
Non-current liabilities		–344	–290	–634
Net amount recognised	35	–245	–305	–515

2010 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Non-current assets		96		96
Current liabilities		–1	–15	–16
Non-current liabilities	–98	–219	–315	–632
Net amount recognised	**–98**	**–124**	**–330**	**–552**

Amounts recognised in accumulated other comprehensive income, gross of tax, in 2009 and 2010, respectively, were as follows:

2009 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Net gain/loss	526	312	–165	673
Prior service cost/credit	50		–126	–76
Total	576	312	–291	597

2010 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Net gain/loss	671	224	–143	752
Prior service cost/credit	44		–122	–78
Total	**715**	**224**	**–265**	**674**

Components of net periodic benefit cost

The components of pension and post-retirement cost for the years ended 31 December 2009 and 2010, respectively, were as follows:

2009 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Service cost (net of participant contributions)	92	40	8	140
Interest cost	85	92	14	191
Expected return on assets	–137	–101		–238
Amortisation of:				
Net gain/loss	9	7	–12	4
Prior service cost	7		–13	–6
Effect of settlement, curtailment and termination	8	–1	–11	–4
Net periodic benefit cost	64	37	–14	87

2010 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Service cost (net of participant contributions)	82	12	6	100
Interest cost	84	101	13	198
Expected return on assets	–126	–106		–232
Amortisation of:				
Net gain/loss	10	16	–11	15
Prior service cost	6		–11	–5
Effect of settlement, curtailment and termination	3	–1	–1	1
Net periodic benefit cost	**59**	**22**	**–4**	**77**

Other changes in plan assets and benefit obligations recognised in other comprehensive income were as follows:

2009 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Net gain/loss	–119	134	–13	2
Prior service cost/credit			–1	–1
Amortisation of:				
Net gain/loss	–31	–68	11	–88
Prior service cost	–10	–1	21	10
Exchange rate gain/loss recognised during the year	37	–9	–3	25
Total recognised in other comprehensive income, gross of tax	–123	56	15	–52
Total recognised in net periodic benefit cost and other comprehensive income, gross of tax	–59	93	1	35

2010 USD millions	Swiss plan	Foreign plans	Other benefits	Total
Net gain/loss	155	–61	11	105
Prior service cost/credit			–7	–7
Amortisation of:				
Net gain/loss	–10	–19	11	–18
Prior service cost	–6		11	5
Exchange rate gain/loss recognised during the year		–8		–8
Total recognised in other comprehensive income, gross of tax	**139**	**–88**	**26**	**77**
Total recognised in net periodic benefit cost and other comprehensive income, gross of tax	**198**	**–66**	**22**	**154**

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortised from accumulated other comprehensive income into net periodic benefit cost in 2011 are USD 55 million and USD 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 in 2011 is USD 11 million and USD 12 million, respectively.

The accumulated benefit obligation (the current value of accrued benefits excluding future salary increases) for pension benefits was USD 4 481 million and USD 5 035 million as of 31 December 2009 and 2010, respectively.

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

USD millions	2009	**2010**
Projected benefit obligation	1 430	4 607
Accumulated benefit obligation	1 364	4 562
Fair value of plan assets	1 085	4 290

Principal actuarial assumptions

	Swiss plan		Foreign plans weighted average		Other benefits weighted average	
	2009	**2010**	2009	**2010**	2009	**2010**
Assumptions used to determine obligations at the end of the year						
Discount rate	3.3%	2.8%	5.6%	5.4%	4.5%	4.0%
Rate of compensation increase	2.3%	2.3%	3.5%	2.5%	4.1%	4.1%
Assumptions used to determine net periodic pension costs for the year ended						
Discount rate	3.3%	3.3%	5.9%	5.6%	4.6%	4.5%
Expected long-term return on plan assets	5.0%	4.5%	6.3%	6.4%		
Rate of compensation increase	2.3%	2.3%	3.3%	3.5%	4.1%	4.1%
Assumed medical trend rates at year end						
Medical trend – initial rate					6.9%	6.5%
Medical trend – ultimate rate					4.8%	4.7%
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 healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one percentage point change in assumed healthcare cost trend rates would have had the following effects for 2010:

USD millions	1 percentage point increase	1 percentage point decrease
Effect on total of service and interest cost components	1	–1
Effect on post-retirement benefit obligation	30	–25

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 2009 and 2010, is as follows:

	Swiss plan allocation			Foreign plans allocation		
	2009	**2010**	**Target allocation**	2009	**2010**	**Target allocation**
Asset category						
Equity securities	23%	30%	31%	46%	40%	40%
Debt securities	53%	41%	45%	48%	54%	54%
Real estate	18%	18%	17%	2%	2%	3%
Other	6%	11%	7%	4%	4%	3%
Total	100%	**100%**	**100%**	100%	**100%**	**100%**

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

Equity securities include Swiss Re common stock of USD 4 million (0.1% of total plan assets) and USD 4 million (0.1% of total plan assets) as of 31 December 2009 and 2010, respectively.

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

Assets measured at fair value

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

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

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

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

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

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

2009 USD millions	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Fixed income securities:	5	2 243		2 248
Debt securities issued by the US government and government agencies	5	21		26
Debt securities issued by non-US governments and government agencies		1 006		1 006
Corporate debt securities		1 022		1 022
Residential mortgage-backed securities		155		155
Commercial mortgage-backed securities		8		8
Other asset-backed securities		31		31
Equity securities:				
Equity securities held for proprietary investment purposes	783	592		1 375
Derivative financial instruments				0
Real estate	22	40	465	527
Other assets	2	50	95	147
Total assets at fair value	812	2 925	560	4 297
Cash	96			96
Total plan assets	908	2 925	560	4 393

2010 USD millions	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Fixed income securities:		2 204		2 204
Debt securities issued by the US government and government agencies		27		27
Debt securities issued by non-US governments and government agencies		996		996
Corporate debt securities		1 046		1 046
Residential mortgage-backed securities		113		113
Commercial mortgage-backed securities		7		7
Other asset-backed securities		15		15
Equity securities:				
Equity securities held for proprietary investment purposes	1 042	612		1 654
Derivative financial instruments	57			57
Real estate	28	38	539	605
Other assets	2	49	113	164
Total assets at fair value	**1 129**	**2 903**	**652**	**4 684**
Cash	198			198
Total plan assets	**1 327**	**2 903**	**652**	**4 882**

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

2009 USD millions	Real estate	Other assets	Total
Balance as of 1 January	431	106	537
Realised/unrealised gains/losses:			
Relating to assets still held at the reporting date	1	–26	–25
Relating to assets sold during the period			0
Purchases, issuances and settlements			0
Transfers in and/or out of Level 3	19	14	33
Impact of foreign exchange movements	14	1	15
Closing balance as of 31 December	465	95	560

2010 USD millions	Real estate	Other assets	Total
Balance as of 1 January	465	95	560
Realised/unrealised gains/losses:			
Relating to assets still held at the reporting date	16	8	24
Relating to assets sold during the period			0
Purchases, issuances and settlements			0
Transfers in and/or out of Level 3	5	12	17
Impact of foreign exchange movements	53	–2	51
Closing balance as of 31 December	**539**	**113**	**652**

Expected contributions and estimated future benefit payments
The employer contributions expected to be made in 2011 to the defined benefit pension plans are USD 128 million and to the post-retirement benefit plan are USD 15 million.

As of 31 December 2010, the projected benefit payments, which reflect expected future service, not adjusted for transfers in and for employees' voluntary contributions, are as follows:

USD millions	Swiss plan	Foreign plans	Other benefits	Total
2011	141	64	15	220
2012	145	67	16	228
2013	144	70	16	230
2014	150	73	17	240
2015	154	76	18	248
Years 2016–2020	795	438	102	1335

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 2009 and in 2010 was USD 39 million and USD 39 million, respectively.

12 Share-based payments

As of 31 December 2009 and 2010, the Group had the share-based compensation plans described below.

Total compensation cost for share-based compensation plans recognised in net income was USD 104 million and USD 129 million in 2009 and 2010, respectively. The related tax benefit was USD 28 million and USD 34 million, respectively.

Stock option plans
Stock option plans include a fixed-option plan and an additional grant to certain members of executive management. No options were granted under these plans from 2007 onwards.

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

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

2010	Weighted average exercise price in CHF	Number of shares
Outstanding as of 1 January	117	6 320 914
Options sold	87	–163 450
Options forfeited or expired	129	–902 420
Outstanding as of 31 December	**116**	**5 255 044**
Exercisable as of 31 December	116	5 255 044

The following table summarises the status of stock options outstanding as of 31 December 2010:

Range of exercise prices in CHF	Number of options	Weighted average remaining contractual life in years	Weighted average exercise price in CHF
67–99	3 014 102	5.0	82
100 – 187	2 240 942	2.6	162
67–187	**5 255 044**	**4.0**	**116**

All stock options outstanding are also exercisable and the status of these exercisable options is reflected in the table above.

The fair value of each option grant was estimated on the date of grant using a binomial option-pricing model.

Restricted shares

The Group issued 153 109 and 3 727 restricted shares to selected employees in 2009 and 2010, respectively. Moreover, as an alternative to the Group's cash bonus programme, 400 663 and 234 560 shares were issued during 2009 and 2010, respectively.

A summary of the movements in shares relating to outstanding awards granted under the restricted share plans as of 31 December 2010 were:

	Number of shares	Weighted average grant date fair value in CHF
Non-vested at 1 January [1]	1 447 190	57
Granted	247 078	48
Delivery of restricted shares	–384 424	25
Forfeited	–5 931	55
Outstanding as of 31 December	**1 303 913**	**65**

[1] The number of shares unvested as of 1 January 2010 was revised to include incentive shares vesting over a four-year period in certain jurisdictions.

The weighted average fair value of restricted shares, which equals the market price of the shares on the date of the grant, was CHF 57 and CHF 65 in 2009 and 2010, respectively.

Performance share plan

In 2009, the Group introduced a new share plan for the Chairman and Vice Chairman of the Board of Directors. The plan has a requisite service period of three years and is settled in shares. The plan is measured based on Swiss Re's Total Shareholder Return (TSR), representing the share price performance plus paid dividend in any performance period, against a selected peer group. The final number of shares to be released upon vesting can vary between 0% and 150% of the original grant. The fair value of the 2009 and 2010 plans was based on the share price as of the date of grant, which was CHF 36.00 and CHF 53.60, respectively. 111 111 and 83 957 units were issued under these plans in 2009 and 2010, respectively.

Long-term Incentive plan

The Group annually grants a Long-term Incentive plan (LTI) to selected employees with a three-year vesting period. The requisite service period as well as the maximum contractual term for each plan is three years and the final payment, if any, occurs at the end of this performance measurement period. The plan includes a payout factor which is derived from Return on Equity (ROE) and Earnings per Share (EPS) targets over the vesting period. The payout ratio can vary between 0 and 2 and the final payment for each plan will depend on whether the performance targets have been achieved over the plan period. Each of the plan grants that were outstanding during 2010 are described below.

The LTI grants from 2007 and 2008 were expected to be settled in cash. The payout factors were driven by average ROE and EPS compound annual growth over the vesting period. The LTI grant from 2007 vested in March 2010 and there was no payout as the plan performance targets were not achieved. As of 31 December 2010, the LTI plan granted in 2008 is also expected to expire without value.

The LTI plan granted in 2009 is expected to be settled in shares. The payout factor is driven by average ROE and EPS compound annual growth over the vesting period. At grant, the plan was expected to be settled in cash; however, the Group subsequently changed its intention to settle in shares. As a result, the share price used for measurement was CHF 42.40 which was set as of the date the share settlement decision was made in November 2009.

The LTI plan granted in 2010 is expected to be settled in shares. The payout factor is driven by an average ROE and average EPS over the vesting period. The share price used for measurement was based on the date of grant and was CHF 48.15.

In 2010, the Group changed the valuation methodology of the payout factor to a stochastic model which considers the likelihood of achieving the performance targets and the impact of dividends. This valuation approach has been applied to all unvested plans as of 31 December 2010 which did not result in a significant change to the prior period valuations.

Value alignment incentive
In 2009, the Group issued a compensation plan to selected employees. The plan has a requisite service period of three years and is paid out in cash. The payout is based on a three-year risk free interest rate, the Swiss Re share price performance and dividend yield over the vesting period. The grant price was based on the closing share price as of 19 February 2009 of CHF 16.74. A total of 337 427 units were granted in 2009, and as of 31 December 2010 140 570 units were outstanding.

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 two years, while the maximum contractual term is five years. The plan vested in 2008; however, holders of the award are still able to exercise their rights until the maximum contractual period expires. 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 2010, the total unrecognised compensation cost (net of expected forfeitures) related to non-vested, share-based compensation awards was USD 84 million and the weighted average period over which that cost is expected to be recognised was 1.2 years.

The number of shares authorised for the Group's share-based payments to employees was 10 052 510 and 12 619 829 as of 31 December 2009 and 2010, respectively.

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

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

In 2009 and 2010, 8 703 959 and 656 569 options, respectively, were issued to employees and the Group contributed USD 58 million and USD 67 million, respectively, to the plan.

13 Compensation, participations and loans of members of governing bodies

The disclosure requirements under Swiss Company Law in respect of management compensation to the members of the Board of Directors and of the Executive Committee of the Group, as well as to closely related persons, are detailed on pages 207–212 of the Annual Report of Swiss Reinsurance Company Ltd.

14 Commitments and contingent liabilities

Leasing commitments

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

As of 31 December 2010	USD millions
2011	71
2012	62
2013	55
2014	53
2015	53
After 2015	425
Total operating lease commitments	**719**
Less minimum non-cancellable sublease rentals	–82
Total net future minimum lease commitments	**637**

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

USD millions	2009	**2010**
Minimum rentals	74	52
Sublease rental income	–4	–3
Total	70	**49**

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 in general for periods of up to 10 years. The total commitments remaining uncalled as of 31 December 2010 were USD 1 617 million.

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

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.

Federal securities class action lawsuit

In 2009, Plumbers' Union Local No. 12 Pension Fund, a Swiss Re shareholder, filed a federal securities law class action against Swiss Re, Swiss Re's former Chief Executive Officer and Swiss Re's Chief Financial Officer arising out of Swiss Re's announcement in November 2007 that it would report a USD 1 billion mark-to-market loss on two credit default swaps. By order dated 1 October 2010, all claims against Swiss Re and the individual defendants in that action were dismissed with prejudice. Plaintiff's deadline to file an appeal has lapsed.

15 Information on business segments

The Group provides reinsurance, insurance and capital market solutions for clients that complement its 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.

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 Property & Casualty business segment includes Property & Casualty insurance-linked securities, Environmental & Commodity Markets business and, in the Specialty traditional sub-segment, Credit Reinsurance, Bank Trade Finance, and Credit securitisations.

The Life & Health segment continues to consist of the following sub-segments: Life traditional, Health traditional and Admin Re®. The Life & Health business segment includes variable annuity business and Life & Health insurance-linked securities.

The Asset Management business segment includes two separate sub-segments Credit & Rates and Equity & 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.

The Legacy business segment encompasses non-core activities, which have been in run-off since November 2007 and are managed separately from the Asset Management division. Legacy includes Financial Guarantee Re business, and assets in the Group's former 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.

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 re/insurance liabilities. The allocation 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.

The accounting policies of the business segments are in line with those described in the summary of significant accounting policies. Please refer to Note 1.

a) Business segment results

For the years ended 31 December

2009 USD millions	Property & Casualty	Life & Health	Asset Management	Legacy	Group items	Allocation	Total
Revenues							
Premiums earned	12 769	9 857		38			22 664
Fee income from policyholders		847					847
Net investment income/loss	2 257	3 171	4 270	409	291	–3 999	6 399
Net realised investment gains/losses	22	3 121	–717	39	–1 590		875
Other revenues	34		71	8	65		178
Total revenues	15 082	16 996	3 624	494	–1 234	–3 999	30 963
Expenses							
Claims and claim adjustment expenses; life and health benefits	–7 970	–8 639		–366			–16 975
Return credited to policyholders		–4 597					–4 597
Acquisition costs	–2 203	–2 292					–4 495
Other expenses	–1 396	–781			–736	–52	–2 965
Interest expenses					–1 011		–1 011
Total expenses	–11 569	–16 309	0	–366	–1 747	–52	–30 043
Operating income/loss	3 513	687	3 624	128	–2 981	–4 051	920

2010 USD millions	Property & Casualty	Life & Health	Asset Management	Legacy	Group items	Allocation	Total
Revenues							
Premiums earned	10 871	8 759		22			19 652
Fee income from policyholders		918					918
Net investment income/loss	1 738	3 052	3 639	203	116	–3 326	5 422
Net realised investment gains/losses	110	2 331	808	–191	–275		2 783
Other revenues			25		35		60
Total revenues	**12 719**	**15 060**	**4 472**	**34**	**–124**	**–3 326**	**28 835**
Expenses							
Claims and claim adjustment expenses; life and health benefits	–7 200	–8 236		–54			–15 490
Return credited to policyholders		–3 371					–3 371
Acquisition costs	–1 859	–1 826		6			–3 679
Other expenses	–1 184	–817			–525		–2 526
Interest expenses					–1 094		–1 094
Total expenses	**–10 243**	**–14 250**	**0**	**–48**	**–1 619**	**0**	**–26 160**
Operating income/loss	**2 476**	**810**	**4 472**	**–14**	**–1 743**	**–3 326**	**2 675**

The allocation is based on technical reserves and other information, including duration of the underlying liabilities, and was allocated in the years ended 31 December of 2009 and 2010 as follows:

USD millions, for the year ended 31 December 2009	Property & Casualty	Life & Health	Asset Management	Allocation
Net investment income/loss	2 035	2 016	–52	–3 999

USD millions, for the year ended 31 December 2010	Property & Casualty	Life & Health	Asset Management	Allocation
Net investment income/loss	1 588	1 738	0	–3 326

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

2009 USD millions	Property traditional	Casualty traditional	Specialty traditional	Total traditional	Non-traditional	Total
Revenues						
Premiums earned	4 913	4 120	3 220	12 253	516	12 769
Net investment income	192	1 464	309	1 965	292	2 257
Net realised investment gains/losses	39	32		71	–49	22
Other revenues					34	34
Total revenues	5 144	5 616	3 529	14 289	793	15 082
Expenses						
Claims and claim adjustment expenses	–2 318	–3 087	–1 990	–7 395	–575	–7 970
Acquisition costs	–741	–704	–685	–2 130	–73	–2 203
Other expenses	–371	–622	–281	–1 274	–122	–1 396
Total expenses	–3 430	–4 413	–2 956	–10 799	–770	–11 569
Operating income	1 714	1 203	573	3 490	23	3 513
Claims ratio in %	47.4	74.8	62.1	60.5		
Expense ratio in %	22.7	32.0	30.0	27.8		
Combined ratio in %	70.1	106.8	92.1	88.3		

2010 USD millions	Property traditional	Casualty traditional	Specialty traditional	Total traditional	Non-traditional	Total
Revenues						
Premiums earned	4 575	3 292	2 621	10 488	383	10 871
Net investment income	115	1 202	266	1 583	155	1 738
Net realised investment gains/losses	–80		103	23	87	110
Other revenues	–2			–2	2	0
Total revenues	**4 608**	**4 494**	**2 990**	**12 092**	**627**	**12 719**
Expenses						
Claims and claim adjustment expenses	–2 904	–2 692	–1 346	–6 942	–258	–7 200
Acquisition costs	–571	–655	–551	–1 777	–82	–1 859
Other expenses	–489	–424	–220	–1 133	–51	–1 184
Total expenses	**–3 964**	**–3 771**	**–2 117**	**–9 852**	**–391**	**–10 243**
Operating income	**644**	**723**	**873**	**2 240**	**236**	**2 476**
Claims ratio in %	63.4	81.8	51.4	66.2		
Expense ratio in %	23.2	32.8	29.4	27.7		
Combined ratio in %	86.6	114.6	80.8	93.9		

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

2009 USD millions	Life traditional	Health traditional	Admin Re®	Total
Revenues				
Premiums earned	7048	1971	838	9857
Fee income from policyholders	61		786	847
Net investment income	727	366	2078	3171
Net realised investment gains/losses	–78	192	3007	3121
Other revenues				
Total revenues	7758	2529	6709	16996
Expenses				
Claims and claim adjustment expenses; life and health benefits	–5297	–1185	–2157	–8639
Return credited to policyholders	–496		–4101	–4597
Acquisition costs	–1581	–421	–290	–2292
Other expenses	–348	–139	–294	–781
Total expenses	–7722	–1745	–6842	–16309
Operating income/loss	36	784	–133	687
Net investment income – unit-linked	27		522	549
Net investment income – with-profit business			152	152
Net investment income – non-participating	700	366	1404	2470
Net realised investment gains/losses – unit-linked	446		2886	3332
Net realised investment gains/losses – with-profit business			289	289
Net realised investment gains/losses – non-participating	–524	192	–168	–500
Operating revenues[1]	7809	2337	3028	13174
Management expense ratio in %	4.5	5.9	9.7	5.9
Benefit ratio[2] in %				83.8

[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. 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. The benefit ratio was refined in 2010 to exclude the impact of guaranteed minimum death benefit (GMDB) products, as this ratio is not indicative of the operating performance of such products. The comparative for the 2009 benefit ratio has been adjusted accordingly.

Life & Health business segment – by line of business
For the year ended 31 December

2010 USD millions	Life traditional	Health traditional	Admin Re®	Total
Revenues				
Premiums earned	5 869	2 110	780	8 759
Fee income from policyholders	64		854	918
Net investment income	668	303	2 081	3 052
Net realised investment gains/losses	97	–3	2 237	2 331
Other revenues				
Total revenues	**6 698**	**2 410**	**5 952**	**15 060**
Expenses				
Claims and claim adjustment expenses; life and health benefits	–4 492	–1 543	–2 201	–8 236
Return credited to policyholders	–69		–3 302	–3 371
Acquisition costs	–1 244	–355	–227	–1 826
Other expenses	–377	–149	–291	–817
Total expenses	**–6 182**	**–2 047**	**–6 021**	**–14 250**
Operating income/loss	**516**	**363**	**–69**	**810**
Net investment income – unit-linked	36		557	593
Net investment income – with-profit business			145	145
Net investment income – non-participating	632	303	1 379	2 314
Net realised investment gains/losses – unit-linked	–23		2 057	2 034
Net realised investment gains/losses – with-profit business			196	196
Net realised investment gains/losses – non-participating	120	–3	–16	101
Operating revenues[1]	**6 565**	**2 413**	**3 013**	**11 991**
Management expense ratio in %	5.7	6.2	9.7	6.8
Benefit ratio[2] in %				88.7

[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. 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. The benefit ratio also excludes the impact of guaranteed minimum death benefit (GMDB) products, as this ratio is not indicative of the operating performance of such products.

d) Asset Management

For the years ended 31 December

2009 USD millions	Credit & Rates	Equity & Alternative Investments	Total
Revenues			
Net investment income	4 209	61	4 270
Net realised investment gains/losses	–571	–146	–717
Other revenues	69	2	71
Total revenues	3 707	–83	3 624
Operating income/loss	3 707	–83	3 624

2010 USD millions	Credit & Rates	Equity & Alternative Investments	Total
Revenues			
Net investment income	3 316	323	3 639
Net realised investment gains/losses	769	39	808
Other revenues		25	25
Total revenues	**4 085**	**387**	**4 472**
Operating income	**4 085**	**387**	**4 472**

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

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

USD millions	2009	**2010**
Americas	10 825	9 105
Europe (including Middle East and Africa)	9 905	8 476
Asia-Pacific	2 781	2 989
Total	23 511	**20 570**

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

USD millions	2009	**2010**
United States	9 732	7 244
United Kingdom	2 915	2 921
Australia	913	1 111
Canada	916	1 107
Germany	1 208	945
France	912	718
China	703	684
Italy	800	581
Japan	568	574
Netherlands	568	452
Switzerland	604	417
Other	3 672	3 816
Total	23 511	**20 570**

16 Subsidiaries, equity investees and variable interest entities

Subsidiaries and equity investees	Share capital (USD millions)	Share capital (CHF millions)	Affiliation in % as of 31.12.2010	Method of consolidation
Europe				
Belgium				
Swiss Re Treasury (Belgium) N.V., Brussels	0	0	100	f
Denmark				
Swiss Re Denmark H ApS, Copenhagen	0	0	100	f
Swiss Re Denmark Services A/S, Copenhagen	0	0	100	f
France				
Protegys Assurance, Paris	33	31	34	e
Germany				
ASS Assekuranz, Service-und Sachverständigengesellschaft mbH, Sundern	0	0	49	e
EXTREMUS Versicherungs-Aktiengesellschaft, Cologne	67	63	15	e
Paarl Grundbesitzverwaltung GmbH & Co. KG Objekt Köln Sterrenhofweg, Munich	0	0	22	e
ROLAND Partner Beteiligungsverwaltung GmbH, Cologne	0	0	20	e
Swiss Re Germany AG, Unterföhring bei München	60	56	100	f
Hungary				
Swiss Re Treasury (Hungary) Group Financing Limited Liability Company, Budapest	0	0	100	f
Ireland				
Swiss Re International Treasury (Ireland) Ltd., Dublin	0	0	100	f
Swiss Reinsurance Ireland Limited, Dublin	107	100	100	f
Liechtenstein				
Elips Life AG, Vaduz	13	12	48	e
Luxembourg				
Securitas de Milo S.a.r.l., Luxembourg	0	0	100	e
Swiss Re Europe Holdings S.A., Luxembourg	141	131	100	f
Swiss Re Europe S.A., Luxembourg	470	438	100	f
Swiss Re Finance (Luxembourg) S.A., Luxembourg	1	1	100	f
Swiss Re Funds (Lux) I, Senningerberg[1]	12 427	11 583	100	f
Swiss Re International SE, Luxembourg	240	224	100	f

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

	Share capital (USD millions)	Share capital (CHF millions)	Affiliation in % as of 31.12.2010	Method of consolidation
Netherlands				
Algemene Levensherverzekering Maatschappij NV, Amsterdam	1	1	100	f
Switzerland				
European Reinsurance Company of Zurich Ltd, Zurich	283	264	100	f
Tertianum AG, Zurich	10	10	20	e
United Kingdom				
Admin Re UK Limited, Shropshire	114	107	100	f
Banian Investments UK Limited, London	0	0	100	f
Barclays Life Assurance Company Limited, London	47	44	100	f
Calico Leasing (GB), London	0	0	100	f
Cyrenaic Investments (UK) Limited, London	0	0	100	f
European Credit and Guarantee Insurance PCC Limited, St. Peter Port	8	8	100	f
NM Insurance Holdings Limited, Shropshire	206	192	100	f
NM Life Group Limited, Shropshire	234	218	100	f
NM Life Limited, Shropshire	149	139	100	f
NM Pensions Limited, Shropshire	235	219	100	f
Reassure Life Limited, London	23	22	100	f
Reassure UK Life Assurance Company Limited, London	43	40	100	f
SR Delta Investments (UK) Limited, London	6	5	100	f
SRNY Limited, London	52	49	100	f
Swiss Re BHI Limited, London	0	0	100	e
Swiss Re Capital Markets Limited, London	60	56	100	f
Swiss Re Financial Services Limited, London	0	0	100	f
Swiss Re Frankona LM Limited, London	11	10	100	e
Swiss Re GB Plc, London	1 001	933	100	f
Swiss Re Services Limited, London	3	3	100	f
Swiss Re Specialised Investments Holdings (UK) Limited, London	2	1	100	f
Swiss Re Specialty Insurance (UK) Limited, London	28	26	100	f
The Mercantile & General Reinsurance Company Limited, Glasgow	0	0	100	f
The Palatine Insurance Company Limited, London	12	11	100	f
Windsor Life Assurance Company Limited, Shropshire	412	384	100	f
North America and Caribbean				
Barbados				
European Finance Reinsurance Company Ltd., Bridgetown	3 089	2 879	100	f
European International Holding Company Ltd., Bridgetown	0	0	100	f
European International Reinsurance Company Ltd., Bridgetown	1	1	100	f
Gasper Funding Corporation, Bridgetown	17	16	100	f
Milvus I Reassurance Limited, Bridgetown	0	0	100	f

	Share capital (USD millions)	Share capital (CHF millions)	Affiliation in % as of 31.12.2010	Method of consolidation
Bermuda				
CORE Reinsurance Company Limited, Hamilton	0	0	100	f
Old Fort Insurance Company, Ltd., Hamilton	0	0	100	f
Swiss Re Global Markets Limited, Hamilton	0	0	100	f
Swiss Re Capital Management (Bermuda) Ltd., Hamilton	0	0	100	f
Swiss Re Investments (Bermuda) Ltd., Hamilton	0	0	100	f
Canada				
7547552 Canada Inc., Toronto	0	0	100	f
Swiss Re Holdings (Canada) Inc., Toronto	0	0	100	f
Cayman Islands				
Ampersand Investments (UK) Limited, George Town	939	876	100	f
Cobham Funding Limited, George Town	0	0	100	f
Dunstanburgh Finance (Cayman) Limited, George Town	0	0	100	f
Epping Funding Limited, George Town	0	0	100	f
Kilgallon Finance Limited, George Town	0	0	100	f
SR Alternative Financing I SPC, George Town	0	0	100	f
SR Alternative Financing II SPC, George Town	0	0	100	f
SR Cayman Holdings Ltd, George Town	0	0	100	f
SR York Limited, George Town	0	0	100	f
Swiss Re Strategic Investments UK Limited, George Town	0	0	100	f
United States				
Facility Insurance Corporation, Austin	0	0	100	f
Facility Insurance Holding Corporation, Dallas	0	0	100	f
First Specialty Insurance Corporation, Jefferson City	5	5	100	f
North American Capacity Insurance Company, Manchester	4	4	100	f
North American Elite Insurance Company, Manchester	4	3	100	f
North American Specialty Insurance Company, Manchester	13	12	100	f
Reassure America Life Insurance Company, Fort Wayne	3	2	100	f
Rialto Re I Inc, Burlington	0	0	100	f
Sterling Re Inc., Burlington	0	0	100	f
Swiss Re America Holding Corporation, Wilmington	0	0	100	f
Swiss Re Atrium Corporation, Wilmington	1	0	100	f
Swiss Re Capital Markets Corporation, New York	0	0	100	f
Swiss Re Financial Products Corporation, Wilmington	2 127	1 983	100	f
Swiss Re Financial Services Corporation, Wilmington	0	0	100	f
Swiss Re Life & Health America Holding Company, Wilmington	0	0	100	f
Swiss Re Life & Health America Inc., Hartford	4	4	100	f
Swiss Re Partnership Holding, LLC, Dover	368	343	100	f
Swiss Re Solutions Holding Corporation, Wilmington	9	8	100	f
Swiss Re Treasury (US) Corporation, Wilmington	0	0	100	f
Swiss Reinsurance America Corporation, Armonk	6	6	100	f
Washington International Insurance Company, Manchester	4	4	100	f
Westport Insurance Corporation, Jefferson City	6	6	100	f

	Share capital (USD millions)	Share capital (CHF millions)	Affiliation in % as of 31.12.2010	Method of consolidation
Australia				
Swiss Re Australia Ltd, Sydney	21	19	100	f
Swiss Re Life & Health Australia Limited, Sydney	159	148	100	f
Africa				
South Africa				
Swiss Re Africa Limited, Cape Town	2	1	100	f
Swiss Re Life and Health Africa Limited, Cape Town	0	0	100	f
Middle East				
United Arab Emirates				
GlobeMed Gulf FZ-LLC, Dubai	3	3	41	e
Asia				
China				
Beijing Prestige Health Consulting Services Company Limited, Beijing	6	5	100	e
Vietnam				
Vietnam National Reinsurance Corporation, Hanoi	34	32	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 as a result of the Group's involvement in a modified coinsurance agreement, certain insurance-linked and credit-linked securitisations, swaps in trusts, debt financing and other entities which meet the definition of a VIE.

When analysing the status of an entity, the Group mainly assesses if (1) the equity is sufficient to finance the entity's activities without additional subordinated financial support, (2) the equity holders have the right to make significant decisions affecting the entity's operations, and (3) the holders of the voting rights substantively participate in the gains and losses of the entity. When one of these criteria is not met, the entity is considered a VIE and needs to be assessed for consolidation under the VIE section of the Consolidation Topic. This section was amended by ASU No. 2009-17 "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities" which is applicable to Swiss Re as of 1 January 2010.

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

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

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

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

Modified coinsurance agreement

The Group assumes insurance risk via a modified coinsurance agreement from a direct insurer, which qualifies as a VIE. The Group assumes the majority of the mortality and investment risk in the VIE. In addition, the Group has the power over the investment management and policyholder administration. As these are the activities that most significantly impact the entity's economic performance, the Group qualifies as the primary beneficiary and consolidates the entity. The Group will incur losses if mortality risk or the investment returns of the entity develop unfavourably.

The total assets of the modified coinsurance vehicles in which the Group is the primary beneficiary were USD 3 245 million as of 31 December 2010.

Insurance-linked and credit-linked securitisations

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

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

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

As of 31 December 2010, the total assets of the insurance-linked and credit-linked securitisation vehicles in which the Group holds variable interests but is not the primary beneficiary were USD 5 320 million. The total assets of the vehicles in which the Group is the primary beneficiary were USD 1 851 million.

Swaps in trusts

Through the Legacy segment, the Group provides risk management services to certain asset securitisation trusts which qualify as VIEs. As the involvement of the Group is limited to interest rate and foreign exchange derivatives, Swiss Re does not have power to direct any activities of the trusts and therefore does not qualify as primary beneficiary of any of these trusts.

Debt financing vehicles

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

Certain debt financing vehicles are consolidated as the Group has power over the investment management, considered to be the activity that most significantly impacts the entity's economic performance. In addition, the Group absorbs the variability of the investment return so that both criteria for a controlling financial interest are met.

As of 31 December 2010, the total assets of the debt financing vehicles in which the Group holds variable interests but is not the primary beneficiary were USD 5 021 million. The total assets of the vehicles in which the Group is the primary beneficiary were USD 8 202 million.

Other

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

As of 31 December 2010, the total assets of other VIEs in which the Group holds variable interests but is not the primary beneficiary were USD 3 476 million. The total assets of the vehicles in which the Group is the primary beneficiary were USD 709 million.

The Group did not provide financial or other support to any VIEs during 2010 that it was not previously contractually required to provide.

Due to the implementation of ASU No. 2009-17, certain insurance-linked securitisation vehicles were consolidated from 1 January 2010 on, as the Group was considered to be the primary beneficiary under the new guidance. The Group recognised the assets, liabilities, and non-controlling interests of the newly consolidated VIEs at the carrying amounts at which the amount would have been carried in the consolidated financial statements had ASU No. 2009-17 been effective when the Group first met the conditions to be the primary beneficiary.

As of 1 January 2010, additional entities are included in the VIE disclosures due to the implementation of ASU No. 2009-17. Due to the required prospective application of the Update, the comparatives in this note were not restated.

The impact as of 1 January 2010 on the Group's assets and liabilities due to the additional consolidations under ASU No. 2009-17 was as follows:

USD millions	2010
Fixed income securities available-for-sale	473
Short-term investments	362
Other invested assets	–32
Cash and cash equivalents	793
Other assets	71
Total assets	**1 667**
Deferred and other non-current taxes	13
Short-term debt	872
Accrued expenses and other liabilities	–40
Long-term debt	797
Net unrealised investment gains/losses, net of tax	–35
Retained earnings	60
Total liabilities and shareholders' equity	**1 667**

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

USD millions	2009	2010
Fixed income securities:		
Available-for-sale (whereof restricted: 2009: 5 447; 2010: 8 842)	7 443	8 842
Trading (whereof restricted: 2009: 988; 2010: 0)	1 132	
Policy loans, mortgages and other loans (whereof restricted: 2010: 203)	217	596
Short-term investments (whereof restricted: 2010: 1 329)		1 329
Other invested assets (whereof restricted: 2010: 195)	104	2 045
Cash and cash equivalents (whereof restricted: 2009: 136; 2010: 966)	302	968
Accrued investment income (whereof restricted: 2009: 42; 2010: 82)	73	82
Premiums and other receivables (whereof restricted: 2010: 10)	15	10
Reinsurance recoverable on unpaid claims and policy benefits (whereof restricted: 2010: 11)	10	11
Funds held by ceding companies (whereof restricted: 2010: 6)		6
Income taxes recoverable (whereof restricted: 2010: 19)		19
Acquired present value of future profits (whereof restricted: 2010: 36)	74	36
Other assets (whereof restricted: 2009: 27; 2010: 63)	27	63
Total assets	9 397	**14 007**
Unpaid claims and claim adjustment expenses (whereof limited recourse: 2010: 23)	19	23
Liabilities for life and health policy benefits (whereof limited recourse: 2010: 1 182)	1 218	1 182
Policyholder account balances (whereof limited recourse: 2010: 1 440)	1 515	1 440
Funds held under reinsurance treaties (whereof limited recourse: 2010: 133)		133
Reinsurance balances payable (whereof limited recourse: 2010: 8)	10	8
Deferred and other non-current taxes (whereof limited recourse: 2010: 76)	40	76
Short-term debt (whereof limited recourse: 2010: 1 485)		3 200
Accrued expenses and other liabilities (whereof limited recourse: 2010: 136)	486	530
Long-term debt (whereof limited recourse: 2010: 5 938)	5 377	5 938
Total liabilities	8 665	**12 530**

As of 31 December 2010, the consolidation of the VIEs resulted in non-controlling interests in the balance sheet of USD 402 million (31 December 2009: USD 394 million). The net non-controlling interests in income were USD 2 million and USD 6 million net of tax for 2009 and 2010, respectively.

The following table shows the total assets and liabilities in the Group's balance sheet related to VIEs in which the Group holds a variable interest but is not the primary beneficiary as of 31 December:

USD millions	2009	**2010**
Fixed income securities:		
Available-for-sale		60
Trading		9
Other invested assets	871	1 406
Premiums and other receivables		2
Reinsurance recoverables		1 631
Deferred acquisition costs		2
Total assets	871	**3 110**
Funds held under reinsurance treaties		1 614
Short-term debt		406
Accrued expenses and other liabilities	425	885
Total liabilities	425	**2 905**

The following table shows the Group's assets as of 31 December 2010, and liabilities and maximum exposure to loss as of 31 December 2009 and 2010 which are related to VIEs in which the Group holds a variable interest but is not the primary beneficiary:

			2009				**2010**
USD millions	Total liabilities	Maximum exposure to loss	Difference between exposure and liabilities	Total assets	Total liabilities	Maximum exposure to loss	Difference between exposure and liabilities
Insurance-linked/ Credit-linked securitisations	173	5 042	4 869	1 890	1 665	2 197	532
Swaps in trusts				423	643	–[1]	–
Debt financing		201	201	468		126	126
Other[2]	252	1 222	970	329	597	1 184	587
Total	425	6 465	6 040	**3 110**	**2 905**	**–[1]**	**–**

[1] The maximum exposure to loss for swaps in trusts cannot be meaningfully quantified due to their derivative character.
[2] The Group revised the total liabilities and the difference between exposure and liabilities for year-end 2009. The revision has no impact on total revenues, net income or net equity.

The liabilities of USD 1 665 million as of 31 December 2010 for insurance-linked and credit-linked securitisations represent almost entirely funds held under reinsurance treaties.

The assets and liabilities for the swaps in trusts category represent the positive and negative fair values of the derivatives the Group has entered into with the trusts.

Liabilities are recognised for certain debt financing VIEs when losses occur. To date the respective debt financing VIEs have not incurred any losses. Liabilities of USD 597 million recognised for the "Other" category relate mainly to collateral received.

17 Restructuring provision

In 2010, the Group set up total provisions of USD 93 million, related to the cost savings and efficiency programmes announced in early 2009, and released USD 16 million.

The increase of the provision in the Property & Casualty and the Life & Health business segments of USD 55 million and USD 27 million in 2010, respectively, are related to leaving benefits, office structure simplification costs and cost for the concentration of support resources allocated to the Property & Casualty and the Life & Health business segments.

The Asset Management business segment increased the provision by USD 11 million during 2010, mostly for leaving benefits associated with current de-risking activities.

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

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

2009 USD millions	Property & Casualty	Life & Health	Asset Management	Total
Balance as of 1 January	71	15	29	115
Increase in provision	120	52	90	262
Release of provision	–21	–3	–6	–30
Costs incurred	–83	–40	–68	–191
Balance as of 31 December	87	24	45	156

2010 USD millions	Property & Casualty	Life & Health	Asset Management	Total
Balance as of 1 January	87	24	45	156
Increase in provision	55	27	11	93
Release of provision	–9	–5	–2	–16
Costs incurred	–73	–41	–22	–136
Balance as of 31 December	**60**	**5**	**32**	**97**

18 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 governance principles and policies, including approval for the Group's overall risk tolerance. The Board mainly deals with risk management through two committees:
- The Finance and Risk Committee is responsible for reviewing the Group Risk Policy and capacity limits, as well as monitoring risk tolerance and reviewing top risk issues and exposures.
- The Audit Committee is responsible for overseeing internal controls and compliance procedures.

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

The Chief Risk Officer (CRO), who is a member of the EC, reports directly to the CEO as well as to the Board's Finance and Risk Committee. The CRO participates in the four committees described above and chairs both the Group Risk and Capital Committee and the Group Regulatory Committee. In addition, he leads the global Risk Management function, which is responsible for risk oversight and control across the Group.

The global Risk Management function operates through dedicated units for property and casualty risk, life and health risk, and financial market and credit risk. Each unit is entrusted with Group-wide responsibility for identifying, assessing and controlling their allocated risks and for risk governance at the risk category level. The units also work closely with each other where necessary on transaction reviews and other cross-category issues. Actuarial management is an integral part of the insurance risk units, ensuring reserving adequacy.

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

Liquidity risk, capital adequacy, and emerging risks are managed at Group level. Certain other risk management activities are also performed globally, across all risk categories. These include risk governance at Group level, risk modelling, risk reporting and the steering of the Group's regulatory activities.

The Group's Internal Audit department carries out independent, objective assessments of the adequacy and effectiveness of internal control systems. It evaluates the execution of processes within Swiss Re, including those within Risk Management.

19 Subsequent events

The Group provisionally estimates claims costs of USD 1.2 billion, net of retrocession and before tax, from the earthquake and the tsunami in Japan, on 11 March 2011. These estimates are subject to a high degree of uncertainty due to the complexity of loss assessment, and may be subject to change as new information becomes available.

Based on current information, Swiss Re provisionally estimates its claims cost from the earthquake in Christchurch, New Zealand on 22 February 2011 to be approximately USD 800 million, net of retrocession and before tax.

In addition, Swiss Re provisionally estimates its claims from the Queensland, Australia, floods that occurred in the first quarter of 2011 to be USD 225 million, net of the benefits of retrocession and before tax. Further, the Group preliminarily estimates its loss from the Australian cyclone Yasi to be USD 100 million, net of the benefits of retrocession and before tax.

Significant uncertainties are involved in estimating losses from such events and these preliminary estimates may be subject to change as new information becomes available.

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 111 – 191), for the year ended 31 December 2010.

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 2010 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
Audit expert
Auditor in charge

Dawn M Kink

Zurich, 23 March 2011

Group financial years 2001–2010

USD millions	2001[1,3]	2002[1,3]	2003[1,3]
Income statement			
Revenues			
Premiums earned	14942	18605	22779
Fee income			
Net investment income	3416	3518	3413
Net realised investment gains/losses	1579	–467	279
Trading revenues		146	350
Other revenues	270	234	175
Total revenues	20207	22036	26996
Expenses			
Claims and claim adjustment expenses	–9638	–9274	–11040
Life and health benefits	–5055	–6456	–6732
Return credited to policyholders			
Acquisition costs	–3352	–3982	–5079
Amortisation of goodwill	–218	–224	–233
Other operating costs and expenses	–2005	–2074	–2180
Total expenses	–20268	–22010	–25264
Income/loss before income tax expense	–61	26	1732
Income tax expense	–36	–81	–470
Net income/loss before attribution of non-controlling interests	–97	–55	1262
Income/loss attributable to non-controlling interests			
Net income after attribution of non-controlling interests	–97	–55	1262
Convertible perpetual capital instrument			
Net income/loss attributable to common shareholders	–97	–55	1262
Balance sheet			
Assets			
Investments	57753	62720	73299
Other assets	44776	54332	63913
Total assets	102529	117052	137212
Liabilities			
Unpaid claims and claim adjustment expenses	41329	45309	51323
Liabilities for life and health policy benefits	24917	26952	30114
Unearned premiums	3854	4884	5221
Other liabilities	14576	23744	31700
Long-term debt	4243	4095	3887
Total liabilities	88919	104984	122245
Shareholders' equity	13610	12068	14967
Non-controlling interests			
Total equity	13610	12068	14967
Earnings/losses per share in USD	–0.34	–0.19	4.06
Earnings/losses per share in CHF	–0.57	–0.29	5.48

[1] Numbers are based on the Group's previous accounting standards.
[2] Trading revenues are included in net investment income; long-term debt also includes debt positions from former Financial Markets.
[3] The Group changed its reporting currency from CHF to USD in 2010. Periods prior into 2010 have been translated into USD for informational purposes only based on the Group's average exchange rates for the income statements and year-end rates for the balance sheets.

2004[1,3]	2005[3]	2006[2,3]	2007[2,3]	2008[2,3]	2009[2,3]	2010[2]
23 607	21 622	23 526	26 337	23 577	22 664	**19 652**
	708	701	794	746	847	**918**
3 895	4 934	6 370	8 893	7 331	6 399	**5 422**
895	2 793	1 679	–615	–8 677	875	**2 783**
351	278					
195	228	223	251	249	178	**60**
28 943	30 563	32 499	35 660	23 226	30 963	**28 835**
–11 109	–11 866	–9 405	–10 035	–9 222	–8 336	**–7 254**
–7 482	–6 970	–7 647	–9 243	–8 381	–8 639	**–8 236**
	–2 427	–2 253	–1 763	2 611	–4 597	**–3 371**
–5 072	–4 766	–4 845	–5 406	–4 950	–4 495	**–3 679**
–222						
–2 358	–2 477	–3 679	–4 900	–4 358	–3 976	**–3 620**
–26 243	–28 506	–27 829	–31 347	–24 300	–30 043	**–26 160**
2 700	2 057	4 670	4 313	–1 074	920	**2 675**
–715	–205	–1 033	–853	411	–221	**–541**
1 985	1 852	3 637	3 460	–663	699	**2 134**
						–154
1 985	1 852	3 637	3 460	–663	699	**1 980**
					–203	**–1 117**
1 985	1 852	3 637	3 460	–663	496	**863**
94 998	99 094	167 303	201 221	154 053	151 341	**156 947**
67 203	68 817	71 317	70 198	71 322	81 407	**71 456**
162 201	167 911	238 620	271 419	225 375	232 748	**228 403**
54 189	54 447	77 829	78 195	70 944	68 412	**64 690**
38 025	23 583	36 779	44 187	37 497	39 944	**39 551**
5 055	4 980	6 574	6 821	7 330	6 528	**6 305**
43 409	61 953	80 802	95 172	73 366	73 336	**72 524**
4 657	4 440	11 337	18 898	17 018	19 184	**18 427**
145 335	149 403	213 321	243 273	206 155	207 404	**201 497**
16 866	18 508	25 299	28 146	19 220	25 344	**25 342**
						1 564
16 866	18 508	25 299	28 146	19 220	25 344	**26 906**
6.42	5.98	10.75	9.94	–2.00	1.46	**2.52**
8.00	7.44	13.49	11.95	–2.61	1.49	**2.64**