

Financial statements

Contents

Group financial statements	109	Income statement
	110	Balance sheet
	112	Statement of shareholders' equity
	113	Statement of comprehensive income
	114	Statement of cash flow

Notes to the Group financial statements	115	Note 1. Organisation and summary of significant accounting policies
	123	Note 2. Investments
	128	Note 3. Derivative financial instruments
	130	Note 4. Acquisitions and dispositions
	133	Note 5. Deferred acquisition costs and acquired present value of future profits
	134	Note 6. Debt
	138	Note 7. Unpaid claims and claim adjustment expenses
	140	Note 8. Reinsurance information
	142	Note 9. Shareholders' equity
	143	Note 10. Income taxes
	145	Note 11. Benefit plans
	150	Note 12. Share-based payments
	154	Note 13. Commitments and contingent liabilities
	156	Note 14. Information on business segments
	161	Note 15. Subsidiaries, equity investees and variable interest entities

Swiss Reinsurance Company, Zurich	171	Annual report
	173	Income statement
	174	Balance sheet
	176	Notes
	185	Proposal for allocation of profit
	186	Report of the statutory auditors

Financial years 1998–2006	187	
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Income statement

For the years ended 31 December

CHF millions	Notes	2005	2006
Revenues			
Premiums earned	8, 14	26 891	29 515
Fee income from policyholders	8, 14	881	879
Net investment income	2	6 137	6 990
Net realised investment gains/losses	2	3 474	1 948
Trading revenues	2	346	654
Other revenues		283	280
Total revenues		38 012	40 266
Expenses			
Claims and claim adjustment expenses	7, 8, 14	-14 758	-11 799
Life and health benefits	8, 14	-8 668	-9 594
Interest credited to policyholders	14	-3 019	-2 827
Acquisition costs	8, 14	-5 927	-6 079
Other operating costs and expenses	14	-3 081	-4 111
Total expenses		-35 453	-34 410
Income before income tax expense		2 559	5 856
Income tax expense	10	-255	-1 296
Net income		2 304	4 560
Earnings per share in CHF			
Basic	9	7.44	13.49
Diluted	9	7.14	12.53

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

Balance sheet

As of 31 December

Assets

CHF millions	Notes	2005	2006
Investments	2, 3		
Fixed income securities:			
Available-for-sale, at fair value (including 7 770 in 2005 and 18 744 in 2006 subject to securities lending and repurchase agreements) (amortised cost: 2005: 77 124; 2006: 92 151)		79 344	93 127
Trading (including nil in 2005 and 2 234 in 2006 subject to securities lending and repurchase agreements)		14 457	22 622
Equity securities:			
Available-for-sale, at fair value (including nil in 2005 and 923 in 2006 subject to securities lending and repurchase agreements) (amortised cost: 2005: 7 001; 2006: 8 839)		8 116	10 845
Trading		11 476	20 828
Policy loans, mortgages and other loans		7 305	7 058
Investment real estate		1 729	4 227
Short-term investments, at amortised cost, which approximates fair value		4 539	9 464
Other invested assets		3 635	4 336
Total investments		130 601	172 507
Cash and cash equivalents		8 368	13 606
Accrued investment income		1 379	1 782
Premiums and other receivables		10 754	14 726
Reinsurance recoverable on unpaid claims and policy benefits	8	13 191	18 699
Funds held by ceding companies		13 927	14 211
Deferred acquisition costs	5, 8	5 393	5 270
Acquired present value of future profits	5	6 535	7 550
Goodwill		3 429	4 838
Income taxes recoverable		466	714
Financial services assets:			
Fixed income securities, trading (including 1 526 in 2005 and 8 746 in 2006 subject to securities lending and repurchase agreements)		15 218	23 714
Other financial services assets		7 143	8 638
Other assets		4 895	5 045
Total assets		221 299	291 300

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

Liabilities and shareholders' equity

CHF millions	Notes	2005	2006
Liabilities			
Unpaid claims and claim adjustment expenses	7, 8	71 759	95 011
Liabilities for life and health policy benefits	8	31 081	44 899
Policyholder account balances	8	34 115	42 834
Unearned premiums		6 563	8 025
Funds held under reinsurance treaties		10 941	10 531
Reinsurance balances payable		4 673	6 832
Income taxes payable		896	866
Deferred income taxes	10	2 838	2 685
Financial services liabilities:			
Financial services liabilities: Short-term debt		7 217	7 201
Financial services liabilities: Long-term debt		4 389	6 765
Other financial services liabilities		10 749	18 407
Short-term debt		1 015	1 917
Accrued expenses and other liabilities		4 818	6 470
Long-term debt	6	5 852	7 973
Total liabilities		196 906	260 416
Shareholders' equity			
Common stock, CHF 0.10 par value; 2005: 322 092 742; 2006: 374 440 378 shares authorised and issued		32	37
Additional paid-in capital		6 852	11 136
Treasury shares		-209	-272
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of deferred tax		1 908	2 230
Foreign currency translation		971	-205
Accumulated adjustment for pension and postretirement benefits		-59	-724
Total accumulated other comprehensive income		2 820	1 301
Retained earnings		14 898	18 682
Total shareholders' equity		24 393	30 884
Total liabilities and shareholders' equity		221 299	291 300

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

Statement of shareholders' equity

For the years ended 31 December

CHF millions	2005	2006
Common shares		
Balance, beginning of year	32	32
Issue of common shares		5
Balance, end of year	32	37
Additional paid-in capital		
Balance, beginning of year	6 862	6 852
Issue of common shares	2	4 234
Share based compensation	-13	57
Realised gains/losses on treasury shares	1	-7
Balance, end of year	6 852	11 136
Treasury shares		
Balance, beginning of year	-239	-209
Purchase of treasury shares	-278	-284
Sale of treasury shares	308	221
Balance, end of year	-209	-272
Net unrealised gains/losses, net of tax		
Balance, beginning of year	2 134	1 908
Change during the year	-226	322
Balance, end of year	1 908	2 230
Foreign currency translation		
Balance, beginning of year	-1 301	971
Change during the year	2 272	-1 176
Balance, end of year	971	-205
Adjustment for pension and post-retirement benefits		
Balance, beginning of year		-59
Reclassification of additional minimum liability prior year	-84	
Change during the year	25	-665
Balance, end of year	-59	-724
Retained earnings		
Balance, beginning of year	13 007	14 898
Net income	2 304	4 560
Dividends on common stock (CHF 1.60 and CHF 2.50 per share in 2005 and 2006, respectively)	-497	-776
Reclassification of additional minimum liability prior year	84	
Balance, end of year	14 898	18 682
Total shareholders' equity	24 393	30 884

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

Statement of comprehensive income

For the years ended 31 December

CHF millions	2005	2006
Net income	2 304	4 560
Other comprehensive income, net of tax:		
Change in unrealised gains/losses (tax: –180 for 2005, and 178 for 2006)	–226	322
Change in foreign currency translation (tax: –18 for 2005, and 38 for 2006)	2 272	–1 176
Change in adjustment for pension benefits (tax: –7 for 2005, and 210 for 2006)	25	–665
Comprehensive income	4 375	3 041

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

Statement of cash flow

For the years ended 31 December

CHF millions	2005	2006
Cash flows from operating activities		
Net income	2 304	4 560
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items	782	886
Net realised investment gains/losses	-3 474	-1 948
Change in:		
Technical provisions, net	5 243	-2 140
Funds held by ceding companies and other reinsurance balances	-519	524
Other assets and liabilities, net	-3	1 033
Income taxes payable/recoverable	183	910
Income from equity-accounted investments, net of dividends received	-407	-375
Trading positions, net	-2 459	-1 674
Change in Financial services assets and liabilities:		
Financial services assets	-4 556	-10 251
Financial services liabilities – Short-term debt	2 246	-662
Financial services liabilities – Long-term debt	1 478	779
Financial services liabilities – Other	1 154	9912
Net cash provided/used by operating activities	1 972	1 554
Cash flows from investing activities		
Fixed income securities:		
Sales and maturities	39 035	59 024
Purchases	-41 422	-46 105
Net purchases/sales/maturities of short-term investments	-1 061	-4 760
Equity securities:		
Sales	4 861	7 873
Purchases	-6 488	-8 799
Acquisitions/disposals, net of cash acquired/disposed	643	-3 506
Net purchases/sales/maturities of other investments	802	-683
Net cash provided/used by investing activities	-3 630	3 044
Cash flows from financing activities		
Issuance of long-term debt	987	3 146
Issuance/repayment of short-term debt	-599	-380
Equity issued	2	1 323
Net purchases/sales of treasury shares	30	-63
Dividends paid to shareholder	-497	-776
Net cash provided/used by financing activities	-77	3 250
Total net cash provided/used	-1 735	7 848
Reclassification to Financial services assets		-2 451
Effect of foreign currency translation	422	-159
Change in cash and cash equivalents	-1 313	5 238
Cash and cash equivalents as of 1 January	9 681	8 368
Cash and cash equivalents as of 31 December	8 368	13 606

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

The Group has reclassified CHF 2 451 million from cash to Financial services assets related to the assumption of the debt of GE Insurance Solutions. Interest paid during 2006 was CHF 812 million. There were several non-cash investment activities in 2006. The major transactions included the issuance of equity of CHF 2 916 million and a mandatory convertible of CHF 610 million to General Electric directly.

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 (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, clients and others worldwide through a network of offices in over 25 countries as well as through reinsurance brokers.

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and comply with Swiss law. The Group's financial statements are stated in Swiss francs (CHF), the currency of the country in which Swiss Re Zurich is incorporated. The financial year of the Swiss Re Group ends on 31 December. All significant inter-company transactions and balances have been eliminated on consolidation.

Principles of consolidation

The Group's financial statements include the consolidated financial statements of Swiss Re Zurich and its subsidiaries. Entities which Swiss Re Zurich directly or indirectly controls through holding a majority of the voting rights are consolidated in the Group accounts. The Group also consolidates variable interest entities where Swiss Re is the primary beneficiary. Companies which Swiss Re Zurich does not control, but over which Swiss Re Zurich directly or indirectly exercises significant influence, are accounted for using the equity method and are included in other invested assets. The Swiss Re Group's share of net profit or loss in investments accounted for under the equity method is included in net investment income. Equity and net income of these companies are adjusted as necessary to be in line with the Group 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 on the basis of historical information, actuarial analyses, financial modelling and other analytical techniques. Actual results could differ significantly from the estimates described above.

Foreign currency remeasurement and translation

Transactions denominated in foreign currencies are remeasured to the respective subsidiary's functional currency at average 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 CHF are translated from the functional currency to CHF at closing rates. Revenues and expenses are translated at average exchange rates. Translation adjustments are reported in shareholders' equity.

Currency exchange rates in CHF per 100 units of foreign currency are as follows:

		2005		2006	
		Closing rate	Average rate	Closing rate	Average rate
Australian dollar	AUD	96.68	94.91	96.22	94.33
British pound	GBP	226.26	226.40	238.92	230.48
Canadian dollar	CAD	112.82	102.61	104.90	110.68
Euro	EUR	155.46	154.82	160.98	157.20
Japanese yen	JPY	1.12	1.13	1.02	1.08
South African rand	ZAR	20.78	19.54	17.31	18.70
US dollar	USD	131.80	124.37	122.08	125.46

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 fixed income and equity securities 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 impairment are not recognised.

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

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

Investment in real estate that the Group intends to hold for the production of income is carried at depreciated cost, net of any write-down for impairment in value. An 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, derivative financial instruments 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.

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

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

Cash and cash equivalents

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

Deferred acquisition costs

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

Acquired present value of future profits

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

Goodwill

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

Financial services assets and liabilities

The Group uses debt for general corporate purposes and also to fund "Financial services assets and liabilities" (funded business). "Financial services assets and liabilities" are structured with the intention of creating assets and liabilities that generate offsetting market risks (foreign exchange, interest rate, equity, credit). Debt that is strictly used for funded business is classified as operational debt. "Financial services assets and liabilities" are valued according to the relevant principles for the underlying instruments.

Other assets

Other assets include deferred expenses on retroactive reinsurance, separate account assets, prepaid reinsurance premiums, 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 judgements 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 13%. 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 10%.

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

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

Pensions and other post-retirement benefits

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

Share-based payment transactions

The Group has a long term incentive plan, a fixed option plan, a restricted share plan, and an employee participation plan. These plans are described in more detail in note 11. 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 as well as embedded derivative instruments indexed to the Group's shares, which are bifurcated from the host contract and 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.

New accounting pronouncements

On 4 December 2004, the FASB issued SFAS No. 123 (revised 2004) "Share-Based Payment" ("FAS 123R"). FAS 123R requires share based payments to be accounted for using the fair value method, and eliminates the ability to account for such transactions using the previously allowed intrinsic value method. The Group adopted the provisions of FAS 123R as of 1 January 2006.

On 6 September 2006, the FASB issued SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans" ("FAS 158"). FAS 158 requires an employer to recognise the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability and to recognise changes in that funded status in the year in which the changes occur through comprehensive income. The Group adopted the provisions of FAS 158 for the year ended 31 December 2006.

On 6 June 2006, the FASB issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Group will adopt the provisions of FIN 48 in the first quarter of 2007.

2. Investments

Investment income

Net investment income by source was as follows:

CHF millions	2005	2006
Fixed income securities	3 919	4 768
Equity securities	547	721
Policy loans, mortgages and other loans	602	618
Investment real estate	150	156
Short-term investments	152	283
Other current investments	137	83
Equity in earnings of equity-accounted investments	420	389
Cash and cash equivalents	197	294
Funds held by ceding companies	645	680
Gross investment income	6 769	7 992
Investment management expenses	-318	-404
Funds held under reinsurance treaties	-314	-598
Net investment income	6 137	6 990

Dividends received from investments accounted for using the equity method were CHF 13 million and CHF 14 million in 2005 and 2006, respectively.

Net investment income includes income on unit-linked business of CHF 751 million and CHF 670 million in 2005 and 2006, respectively, which is credited to unit-linked policyholders.

Realised gains and losses

Realised gains and losses for fixed income, equity securities and other investments were as follows:

CHF millions	2005	2006
Fixed income securities available-for-sale		
Gross realised gains	666	922
Gross realised losses	-232	-591
Equity securities available-for-sale		
Gross realised gains	777	1 151
Gross realised losses	-96	-189
Other-than-temporary impairments	-98	-156
Net realised investment gains/losses on trading securities	166	664
Change in net unrealised investment gains/losses on trading securities	51	1 746
Other investments		
Gross realised gains	566	2 141
Gross realised losses	-344	-2 451
Exchange gains	2 018	-1 289
Net realised investment gains	3 474	1 948

Proceeds from fixed income securities available-for-sale amounted to CHF 53 720 million in 2006 (2005: CHF 35 098 million) and sales of equity securities available-for-sale amounted to CHF 7 881 million in 2006 (2005: CHF 4 874 million).

Net realised gains include income on unit-linked business of CHF 1 396 million and CHF 1 319 million in 2005 and 2006, respectively, which is credited to unit-linked policyholders.

Realised gains and losses do not include the change in fair value of Financial Services assets/liabilities classified as trading revenues/expenses and the change in fair value of derivative financial instruments classified as cash flow hedges.

Trading revenues

Trading revenues mainly generated by the trading activities of the Financial Services business segment were as follows:

CHF millions	2005	2006
Income from fixed income securities	776	1 409
Income from other financial services assets	41	87
Net investment income from Financial Services assets	817	1 496
Net realised investment gains/losses on trading securities	257	17
Net unrealised investment gains/losses on trading securities	-163	-225
Net realised and unrealised investment gains/losses on other assets	-13	366
Net realised investment gains/losses on Financial Services assets	81	158
Trading expenses	-552	-1 000
Trading revenues	346	654

Investments available-for-sale

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

As of 31 December 2005 CHF millions	Amortised cost or cost	Gross unrea- lised gains	Gross unrea- lised losses	Estimated fair value
Debt securities issued by governments and government agencies:				
US Treasury and other US government corporations and agencies	24 669	451	-675	24 445
States of the United States and political subdivisions of the states	340	46		386
United Kingdom	5 960	300	-215	6 045
Canada	4 246	1 529	-393	5 382
Germany	2 711	42	-15	2 738
France	1 545	56	-19	1 582
Other	5 755	559	-278	6 036
Total	45 226	2 983	-1 595	46 614
Corporate debt securities	19 224	1 230	-283	20 171
Mortgage and asset-backed securities	12 674	118	-233	12 559
Fixed income securities available-for-sale	77 124	4 331	-2 111	79 344
Equity securities available-for-sale	7 001	2 462	-1 347	8 116

As of 31 December 2006 CHF millions	Amortised cost or cost	Gross unrea- lised gains	Gross unrea- lised losses	Estimated fair value
Debt securities issued by governments and government agencies:				
US Treasury and other US government corporations and agencies	29 555	190	-598	29 147
States of the United States and political subdivisions of the states	676	34	-2	708
United Kingdom	5 280	87	-54	5 313
Canada	3 239	755	-12	3 982
Germany	2 293	4	-28	2 269
France	1 537	12	-18	1 531
Other	7 455	212	-66	7 601
Total	50 035	1 294	-778	50 551
Corporate debt securities	26 836	921	-373	27 384
Mortgage and asset-backed securities	15 280	102	-190	15 192
Fixed income securities				
available-for-sale	92 151	2 317	-1 341	93 127
Equity securities available-for-sale	8 839	2 268	-262	10 845

Maturity of fixed income securities available-for-sale

The amortised cost or cost and estimated fair values of investments in fixed income securities 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 2005 and 2006, CHF 2 148 million and CHF 5 426 million, respectively, of fixed income securities were callable.

As of 31 December CHF millions	Amortised cost or cost	2005		2006	
		Estimated fair value	Amortised cost or cost	Estimated fair value	
Due in one year or less	4 762	4 630	5 768	5 804	
Due after one year through five years	21 779	21 266	26 196	26 171	
Due after five years through ten years	16 304	16 733	19 224	19 129	
Due after ten years	21 605	24 156	25 683	26 831	
Mortgage and asset-backed securities with no fixed maturity	12 674	12 559	15 280	15 192	
Total fixed income securities					
available-for-sale	77 124	79 344	92 151	93 127	

Assets on deposit or pledged

As of 31 December 2005 and 2006, investments with the carrying value of CHF 663 million and CHF 1 565 million, respectively, were on deposit with regulatory agencies in accordance with local requirements.

As of 31 December 2005 and 2006, investments (including cash and cash equivalents) with a carrying value of approximately CHF 8 823 million and CHF 17 132 million, respectively, were placed on deposit or pledged to secure certain reinsurance liabilities.

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

As of 31 December 2005 and 2006, the fair value of the Government and Corporate bond securities received as collateral, is CHF 2 892 million and CHF 6 502 million, respectively. Of this, the amount that has been sold or repledged as of 31 December 2005 and 2006 is CHF 1 316 million and CHF 5 450 million, respectively, which is used to settle short Government bond positions. The sources of the collateral are highly rated banking market counterparties.

Unrealised losses on fixed income 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 2005 and 2006. A continuous decline in the value of equity securities available-for-sale for longer than twelve months is considered other-than-temporary and recognised as net realised investment gains/losses in the income statement. Therefore, as of 31 December 2005 and 2006, the gross unrealised loss on equity securities available-for-sale of CHF 1 347 million and CHF 262 million relates to declines in value for less than 12 months.

As of 31 December 2005 CHF millions	Less than 12 months		12 months or more		Total	
	Fair value	Unrealised losses	Fair value	Unrealised losses	Fair value	Unrealised losses
Debt securities issued by governments and government agencies	25 288	1 213	8 372	382	33 660	1 595
Corporate debt securities	6 261	255	551	28	6 812	283
Mortgage and asset-backed securities	7 253	184	1 153	49	8 406	233
Total	38 802	1 652	10 076	459	48 878	2 111

As of 31 December 2006 CHF millions	Less than 12 months		12 months or more		Total	
	Fair value	Unrealised losses	Fair value	Unrealised losses	Fair value	Unrealised losses
Debt securities issued by governments and government agencies	20 633	295	13 443	483	34 076	778
Corporate debt securities	6 362	104	2 618	269	8 980	373
Mortgage and asset-backed securities	4 939	51	4 138	139	9 077	190
Total	31 934	450	20 199	891	52 133	1 341

An assessment of whether an other-than-temporary decline in the value of equity and fixed income securities available-for-sale has occurred is based on a case-by-case evaluation of the reasons for the decline in value. This evaluation includes: (a) an assessment of the duration and extent of the decline in value; (b) review of the financial performance and outlook for the economic environment and industry in which the issuer operates; (c) review of the financial performance and outlook for the issuer compared to industry peers; and (d) analysis of any other factors, including credit rating, that may adversely affect the ability of the security to recover in value in the short term. Other-than-temporary declines in the value of equity and fixed income securities available-for-sale are recognised as net realised investment gains/losses in the income statement.

Mortgages, loans and real estate

As of 31 December 2005 and 2006, investments in mortgages and other loans, real estate comprised the following:

As of 31 December CHF millions	2005		2006	
	Carrying value	Fair value	Carrying value	Fair value
Mortgages and other loans	7 305	7 305	7 058	7 058
Investment real estate	1 729	3 475	4 227	5 389

As of 31 December 2005 and 2006, the Group's investment in mortgages and other loans included CHF 207 million and CHF 231 million, respectively, of loans due from employees and CHF 396 million and 388 million, respectively, due from officers. These loans generally consist of mortgages offered at variable and fixed interest rates.

As of 31 December 2005 and 2006, investments in real estate included CHF 9 million and CHF 67 million, respectively, of real estate held for sale.

Depreciation expense related to income-producing properties was CHF 36 million and CHF 34 million for 2005 and 2006, respectively. Accumulated depreciation on investment real estate totalled CHF 446 million and CHF 444 million as of 31 December 2005 and 2006, respectively.

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

3. Derivative financial instruments

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

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

The maximum potential loss assuming non-performance by all counterparties, and based on the market replacement cost at 31 December 2005 and 2006 approximated CHF 2 889 million and CHF 2 220 million, respectively. These values are net of amounts offset pursuant to rights of set-off and qualifying master netting arrangements with various counterparties.

The fair value of derivatives outstanding as of 31 December 2005 and 2006 is as follows:

CHF millions	As of 31 December 2005			As of 31 December 2006		
	Positive fair value	Negative fair value	Carrying value assets/liabilities	Positive fair value	Negative fair value	Carrying value assets/liabilities
Interest rate contracts						
Forwards and futures	26	-5	21	24	-71	-47
Options	9	-5	4			
Swaps	3 133	-3 212	-79	2 863	-3 062	-199
Total	3 168	-3 222	-54	2 887	-3 133	-246
Equity and index contracts						
Forwards and futures	4	-23	-19	260	-343	-83
Options	2 120	-2 377	-257	1 999	-2 146	-147
Swaps				202	-148	54
Other					-11	-11
Total	2 124	-2 400	-276	2 461	-2 648	-187
Foreign currency						
Options				279	-284	-5
Swaps	1 017	-1 218	-201	1 286	-1 496	-210
Total	1 017	-1 218	-201	1 565	-1 780	-215
Other derivatives						
Credit derivatives	805	-619	186	1 427	-1 041	386
Weather derivatives	56	-81	-25	95	-124	-29
Other	190	-176	14	133	-205	-72
Total	1 051	-876	175	1 655	-1 370	285
Total derivative financial instruments	7 360	-7 716	-356	8 568	-8 931	-363

The Group has reviewed the right of offset arrangements in certain derivative related collateral contracts and concluded that the Group has both the right and the intent to offset collateral assets/liabilities and derivative assets/liabilities. As a result, the Group has changed the presentation of the relevant assets/liabilities to a net presentation. The equivalent impact to the 2005 balances would be to decrease the carrying value of derivative assets/liabilities to minus CHF 788 million. The balance sheet impact in 2005 would have been to reduce both financial services assets and liabilities by CHF 1 552 million. The change has no impact on net income or shareholders' equity.

As of 31 December 2005 and 2006, other invested assets include derivative financial instruments with a fair value of CHF 562 million and CHF 718 million, respectively.

As of 31 December 2005 and 2006, other financial services assets include derivative financial instruments with a fair value of CHF 2 367 million and CHF 2 086 million respectively.

As of 31 December 2005 and 2006 other accrued expenses and other liabilities include derivative financial instruments with a fair value of CHF 394 million and CHF 555 million, respectively.

As of 31 December 2005 and 2006, other financial services liabilities include derivative financial instruments with a fair value of CHF 2 891 million and CHF 2 612 million respectively.

These derivative financial instruments include cash flow hedges with a fair value of CHF 60 million and CHF 31 million as of 31 December 2005 and 2006, respectively.

Hedges of the net investment in a foreign operation

For the years ended 31 December 2005 and 2006, the Group recorded net unrealised foreign currency transaction losses of CHF nil and CHF 96 million, respectively, in foreign currency translation related to hedges of the foreign currency exposure of its net investments in foreign operations.

4. Acquisitions and dispositions

On 9 June 2006, Swiss Re completed the acquisition of 100% of the outstanding common shares of GE Insurance Solutions Corporation, excluding its US life and health operation and certain other assets and liabilities, from General Electric Company. The total cost of investment was USD 8.8 billion, including reimbursement of capital injected since November 2005 of USD 1.2 billion and estimated purchase price adjustments. The results of the operations of GE Insurance Solutions have been included in the consolidated financial statements since 9 June 2006. The transaction contributes to Swiss Re's global diversification. It closely complements the Group's existing business profile while extending the franchise, client base and product offering. The integration of the acquired operations will streamline the combined organisations.

In addition Swiss Re acquired 100% of the outstanding common shares of GE Life Group Limited, GE Insurance Holdings Limited and GE Life Services Limited for a cash payment of GBP 465 million. Swiss Re has acquired around 400 000 policies with total assets of over GBP 8 billion. The acquisition was completed on 14 December 2006. By acquiring GE Life's operations Swiss Re will complement the existing Admin ReSM platform.

Determination of purchase price

Millions (except share data)	CHF	USD
Number of Swiss Re common shares delivered to GE as of 9 June 2006	33 300 957	33 300 957
Swiss Re's share price (volume weighted average price over 20 trading days before 7 June 2006)	87.58	72.07
Fair value of Swiss Re's common shares delivered to GE	2 916	2 400
Mandatory convertible instruments	610	500
Cash	5 456	4 435
Transaction cost	57	46
Purchase price	9 039	7 381
Capital contribution ¹	1 519	1 235
Other ²	192	156
Total cost of investment	10 750	8 772

¹ Swiss Re had agreed that in the event that General Electric (i) provided capital to the GE Insurance Solutions business in response to an increase in any rating agency's capital requirements for the insurance or reinsurance industry or (ii) otherwise provided capital to the GE Insurance Solutions business, Swiss Re would pay General Electric an amount equal to such capital increase, net of any capital distributions.

² Swiss Re agreed to pay to General Electric in cash an amount equal to the undistributed proceeds of the redemption of shares of common stock of a GE Insurance Solutions subsidiary. Swiss Re is entitled to the undistributed proceeds. In addition, this includes adjustments to the consideration identified as of 31 December 2006.

Allocation of the purchase price

The purchase price has been allocated based on a preliminary estimate of the fair value of assets acquired and liabilities assumed at the date of acquisition. The allocation requires significant judgement and it is possible that the preliminary estimates will change as the purchase price allocations are finalised. The allocation of the purchase price included adjustments to the following assets and liabilities:

CHF millions	GE Insurance Solutions	GE Life UK
Total cost of investment at 31 December 2006	10 750	1 122
Net assets acquired	11 620	1 498
Historic intangibles set to zero	-3 551	-226
Adjustments to assets acquired and liabilities assumed:		
Unpaid claims and claim adjustment expenses gross discounting, net of capital cost	2 284	
Unpaid claims and claim adjustment expenses adjustments and reinsurance payables / receivables and funds held	-1 545	
Customer intangible assets	619	
Liabilities for policy benefits for life and health	-70	-343
Present value of future profits (PVFP)	1 170	195
Restructuring provision	-89	
Other	-579	-9
Tax impact of above adjustments and other tax adjustments	-646	7
Purchased net assets excluding goodwill	9 213	1 122
Goodwill	1 537	

Intangible assets

Historic intangible assets including goodwill, deferred acquisition costs and present value of future profits have been eliminated. Qualifying purchased intangible assets, including customer related intangibles, present value of future profits and goodwill have been established.

The following table presents details of acquired intangible assets subject to amortisation as of the date of acquisition:

	Amortisation period	Value (CHF millions)
GE Insurance Solutions customer related intangibles	10 years	619
GE Insurance Solutions PVFP	25 years	1 170
GE Life UK PVFP	36 years	195

The goodwill of CHF 1 537 million relates to the P&C business segment. The goodwill is not expected to be deductible for tax purposes.

Equalisation reserves

Under US GAAP, equalisation reserves are not recognised as a liability. The change to US GAAP reduced the goodwill of CHF 1 909 million published in the interim 2006 financial statements by CHF 458 million.

Investments

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

Property and casualty reserves gross and retrocession and reinsurance payables/receivables and funds held

Property and casualty reserves, both assumed and ceded, have been adjusted based on an estimate of their fair value. This estimate includes the best estimate of the ultimate claims payments and receipts and the timing of those payments. The estimated payments have been discounted and adjusted for the expected cost of holding capital to support the reinsurance assets and liabilities.

Life and health policy benefits and present value of future profits

The life and health policy benefit reserves have been adjusted based on best estimate assumptions at the time of the acquisition. The present value of future profits has been estimated based on the best estimate of expected future profits adjusted for expected cost of holding capital to support the reinsurance assets and liabilities.

Other assets and liabilities

Other assets and liabilities have been adjusted to their estimated fair values. For information on the restructuring provision see note 16.

Deferred taxes

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

Pro forma financial results (unaudited)

The unaudited pro forma financial information as of 31 December 2006 is presented to illustrate the effect on the Group's income statement of the GE Insurance Solutions acquisition. The GE Insurance Solutions information is based on the estimated revenues and net income of the acquired business in 2005 and 2006 and includes estimates for the impact of purchase accounting. The 2005 pro forma net income includes USD 3.8 billion of property and casualty reserve strengthening, made by GE Insurance Solutions in 2005, gross of tax. This pro forma information is not necessarily indicative for what would have occurred had the acquisition and related transactions been made on the dates indicated, or of future results of the company.

Unaudited pro forma results after the GE Insurance Solutions acquisition	2005 (CHF millions)	2006 (CHF millions)
Total revenues	46 996	41 968
Net income	-449	4 870
Earnings per share – basic	-1.45	13.61
Earnings per share – diluted	-1.45	12.63

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

CHF millions	DAC	2005 PVFP	DAC	2006 PVFP
Balance as of 1 January	4 855	6 315	5 393	6 535
Deferred	4 107		4 161	
Effect of acquisitions/disposals and retrocessions		-393		1 443
Amortisation	-4 099	-794	-4 100	-790
Interest accrued on unamortised PVFP		409		413
Effect of foreign currency translation	530	788	-184	-245
Effect of change in unrealised gains/losses		210		194
Balance as of 31 December	5 393	6 535	5 270	7 550

The amortisation of DAC in 2006 represents CHF 3 427 million, CHF 309 million, and CHF 364 million for the Property & Casualty, Life & Health, and Financial Services business segments, respectively.

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

The percentage of the PVFP which is expected to be amortised in each of the next five years is 6%, 6%, 5%, 5% and 5%, respectively.

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 of greater than one year. The Group's debt as of 31 December 2005 and 2006 was as follows:

CHF millions	2005	2006
Senior financial debt	1 015	1 917
Senior operational debt	7 217	7 201
Short-term debt - financial and operational debt	8 232	9 118
Senior financial debt	2 794	2 482
Senior operational debt	4 389	6 765
Subordinated financial debt	3 058	5 491
Long-term debt - financial and operational debt	10 241	14 738
Total debt	18 473	23 856

Maturity of long-term debt

As of 31 December 2005 and 2006, long-term debt as reported above have the following maturities:

CHF millions	2005	2006
Due in 2007	1 900	0 ¹
Due in 2008	1 697	1 935
Due in 2009	940	1 818
Due in 2010	953	1 201
Due in 2011	21	917
Due after 2011	4 730	8 867
Total carrying value	10 241	14 738
Total fair value	10 567	15 081

¹ This balance was reclassified to short-term debt.

Senior debt

Maturity	Instrument	Issued in	Currency	Nominal in millions	Interest rate	Book value in CHF millions
2008	Mandatory Convertible Bond	2005	CHF	1 000	6.00%	994
2008	Private Placement (step-up)	2001	CHF	100	3.60%	100
2008	EMTN	2006	JPY	17 340	various	177
2008	EMTN	2006	CHF	100	3 M Libor + 1bp	100
2008	EMTN	2006	GBP	35	3 M Libor + 3.5bp	84
2008	EMTN	2005	GBP	90	3 M Libor + 5bp	215
2008	EMTN	2005	JPY	8 100	3M Libor	83
2008	EMTN	2005	USD	150	4.13%	182
2009	3 EMTN	2004	EUR	20	Various	32
2009	EMTN	2004	JPY	5 000	0.81%	51
2009	EMTN	2005	JPY	3 000	0.41%	31
2009	3 EMTN (Zero coupon Notes)	2004	USD	46	Various	55
2009	EMTN	2005	CHF	300	1.25%	298
2009	Insurance-linked Placement	2006	USD	59	Libor + 2.30% – 2.35%	66
2009	EMTN	2006	CHF	300	3M Libor + 0.5bp	300
2009	EMTN	2006	CHF	200	2.50%	200
2009	Mandatory Convertible Bond	2006	CHF	610	9.80%	609
2009	Private Placement	2006	CHF	175	2.59%	175
2010	EMTN (Amortising Bond)	2003	GBP	40	4.38%	96
2010	EMTN	2005	CZK	300	2.88%	18
2010	2 EMTN	2005	CHF	625	Various	624
2010	Senior Notes ¹	2000	USD	350	7.50%	464
2011	Credit-linked Note	2006	USD	735	5.01%	898
2015	EMTN (Straight Bond)	2001	CHF	150	4.00%	151
2017	Trust-preferred Stock (Trups) ²	1997	USD	42	8.72%	60
2017	Credit-linked Note	2000	USD	9	Various	6
2019	Senior Notes ¹	1999	USD	400	6.45%	488
2026	Senior Notes ¹	1996	USD	600	7.00%	774
2030	Senior Notes ¹	2000	USD	350	7.75%	490
Various	Payment Undertaking Agreements	Various	Various	Various	Various	1 426
Total senior debt as of 31 December 2006						9 247
Total senior debt as of 31 December 2005						7 183

¹ Assumed in the acquisition of GE Insurance Solutions

² Assumed in the acquisition of Life Re Corporation

Subordinated debt

Maturity	Instrument	Issued in	Currency	Nominal in millions	Interest rate...	...first call in	Book value in CHF millions
2021	Convertible Bond	2001	USD	1 150	3.25%	2011	1 384
-	Subordinated Perpetual Loan	1998	DEM	340	6M Libor + 40bp	2008	280
-	Subordinated Perpetual Loan	1998	DEM	400	5.71%	2008	329
-	Subordinated Perpetual Loan	1998	CHF	300	6M Libor + 37.5bp	2008	300
-	Subordinated Perpetual Loan	1998	DEM	110	6M Libor + 45bp	2010	91
-	Subordinated Perpetual Bond (SUPERBs)	1999	CHF	600	3.75%	2011	592
-	Subordinated Perpetual Loan Note	2006	EUR	1 000	5.25%	2016	1 598
-	Subordinated Perpetual Note	2006	USD	752	6.85%	2016	917
Total subordinated debt as of 31 December 2006							5 491
Total subordinated debt as of 31 December 2005							3 058

Swiss Re uses debt to finance general corporate purposes but also to fund "Financial services assets and liabilities" (funded business). "Financial services assets and liabilities" are structured with the intention of creating assets and liabilities that generate offsetting foreign exchange and interest rate risks. Debt that is strictly used for funded business is classified as operational debt and is included in financial services liabilities. Operational debt is excluded by rating agencies from financial leverage calculations.

Interest expense on long-term debt

Interest expense on long-term debt for the years ended 31 December 2005 and 2006, respectively, was as follows:

CHF millions	2005	2006
Senior financial debt	105	121
Senior operational debt	146	216
Subordinated financial debt	124	221
Total	375	558

Debt issued in 2006

In April 2006, the Group issued a credit linked note of USD 735 million, due in March 2011, bearing interest of 5.01%.

In May 2006, the Group issued a EUR 1 000 million subordinated Loan Note with a perpetual term, bearing interest at the rate of 5.25% and a USD 752 million subordinated Note with a perpetual term, bearing interest at the rate of 6.85%. Further, the Group structured and underwrote an insurance linked security of USD 59 million, bearing interest at the rate of Libor plus 2.30 – 2.35% , maturing in three years.

In June 2006, the Group issued CHF 300 million under the EMTN programme, with a three-year maturity and a coupon of three-month Libor plus 0.5 basis points, and CHF 200 million with a three-year maturity and a coupon of 2.50%. Further, the Group issued a mandatory convertible bond totalling CHF 610 million to General Electric with an interest rate of 9.80%. The securities will automatically convert into Swiss Re shares in three years. The Group also assumed in the acquisition of GE Insurance Solutions USD 400 million senior notes due in March 2019, bearing interest at the rate of 6.45%, USD 600 million due in February 2026, bearing interest at the rate of 7.00%, USD 350 million due in June 2010, bearing interest at the rate of 7.50%, and USD 350 million due in June 2030, bearing interest at the rate of 7.75%. These newly assumed senior notes are used for funded business and therefore classified as operational debt.

In November 2006, the Group issued JPY 12 340 million under the EMTN programme, with a two-year maturity and a coupon of three-month Libor, and CHF 100 million with a two-year maturity and a coupon of three-month Libor plus 1 basis point.

In December 2006, the Group issued GBP 35 million under the EMTN programme, with a two-year maturity and a coupon of three-month Libor plus 3.5 basis points, and JPY 5 000 million with a two-year maturity and a coupon of six-month Libor plus 2.7 basis points. Further, the Group issued a private placement of CHF 175 million, with a three-year maturity and a coupon of 2.59%.

7. Unpaid claims and claim adjustment expenses

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

CHF millions	2005	2006
Non-life	59 104	80 391
Life & Health	12 655	14 620
Total	71 759	95 011

A reconciliation of the beginning and ending reserve balances for non-life unpaid claims and claim adjustment expenses for the periods is presented as follows:

CHF millions	2005	2006
Balance as of 1 January	50 099	59 104
Reinsurance recoverable	-1 718	-2 555
Deferred expense on retroactive reinsurance	-1 040	-1 057
Net	47 341	55 492

Incurred related to:

Current year	13 692	12 292
Prior year	1 000	-593
Amortisation of deferred expense on retroactive reinsurance and impact of commutations	66	100
Total incurred	14 758	11 799

Paid related to:

Current year	-1 601	-2 853
Prior year	-10 129	-10 538
Total paid	-11 730	-13 391

Foreign exchange	4 616	-1 796
Effect of acquisitions, disposals, new retroactive reinsurance and other items	507	19 790

Net	55 492	71 894
Reinsurance recoverable	2 555	7 622
Deferred expense on retroactive reinsurance	1 057	875
Balance as of 31 December	59 104	80 391

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 2006 the Group carried net reserves for US asbestos, environmental and other long-latent health hazards equal to CHF 2 226 million, which includes an increase of CHF 1 203 million because of acquisitions. During 2006, the net claims paid against these liabilities totalled CHF 244 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 does not imply a reduction in reserve adequacy.

8. Reinsurance information

Premiums written, premiums earned and fees assessed against policyholders

CHF millions	2005			2006		
	Non-Life	Life& Health	Total	Non-Life	Life& Health	Total
Premiums written						
Direct	1 312	1 192	2 504	2 256	1 338	3 594
Assumed	17 024	9 921	26 945	16 896	11 306	28 202
Ceded	-912	-1 484	-2 396	-979	-1 738	-2 717
Total premiums written	17 424	9 629	27 053	18 173	10 906	29 079
Premiums earned						
Direct	1 335	1 192	2 527	2 242	1 338	3 580
Assumed	16 871	9 923	26 794	17 653	11 372	29 025
Ceded	-953	-1 477	-2 430	-1 354	-1 736	-3 090
Total premiums earned	17 253	9 638	26 891	18 541	10 974	29 515
Fees assessed against policyholders						
Direct		472	472		455	455
Assumed		539	539		563	563
Ceded		-130	-130		-139	-139
Total fees assessed against policyholders		881	881		879	879

Claims and claim adjustment expenses

CHF millions	2005			2006		
	Non-Life	Life & Health	Total	Non-Life	Life & Health	Total
Claims						
Claims paid, gross	-12 332	-9 057	-21 389	-16 825	-9 631	-26 456
Claims paid, retro	602	1 304	1 906	3 434	1 731	5 165
Claims paid, net	-11 730	-7 753	-19 483	-13 391	-7 900	-21 291
Change in unpaid claims and claim adjustment expenses;						
life and health benefits, gross	-3 671	-1 166	-4 837	3 720	-1 922	1 798
Change in unpaid claims and claim adjustment expenses;						
life and health benefits, retro	643	251	894	-2 128	228	-1 900
Change in unpaid claims and claim adjustment expenses;						
life and health benefits, net	-3 028	-915	-3 943	1 592	-1 694	-102
Claims and claim adjustment expenses; life and health benefits	-14 758	-8 668	-23 426	-11 799	-9 594	-21 393

Acquisition costs

Acquisition costs						
Acquisition costs, gross	-3 802	-2 617	-6 419	-3 970	-2 596	-6 566
Acquisition costs, retro	96	396	492	147	340	487
Acquisition costs, net	-3 706	-2 221	-5 927	-3 823	-2 256	-6 079

Reinsurance assets and liabilities

CHF millions	2005			2006		
	Non-Life	Life & Health	Total	Non-Life	Life & Health	Total
Assets						
Reinsurance recoverable	2 555	10 636	13 191	7 622	11 077	18 699
Deferred acquisition costs	1 404	3 989	5 393	1 440	3 830	5 270
Liabilities						
Unpaid claims and claim adjustment expenses	59 104	12 655	71 759	80 391	14 620	95 011
Life and health policy benefits		31 081	31 081	44 899	44 899	44 899
Policyholder account balances		34 115	34 115	42 834	42 834	42 834

9. Shareholders' equity

All of the Group's reinsurance 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 a 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 2005 and 2006 the Group's dividends per share were CHF 1.60 and CHF 2.50, respectively.

Share data

CHF millions (except share data)	2005	2006
Basic earnings per share		
Income available to common shares	2 304	4 560
Weighted average common shares outstanding	309 827 189	337 961 019
Net income per share in CHF	7.44	13.49
Effect of dilutive securities		
Change in income available to common shares due to convertible bonds	72	140
Change in average number of shares due to convertible bonds and employee options	22 943 994	37 275 628
Diluted earnings per share		
Net income assuming debt conversion and exercise of options	2 376	4 700
Weighted average common shares outstanding	332 771 183	375 236 647
Net income per share in CHF	7.14	12.53

In 2004 Swiss Re purchased 9 236 800 call options to offset the exposure to deliver Swiss Re shares under the convertible bond issued in 2001.

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:

CHF millions	2005	2006
Current taxes	533	581
Deferred taxes	-278	715
Income tax expense	255	1 296

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:

CHF millions	2005	2006
Income tax at the Swiss statutory tax rate of 21.3%	545	1 247
Increase (decrease) in the income tax charge resulting from:		
Foreign income taxed at different rates	-80	421
Tax exempt income/deduction for dividends received	-65	-262
Intercompany dividends subject to tax	261	
Impact of tax deductible goodwill	-113	-14
Change in the valuation allowance	-244	-228
Other, net	-49	132
Total	255	1 296

The components of deferred income taxes were as follows:

CHF millions	2005	2006
Deferred tax assets		
Income accrued/deferred	410	720
Technical provisions	1 335	1 941
Pension provisions	87	348
Benefit on loss carryforwards	1 981	2 063
Other	967	1 410
Gross deferred tax asset	4 780	6 482
Valuation allowance	-1 175	-1 162
Total	3 605	5 320
Deferred tax liabilities		
Present value of future profits	-2 272	-2 469
Income accrued/deferred	-484	-767
Bond amortisation	-336	-230
Deferred acquisition costs	-317	-746
Technical provisions	-1 081	-1 577
Unrealised gains on investments	-897	-649
Other	-1 056	-1 567
Total	-6 443	-8 005
Deferred income taxes	-2 838	-2 685

Deferred taxes have not been recognised on the undistributed earnings of certain foreign subsidiaries to the extent the Company considers such earnings as being indefinitely reinvested abroad and does not expect to repatriate these earnings in the foreseeable future. The amount of such earnings included in consolidated retained earnings as of 31 December 2006 was approximately CHF 7 572 million. It is not practicable to estimate the amount of additional tax that might be payable if such earnings were not reinvested indefinitely.

As of 31 December 2006, the Group had CHF 6 241 million foreign net operating tax loss carryforwards, expiring as follows: CHF 298 million in 2007, CHF 61 million in 2008, CHF 32 million in 2009, CHF 64 million in 2010, CHF 55 million in 2011 and CHF 5 731 million after 2011. The Group also had capital loss carryforwards of CHF 364 million, expiring as follows: CHF 10 million in 2007, CHF 4 million in 2008, CHF 303 million in 2009, CHF 43 million in 2010 and CHF 4 million after 2010.

Net Operating losses of CHF 678 million were utilised or expired during 2006.

Components of the deferred tax attributes table shown above, including valuation allowances, incorporate amounts that were acquired during the year. To the extent it is management's assessment that some, or all, of the acquired attributes will not be realised, a valuation allowance has been established in purchase accounting.

Income taxes paid in 2005 and 2006 were CHF 282 million and CHF 742 million respectively.

Defined benefit pension plans and post-retirement benefits**11. Benefit plans**

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.

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

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

Incremental effect of the newly issued generally accepted guidance on employee benefit plans as of 31 December 2006:

CHF millions	Before application	Adjustments	After application
Prepaid benefit cost	609	-535	74
Liability for pension benefits	1 297	226	1 523
Deferred income tax liability	2 871	-186	2 685
Intangible asset	2	-2	
Accumulated other comprehensive income	1 878	-577	1 301
Total shareholders' equity	31 461	-577	30 884

The measurement date of these plans is 30 September for each year presented (except for one UK pension plan with a measurement date as of 31 December).

CHF millions	Swiss plans pension benefits		Foreign plans pension benefits		Other benefits	
	2005	2006	2005	2006	2005	2006
Benefit obligation as of 1 January	2 454	2 803	1 332	1 712	519	620
Service cost	96	115	49	63	28	38
Interest cost	90	83	80	92	21	23
Amendments		50			2	
Actuarial gains/losses	257	-81	188	106	42	-12
Benefits paid	-94	-80	-48	-52	-12	-13
Acquisitions/disposals				416		28
Reclassification/curtailment/termination		3	-5	-7		
Effect of foreign currency translation			116	19	20	-14
Benefit obligation as of 31 December	2 803	2 893	1 712	2 349	620	670
Fair value of plan assets as of 1 January	2 362	2 678	944	1 191		
Actual return on plan assets	283	207	146	105		
Company contribution	127	115	60	76	12	13
Benefits paid	-94	-80	-48	-52	-12	-13
Acquisitions/disposals				215		
Effect of foreign currency translation			89	8		
Fair value of plan assets as of 31 December	2 678	2 920	1 191	1 543		
Funded status	-125	27	-521	-806	-620	-670

Amounts recognised in the balance sheet in 2006 consist of:

CHF millions	Swiss plans	Foreign plans	Other benefits	Total
Non-current assets	27	47		74
Current liabilities		-10	-13	-23
Non-current liabilities		-843	-657	-1 500
Net amount recognised	27	-806	-670	-1 449

Amounts recognised in accumulated other comprehensive income in 2006 consist of, gross of tax:

Net gain/loss	457	403	60	920
Prior service cost/credit	79	2	-46	35
Total	536	405	14	955

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

CHF millions	Swiss plans pension benefits		Foreign plans pension benefits		Other benefits	
	2005	2006	2005	2006	2005	2006
Service cost						
(net of participant contributions)	96	115	49	63	28	38
Interest cost	90	83	80	92	21	23
Expected return on assets	-114	-126	-68	-76		
Amortisation of:						
Net gain/loss	28	37	14	25	-2	2
Prior service cost	3	3	2	1	-8	-8
Transition obligation/asset	-12					
Effect of settlement, curtailment and termination		3	-5	-3		
Net periodic benefit cost	91	115	72	102	39	55

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

CHF millions	Swiss plans	Foreign plans	Other benefits	Total
Net loss (gain)	494	428	62	984
Prior service cost (credit)	82	3	-54	31
Amortisation of				
Net loss/gain	-37	-25	-2	-64
Prior service cost	-3	-1	8	4
Total recognised in other comprehensive income, gross of tax	536	405	14	955
Total recognised in net periodic benefit cost and other comprehensive income, gross of tax	651	507	69	1 227

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortised from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are CHF 52 million and CHF 8 million, respectively. The estimated net loss and prior service credit for the other defined postretirement benefits will be amortised from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are CHF 1 million and CHF 8 million respectively.

The accumulated benefit obligation (the current value of accrued benefits excluding future salary increases) for pension benefits was CHF 3 973 million and CHF 4 882 million as of 31 December 2005 and 2006, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

CHF millions	2005	2006
Projected benefit obligation	986	2 078
Accumulated benefit obligation	872	1 814
Fair value of plan assets	513	1 220

Principal actuarial assumptions

	Swiss plans pension benefits		Foreign plans pension benefits weighted average		Other benefits weighted average	
	2005	2006	2005	2006	2005	2006
a) Assumptions used to determine obligations at the end of the year						
Discount rate	3.0%	3.2%	5.2%	5.2%	3.7%	3.9%
Rate of compensation increase	2.3%	2.3%	4.8%	4.5%	4.5%	4.5%
b) Assumptions used to determine net periodic pension costs for the year ended						
Discount rate	3.8%	3.0%	5.8%	5.2%	4.3%	3.7%
Expected long-term return on plan assets	5.0%	5.0%	6.8%	6.5%		
Rate of compensation increase	2.3%	2.3%	4.8%	4.8%	4.5%	4.5%
c) Assumed medical trend rates at year end						
Medical trend – initial rate					7.0%	7.1%
Medical trend – ultimate rate					4.4%	4.4%
Year that the rate reaches the ultimate trend rate					2015	2014

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

Assumed health-care cost trend rates have a significant effect on the amounts reported for the health-care plans. A one percentage point change in assumed health-care cost trend rates would have had the following effects for 2006:

CHF millions	1 percentage point increase	1 percentage point decrease
Effect on total of service and interest cost components	14	-11
Effect on post-retirement benefit obligation	117	-89

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 2005 and 2006, are as follow:

Asset category	Swiss plans actual allocation		Foreign plans actual allocation		Swiss plans target allocation	Foreign plans target allocation
	2005	2006	2005	2006		
Equity securities	37%	34%	58%	56%	35%	54%
Debt securities	42%	45%	40%	42%	41%	44%
Real estate	17%	14%			20%	1%
Other	4%	7%	2%	2%	4%	1%
Total	100%	100%	100%	100%	100%	100%

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

Equity securities include Swiss Re common stock of CHF 12 million (0.3% of total plan assets) and CHF 20 million (0.4% of total plan assets) as of 31 December 2005 and 2006, respectively.

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

Expected contributions and estimated future benefit payments

The employer contributions expected to be made in 2007 to the defined benefit pension plans are CHF 211 million and to the post-retirement benefit plan are CHF 13 million.

As of 31 December 2006, the projected benefit payments, which reflect expected future service, not adjusted for transfers in and for employees voluntary contributions, are as follows:

CHF millions	Swiss plans pension benefits	Foreign plans pension benefits	Other benefits
2007	119	68	13
2008	123	68	14
2009	130	73	16
2010	128	78	17
2011	140	85	19
Years 2012–2016	715	518	110

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 2005 and in 2006 was CHF 19 million and CHF 28 million, respectively.

12. Share-based payments

As of 31 December 2005 and 2006, the Group had the share-based compensation plans described below.

Effect of adoption of fair value recognition

Effective 1 January 2006, Swiss Re adopted the fair value recognition provisions of the new US GAAP accounting guidance on share-based payments. The effect of adopting the new guidance is CHF 16 million on net income before taxes and CHF 13 million on net income. The impact on basic earning per share is CHF 0.04 (diluted earning per share: CHF 0.04).

Total compensation cost for share-based compensation plans recognised in net income is CHF 8 million and CHF 58 million in 2005 and 2006, respectively. The related tax benefit is CHF 3 million and CHF 13 million respectively.

Stock option plans

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

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

Under the fixed option plan, the exercise price of each option equals 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 fixed stock option plan is as follows:

	Weighted average exercise price in CHF	2006 shares
Outstanding, 1 January	122	10 258 044
Options granted	94	100 000
Options exercised	69	-69 840
Options sold	156	-450 280
Options forfeited or expired	109	-775 542
Outstanding, 31 December	122	9 062 382
Exercisable, 31 December	155	5 046 282

The weighted average fair value of options granted per share was CHF 20 and CHF 13 in 2005 and 2006 respectively.

The following table summarises the status of fixed stock options outstanding as of 31 December 2006:

Range of exercise price in CHF	Number of options	Weighted average remaining contractual life in years	Weighted average exercise price in CHF
60–74	1 653 400	6.9	68
82–100	2 398 700	8.5	89
128–187	5 010 282	4.5	156
60–187	9 062 382	6.0	122

The fair value of each option grant is estimated on the date of grant using a binomial option-pricing model, with the following weighted average assumptions used for grants in 2005 and 2006, respectively: dividend yield of 3.0% and 3.8%; expected volatility of 30.0% and 20.0%; risk-free interest rate of 1.9% and 2.4%; expected life of 6.0 and 6.0 years.

Options exercisable

The status of stock options exercisable at 31 December 2006 is summarised as follows:

Range of exercise price	Number exercisable (vested)	Weighted average remaining contractual life	Weighted average exercise price in CHF
60–128	1 012 540	3.9	126
133–187	4 033 742	4.6	162
60–187	5 046 282	4.5	155

The Group did not recognise compensation expense at fair value for the fixed option plan in 2005. If compensation expense had been recognised at fair value, the Group's net income and earnings per share in 2005 would approximate the pro-forma amounts in the following table:

CHF millions	2005
Net income, as reported	2 304
Add: stock based employee compensation cost, net of related tax effects, included in net income as reported	8
Less: total stock-based employee compensation expenses determined under the fair value method, net of related tax effects	-39
Pro-forma net income	2 273
Earnings per share	
Basic – as reported	7.44
Basic – pro-forma	7.35
Diluted – as reported	7.14
Diluted – pro-forma	7.05

The amount of cash received from exercise of the options in 2006 is CHF 8 million.

Restricted shares

The Group introduced a restricted share plan during 2004 to complement the fixed option plan. No new shares were granted under this plan in 2006. In addition, restricted bonus shares were issued during 2005 and 2006.

A restricted share plan was granted in 2006 to certain former GE Insurance Solutions executives to replace their former GE plan.

Under these plans, 361 929 and 122 070 restricted shares were granted in 2005 and 2006. The shares issued vest at the end of the fourth year.

A summary of shares relating to outstanding awards granted under the foregoing plans as of December 2006 is presented below:

	Number of shares	Weighted average grant date fair value
Non-vested at January	486 059	83
Granted	122 070	95
Forfeited	-56 159	82
Outstanding, 31 December	551 970	85

The weighted average fair value of restricted shares, which equals the market price of the shares on the date of the grant, was CHF 83 and CHF 95 in 2005 and 2006 respectively.

Long term incentive plan

Starting from 2006, the Group granted a long term incentive plan (LTI) to selected employees with a three year vesting period. The plan is expected to be settled in cash. The requisite service periods as well the maximum contractual term is 3 years. The method to estimate fair value is based on a risk neutral approach which uses the current share price as an estimate of the share price at the end of the vesting period.

Appreciation rights

The Group has issued 3 million stock appreciation rights as an extraordinary grant following the GE Insurance Solutions acquisition. The plan will be settled in cash. The requisite service period is 2 years while the maximum contractual term is 5 years. The fair value of the appreciation rights is estimated at date of grant using a binomial option-pricing model and is revised at every balance sheet date.

Unrecognised compensation cost

As 31 December 2006, the total unrecognised compensation cost (net of expected forfeitures) related to non vested share based compensation awards and the weighted average period over which that cost is expected to be recognised is as follows:

Name of plan	Unrecognised compensation cost CHF millions	Weighted average period
Stock option plans	20	1.4
Restricted shares	19	1.4
Long term incentive plan	41	1.6
Appreciation rights	54	1.4
Total	134	1.4

Employee participation plan

The number of shares authorised for the Group's share-based payments to employees was 529 138 and 806 179 as of 31 December 2005 and 2006, respectively.

Swiss Re'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. Swiss Re contributes to the employee savings.

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

In 2005 and 2006, 1 068 610 and 519 991 options, respectively, were issued to employees and the Group contributed CHF 15 million and CHF 14 million, respectively, to the plan.

13. 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 2006	CHF millions
2007	84
2008	64
2009	55
2010	50
2011	44
After 2011	190
Total operating lease commitments	487
Less minimum non-cancellable sublease rentals	-137
Total net future minimum lease commitments	350

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

CHF millions	2005	2006
Minimum rentals	47	66
Sublease rental income	-10	-9
Total	37	57

Other commitments

As a participant in limited investment partnerships, the Group commits itself to making available certain amounts of investment funding, callable by the partnerships for periods of up to 10 years. The total commitments remaining uncalled as of 31 December 2005 and 2006 were CHF 869 million and CHF 891 million, respectively.

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.

11 September 2001

The Group directly underwrote approximately 25% of USD 3.5 billion in excess property insurance coverage for the World Trade Center ("WTC"). Following the WTC's destruction, the insured lessees of the complex claimed entitlement to two policy limits for a total of USD 7 billion in coverage. The Group initiated litigation in the United States District Court for the Southern District of New York for a declaration that Swiss Re could only be

liable for its share of a maximum of one policy limit and to determine the rights and obligations of all parties in interest.

On 3 May 2004, a jury found in favour of Swiss Re that the insureds are only entitled to recover a maximum of Swiss Re's 25% share of one policy limit. On 18 October 2006, the U.S. Court of Appeals for the Second Circuit affirmed the jury's verdict in favour of Swiss Re. As a result, the Group's exposure for claims related to the WTC terrorist attack remains consistent with existing loss estimates.

The insureds have claimed entitlement to receive Swiss Re's share of one policy limit in an immediate lump sum distribution rather than as rebuilding costs are incurred, plus approximately USD 250 million in prejudgment interest. On 8 June 2005, the US District Court denied the insureds' motion for summary judgment that they are entitled to a lump sum payment from Swiss Re. Swiss Re subsequently moved for summary judgment that the insureds are only entitled to collect insurance proceeds as rebuilding costs are incurred. Swiss Re's motion is fully submitted to the court and awaits a decision.

The Group also provided approximately 25% of a USD 1.5 billion excess property insurance program obtained by the Port Authority of New York and New Jersey. The Port Authority is the lessor of the WTC and owns additional property in the vicinity. Its property damage claim was being adjusted in the ordinary course when, in March 2005, the Port Authority indicated that it intended to claim entitlement to two policy limits in connection with the same WTC property that had been leased and separately insured under the USD 3.5 billion program. On 27 September 2005, Swiss Re filed suit against the Port Authority for a declaration that the WTC property insured under the USD 3.5 billion program is not also covered by the Port Authority's program and that Swiss Re's liability is limited to a single policy limit. The litigation is in the earliest stages and the parties have yet to appear before the court. The Port Authority has filed a motion to dismiss the case as unripe. No hearing date has been set for the motion.

On 9 June 2006, Swiss Re completed the acquisition of GE Insurance Solutions, which included the acquisition of GE Insurance Solutions affiliate Industrial Risk Insurers ("IRI"). IRI provided USD 237 million of the USD 3.5 billion WTC insurance program. On 6 December 2004, a jury found that nine insurers, including IRI, bound coverage on terms that treated the WTC terrorist attack as two occurrences, subject to a maximum of two policy limits of coverage. On 18 October 2006, the U.S. Court of Appeals for the Second Circuit affirmed the jury's verdict. The amount of the loss and IRI's proportionate share will be determined by separate appraisal proceedings which remain in progress. The Group has recorded its best estimate of ultimate liability, which it will update as further information becomes available.

14. Information on business segments

The Group provides reinsurance, insurance and financial services throughout the world through three business segments. The business segments are determined by the organisational structure. The business segments in place are Property & Casualty, Life & Health and Financial Services. The other section includes items which are not allocated to operating segments. The main items are foreign exchange remeasurement, the mark to market of trading portfolios designated to match foreign currency reinsurance net liabilities, financing costs for financial debt and corporate centre expenses. The comparative business segment information is represented accordingly.

Net investment income and realised investment gains are allocated to the business segments based on the net investment income and realised investment gains of the legal entities that are operated by these business segments. Where one entity is utilised by two or more business segments, the net investment income and realised investment gains are allocated to these business segments using technical reserves and other information as a key for the allocation. The Financial Services business segment provides investment management services to the other business segments, and includes the fees charged in net investment income. These fees are based on service contracts.

Financial Services provides structuring support for certain transactions, for example insurance-linked securities, issued on behalf of the business segments. The Financial Services business segment includes the fees charged in net investment income. The business segments provide origination services for certain transactions underwritten and accounted for within another business segment. The commissions are included in acquisition costs.

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

a) Business segment results

2005 CHF millions	Property & Casualty	Life & Health	Financial Services	Other	Total
Revenues					
Premiums earned	16 346	9 638	907		26 891
Fee income		881			881
Net investment income	1 988	4 000	85	64	6 137
Net realised investment gains	1 188	1 799	29	458	3 474
Trading revenues	27		319		346
Fees, commissions and other revenues	46		220	17	283
Total revenues	19 595	16 318	1 560	539	38 012
Expenses					
Claims and claim adjustment expenses; life and health benefits	-14 430	-8 668	-328		-23 426
Interest credited to policyholders		-3 019			-3 019
Acquisition costs	-3 411	-2 221	-295		-5 927
Other operating costs and expenses	-924	-765	-558	-834	-3 081
Total expenses	-18 765	-14 673	-1 181	-834	-35 453
Operating income/loss	830	1 645	379	-295	2 559
2006					
CHF millions	Property & Casualty	Life & Health	Financial Services	Other	Total
Revenues					
Premiums earned	17 441	10 974	1 100		29 515
Fee income		879			879
Net investment income	2 883	3 946	79	82	6 990
Net realised investment gains/losses	752	1 521	27	-352	1 948
Trading revenues	4		573	77	654
Fees, commissions and other revenues	74		184	22	280
Total revenues	21 154	17 320	1 963	-171	40 266
Expenses					
Claims and claim adjustment expenses; life and health benefits	-11 306	-9 594	-493		-21 393
Interest credited to policyholders		-2 827			-2 827
Acquisition costs	-3 459	-2 256	-364		-6 079
Other operating costs and expenses	-1 373	-961	-646	-1 131	-4 111
Total expenses	-16 138	-15 638	-1 503	-1 131	-34 410
Operating income/loss	5 016	1 682	460	-1 302	5 856

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

2005 CHF millions	Property Traditional	Liability Traditional	Motor Traditional	Accident Traditional	Specialty Lines Traditional	Total Traditional	Non- Traditional	Total
Revenues								
Premiums earned	5 095	4 095	2 070	812	2 785	14 857	1 489	16 346
Net investment income	319	781	210	149	264	1 723	265	1 988
Net realised investment gains	188	461	124	88	155	1 016	172	1 188
Trading revenues							27	27
Fees, commissions and other revenues							46	46
Total revenues	5 602	5 337	2 404	1 049	3 204	17 596	1 999	19 595
Expenses								
Claims and claim adjustment expenses	-4 419	-4 486	-1 648	-564	-2 153	-13 270	-1 160	-14 430
Acquisition costs	-967	-803	-400	-172	-608	-2 950	-461	-3 411
Other operating costs and expenses	-282	-166	-110	-38	-141	-737	-187	-924
Total expenses	-5 668	-5 455	-2 158	-774	-2 902	-16 957	-1 808	-18 765
Operating income/loss	-66	-118	246	275	302	639	191	830
Claims ratio in %	86.7	109.5	79.6	69.4	77.3	89.3		
Expense ratio in %	24.5	23.7	24.7	25.9	26.9	24.8		
Combined ratio in %	111.2	133.2	104.3	95.3	104.2	114.1		
2006								
CHF millions	Property Traditional	Liability Traditional	Motor Traditional	Accident Traditional	Specialty Lines Traditional	Total Traditional	Non- Traditional	Total
Revenues								
Premiums earned	6 063	4 563	1 923	1 057	3 251	16 857	584	17 441
Net investment income	466	1 160	328	319	278	2 551	332	2 883
Net realised investment gains	130	323	91	89	77	710	42	752
Trading revenues							4	4
Fees, commissions and other revenues					52	52	22	74
Total revenues	6 659	6 046	2 342	1 465	3 658	20 170	984	21 154
Expenses								
Claims and claim adjustment expenses	-2 781	-3 721	-1 448	-1 051	-1 808	-10 809	-497	-11 306
Acquisition costs	-1 074	-794	-394	-216	-674	-3 152	-307	-3 459
Other operating costs and expenses	-433	-387	-148	-85	-231	-1 284	-89	-1 373
Total expenses	-4 288	-4 902	-1 990	-1 352	-2 713	-15 245	-893	-16 138
Operating income	2 371	1 144	352	113	945	4 925	91	5 016
Claims ratio in %, excluding unwind of discount	45.3	80.0	74.6	98.1	55.4	63.3		
Expense ratio in %	24.8	25.9	28.2	28.5	27.8	26.3		
Combined ratio in %, excluding unwind of discount	70.1	105.9	102.8	126.6	83.2	89.6		

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

2005 CHF millions	Traditional Life	Traditional Health	Total traditional	Admin Re SM	Total
Revenues					
Premiums earned	6 982	1 612	8 594	1 044	9 638
Fee income	34		34	847	881
Net investment income	1 015	590	1 605	2 395	4 000
Net realised investment gains	277	82	359	1 440	1 799
Total revenues	8 308	2 284	10 592	5 726	16 318
Expenses					
Claims and claim adjustment expenses; life and health benefits	-5 276	-1 453	-6 729	-1 939	-8 668
Interest credited to policyholders	-333		-333	-2 686	-3 019
Acquisition costs	-1 520	-445	-1 965	-256	-2 221
Other operating costs and expenses	-348	-92	-440	-325	-765
Total expenses	-7 477	-1 990	-9 467	-5 206	-14 673
Operating income	831	294	1 125	520	1 645
Operating result, excluding non-participating net realised investment gains	742	212	954	379	1 333
Net investment income - unit-linked	101		101	650	751
Net realised investment gains - unit-linked	188		188	1 208	1 396
Net realised investment gains - non-participating	89	82	171	141	312
Operating revenues¹	7 930	2 202	10 132	3 727	13 859
Management expense ratio in %	4.4	4.2	4.3	8.7	5.5
Return on operating revenues in %	9.4	9.6	9.4	10.2	9.6

¹ Operating revenues exclude net investment income and net realised investment gains from unit-linked business as these are passed through to contract holders via interest credited to policyholders and therefore do not have an impact on the operating result.

2006 CHF millions	Traditional Life	Traditional Health	Total traditional	Admin Re SM	Total
Revenues					
Premiums earned	7 851	2 243	10 094	880	10 974
Fee income	38		38	841	879
Net investment income	1 127	625	1 752	2 194	3 946
Net realised investment gains	498	87	585	936	1 521
Total revenues	9 514	2 955	12 469	4 851	17 320
Expenses					
Claims and claim adjustment expenses; life and health benefits	-6 081	-1 763	-7 844	-1 750	-9 594
Interest credited to policyholders	-569		-569	-2 258	-2 827
Acquisition costs	-1 607	-550	-2 157	-99	-2 256
Other operating costs and expenses	-481	-161	-642	-319	-961
Total expenses	-8 738	-2 474	-11 212	-4 426	-15 638
Operating income	776	481	1 257	425	1 682
Operating result, excluding non-participating net realised investment gains	688	394	1 082	435	1 517
Net investment income – unit-linked	109		109	561	670
Net realised investment gains – unit-linked	410		410	909	1 319
Net realised investment gains – non-participating	88	87	175	-10	165
Operating revenues ¹	8 907	2 868	11 775	3 391	15 166
Management expense ratio in %	5.4	5.6	5.5	9.4	6.3
Return on operating revenues in %	7.7	13.7	9.2	12.8	10.0

¹ Operating revenues exclude net investment income and net realised investment gains from unit-linked business as these are passed through to contract holders via interest credited to policyholders and therefore do not have an impact on the operating result.

d) Net premiums earned and fees assessed against policyholders by country

CHF millions	2005	2006
United States	12 175	12 320
United Kingdom	2 614	3 513
Germany	1 830	2 560
Canada	989	1 235
France	1 223	1 137
Australia	853	979
Italy	849	804
Switzerland	750	705
Netherlands	647	646
Other	5 842	6 495
Total	27 772	30 394

15. Subsidiaries, equity investees and variable interest entities

Subsidiaries and equity investees

	Share capital (CHF millions)	Affiliation in % as of 31.12.2006	Method of consolidation
Europe			
Denmark			
Swiss Re Denmark Holding ApS ²	329	100	f
Swiss Re Denmark Reinsurance A/S ²	193	100	f
France			
Frasecur Société d'Investissement à Capital Variable ¹	147	100	f
Germany			
Swiss Re Germany AG	72	100	f
Swiss Re Germany Holding AG	80	100	f
Swiss Re Frankona Holding GmbH ²	43	100	f
Swiss Re Frankona Rückversicherungs AG ²	558	100	f
Swiss Re Frankona Management Service GmbH ²	0	100	f
Hungary			
Swiss Re Treasury (Hungary) Ltd.	0	100	f
Ireland			
Swiss Re International Treasury (Ireland) Ltd.	0	100	f
Swiss Re Ireland Ltd.	135	100	f
Swiss Re Life & Health (Ireland) Ltd.	1	100	f
Swiss Reinsurance Ireland Limited ²	151	100	f
Luxembourg			
Swiss Re Management (Luxembourg) S.A.	320	100	f
Swiss Re Treasury (Luxembourg) S.A.	169	100	f
Swiss Re Finance (Luxembourg) S.A.	0	100	f
Luxembourg European Reinsurance S.A. ²	197	100	f
Netherlands			
Algemene Levenshervzekering Maatschappij N.V.	8	100	f
Atradius	91	34.95	e
Calam C.V.	0	100	f
Reassurantie Maatschappij Nederland N.V.	12	100	f
Swiss Re Life & Health Nederland N.V.	6	100	f
Swiss Re Nederland Holding B.V.	1	100	f
Malta			
Swiss Re Finance (Malta) Ltd.	3 086	100	f
Method of consolidation:			
f full			
e equity			
1 Net asset value instead of share capital			
2 From acquisition of GE Insurance Solutions			
3 From acquisition of GE Life			

	Share capital (CHF millions)	Affiliation in % as of 31.12.2006	Method of consolidation
Switzerland			
Diax Holding	9	37.26	e
European Reinsurance Company of Zurich	312	100	f
SR Institutional Funds ¹	16 882	99.68	f
Swiss Re Asset Management (Switzerland) AG	15	100	f
Swiss Re Partnership Holding AG	0	100	f
United Kingdom			
Banian Investments UK Ltd.	1	100	f
Calico Leasing (GB) Ltd.	84	100	f
Cyrenaic Investments (UK) Ltd.	1 435	100	f
Dex Hold Ltd.	0	100	f
European Credit and Guarantee Insurance PCC Ltd.	10	100	f
GE Life Group Limited and group companies ³	358	100	f
Life Assurance Holding Corporation Ltd.	175	100	f
Palatine Insurance Company Ltd.	18	100	f
Reassure UK Life Assurance Company Ltd.	914	100	f
SR Delta Investments (UK) Ltd.	16	100	f
SR International Business Insurance Company Ltd.	294	100	f
Swiss Re Capital Markets Ltd.	73	100	f
Swiss Re Financial Services Ltd.	17	100	f
Swiss Re GB Plc	1 526	100	f
Swiss Re Life & Health UK Ltd.	454	100	f
Swiss Re Properties Ltd.	0	100	f
Swiss Re Services Ltd.	5	100	f
Swiss Re Specialised Investments Holdings (UK) Ltd.	2	100	f
Swiss Reinsurance Company UK Ltd.	1 132	100	f
The Mercantile & General Reinsurance Company Ltd.	334	100	f
XSMA Ltd.	36	100	f
Windsor Life Assurance Company Ltd.	7	100	f
Swiss Re Frankona Reinsurance Ltd. ²	0	100	f
Swiss Re Frankona LM Limited ²	17	100	f
Swiss Re Specialty Insurance (UK) Ltd. ²	43	100	f
North America and Caribbean			
Barbados			
Accra Holdings Corporation	20	100	f
Atlantic International Reinsurance Company Ltd.	5	100	f
European Finance Reinsurance Company Ltd.	6	100	f
European International Holding Company Ltd.	200	100	f
European International Reinsurance Company Ltd.	195	100	f
Gasper Funding Corporation	0	100	f
Stockwood Reinsurance Company, Ltd.	1	100	f
Underwriters Reinsurance Company (Barbados) Ltd.	20	100	f

	Share capital (CHF millions)	Affiliation in % as of 31.12.2006	Method of consolidation
Bermuda			
30 St Mary Axe (Bermuda) L.P.	0	100	f
Englewood Ltd.	0	100	f
Life Re International, Ltd.	0	100	f
Old Fort Insurance Company Ltd.	0	100	f
Securitas Allied (Bermuda), L.P.	0	100	f
SwissRe Capital Management (Bermuda) Ltd.	0	100	f
SwissRe Finance (Bermuda) Ltd.	0	100	f
SwissRe Investments (Bermuda) Ltd.	0	100	f
Canada			
Swiss Re Holdings (Canada) Inc.	123	100	f
Swiss Re Life & Health Canada	119	100	f
Swiss Reinsurance Company Canada	11	100	f
Cayman Islands			
Ampersand Investments (UK) Ltd.	0	100	f
Dunstanburgh Finance (Cayman) Ltd.	0	100	f
Farnham Funding Ltd.	6	100	f
SR Cayman Holdings Ltd.	0	100	f
SR York Limited	119	100	f
SV Corinthian Investments Ltd.	5	100	f
Swiss Re Dorus Investment Ltd.	5	100	f
Swiss Re Funding (UK) Ltd.	0	100	f
Swiss Re Hedge Funds SPC	84	100	f
Swiss Re Strategic Investments (UK) Ltd.	0	100	f
Cobham Funding Ltd.	24	100	f
Kilgallon Finance Ltd.	24	100	f
United States			
Conning & Company and group companies	0	100	f
Facility Insurance Corporation	1	100	f
Facility Insurance Holding Corporation	0	100	f
Life Re Capital Trust I	4	100	f
North American Capacity Insurance Company	5	100	f
North American Elite Insurance Company	4	100	f
North American Specialty Insurance Company	6	100	f
Reassure America Life Insurance Company	3	100	f
Sage Life Holdings of America Inc.	3	100	f
Southwestern Life Insurance Company	4	100	f
Swiss Re Alternative Assets LLC	0	100	f
Swiss Re America Holding Corporation	0	100	f
Swiss Re Asset Management (Americas) Inc.	9	100	f
Swiss Re Atrium Corporation	1	100	f
Swiss Re Capital Markets Corporation	0	100	f
Swiss Re Financial Products Corporation	0	100	f
Swiss Re Financial Services Corporation	0	100	f

	Share capital (CHF millions)	Affiliation in % as of 31.12.2006	Method of consolidation
Swiss Re Life & Health America Holding Company	5	100	f
Swiss Re Life & Health America Inc.	5	100	f
Swiss Re Management Corporation	0	100	f
Swiss Reinsurance America Corporation	7	100	f
Valley Forge Life Insurance Company	3	100	f
Washington International Insurance Company	4	100	f
SR PA Finance Inc	0	100	f
Swiss Re Funding Inc.	0	100	f
Swiss Re Treasury (US) Corporation	0	100	f
Swiss Re Solutions Holding Corp ²	11	100	f
Core Insurance Holdings Inc. ²	0	100	f
Coregis Insurance Company ²	0	100	f
Employers Reinsurance Corporation ²	41	100	f
First Specialty Insurance Corporation ²	6	100	f
Industrial Risk Insurers ²	0	100	f
Westport Insurance Corporation ²	6	100	f
Australia			
Swiss Re Australia Ltd.	19	100	f
Swiss Re Life & Health Australia Ltd.	0	100	f
The Mercantile and General Reinsurance Company of Australia Ltd.	14	100	f
South Africa			
Swiss Re Life & Health Africa Ltd.	0	100	f
Swiss Re Africa Ltd.	2	100	f

Variable interest entities

The Group holds a variable interest in various entities due to a modified coinsurance agreement, certain insurance-linked and credit-linked securitisations, private equity limited partnerships, hedge funds, debt financing and other entities, which meet the definition of a variable interest entity (VIE).

The insurance-linked and credit-linked securitisations transfer pre-existing insurance or credit risk to the capital markets through the issuance of insurance-linked or credit-linked securities. In insurance-linked securitisations, the securitisation vehicle initially assumes the insurance risk through insurance contracts. In credit-linked securitisations, the securitisation vehicle initially assumes the credit risk through credit default swaps.

The securitisation vehicle generally retains the issuance proceeds as collateral. The Group's variable interests arise through ownership of insurance-linked and credit-linked securities, or through protection provided for the value of the collateral held. The Group's maximum exposure to loss equals the higher of the carrying amount of the collateral pro-

tected or the carrying amount of the insurance-linked or credit-linked securities held. The collateral held usually consists of investment grade securities.

Commercial paper conduit vehicles issue commercial paper to finance the purchase of assets. The Group assumes the risks and rewards of a portion of the assets held by the vehicle through a total return swap. The maximum exposure to loss equals the carrying amount of the assets underlying the total return swap.

Other investment vehicles consist of private equity limited partnerships and hedge funds. The Group's variable interests arise through an ownership interest in the vehicle or a guarantee of the value of the assets held by the vehicle. The maximum exposure to loss equals the carrying amount of the ownership interest or the maximum amount payable under the guarantee.

Debt financing is a loan from a bank which the Group uses to invest in an investment company. The maximum exposure to loss is equal to the credit default of the loan from the bank.

The following table shows the total assets of VIEs of which the Group is the primary beneficiary, but does not hold a majority voting interest:

As of 31 December CHF millions	2005	2006
Modified coinsurance agreement	4 848	5 324
Other investment vehicles	804	447
Other	228	6
Total	5 880	5 777

The consolidation of the VIEs resulted in a minority interest in the balance sheet of CHF 702 million in 2006 (2005: CHF 586 million). The minority interest is included in accrued expenses and other liabilities. The net minority interest in income was CHF 39 million in 2006 (2005: CHF 16 million) net of tax. The income statement impacts are generally included in the relevant segment with the underlying movement in income or expenses.

The following table shows the total assets of and maximum exposure to loss in VIEs in which the Group holds a significant variable interest:

As of 31 December CHF millions	2005		2006	
	Total Assets	Maximum exposure to loss	Total Assets	Maximum exposure to loss
Insurance-linked/Credit-linked securitisations	4 372	4 327	7 861	7 786
Commercial paper conduit vehicles	2 245	2 245	3 699	3 699
Other investment vehicles	1 777	1 305	3 487	1 952
Debt financing	1 397	226	2 683	250
Other	160	68	795	777
Total	9 951	8 171	18 525	14 464

16. Restructuring provision

The Group has recognised restructuring provisions for the acquired activities of GE Insurance Solutions, which is part of the allocation of the purchase price, and for the existing activities of Swiss Re, which is a charge to earnings.

The Insurance Solutions provision includes real estate related expenses of CHF 44 million, for planned adjustments to the properties owned or leased by the former Insurance Solutions, and CHF 49 million for leaving benefits related to the Insurance Solutions business. Expenses of CHF 29 million have been charged in 2006 against the provision for Insurance Solution activities.

A provision of CHF 104 million has been recognised, for the existing Swiss Re business, for leaving benefits associated with the realignment of the business after the acquisition. A provision of CHF 13 million has been recognised for real estate related expenses for the existing Swiss Re activities. Expenses of CHF 68 million have been charged in 2006 against the provision for the existing Swiss Re activities.

2006 CHF millions	Property & Casualty	Life & Health	Financial Services	Other	Total
Balance as of 1 January	2	15	41		58
Increase of provision	63	24	16	14	117
Effect of acquisition of GE Insurance Solutions	88	5			93
Costs incurred	-54	-14	-15	-14	-97
Effect of foreign currency translation			-4		-4
Balance as of 31 December	99	30	38	0	167

17. Change in accounting basis

Reconciliation of previously published 2005 Swiss GAAP figures to US GAAP

As of 31 December CHF millions	Reference	Net income	Shareholders' equity
Swiss GAAP		1 451	22 929
Fixed income securities marked to market	1)		1 912
Shadow adjustment recognised on fixed income securities	2)		-340
Amortisation and other adjustments to goodwill	3)	274	954
Equalisation reserve reversed	4)	-613	569
Discounting of certain property and casualty reserves reversed	5)	34	-1 030
Trading losses (excluding foreign exchange)	6)	-17	
Foreign currency translation	7)	913	-279
Other impacts		-5	352
Taxation	8)	267	-674
US GAAP		2 304	24 393

References

- 1) Under Swiss GAAP, available-for-sale fixed income securities are carried at amortised cost. Under US GAAP, available-for-sale fixed income securities are carried at fair value with changes in fair value recognised in shareholders' equity.
- 2) US GAAP requires adjustment to unrealised gains and losses which, when realised, would be credited to policyholders. The adjustment affects the PVFP balance, policyholder liabilities and unrealised gains and losses in shareholders' equity. Under Swiss GAAP, shadow PVFP adjustments are not recognised because available-for-sale fixed income securities are carried at amortised cost.
- 3) Under Swiss GAAP, goodwill is amortised using the straight-line method over periods that correspond to the benefits expected to be derived from the related acquisitions. Under US GAAP, effective 1 January 2002, goodwill is no longer amortised but is tested for impairment annually.
- 4) Under Swiss GAAP, reserves prescribed by local regulatory authorities for future claims fluctuations and for large and catastrophic losses are established and included in the unpaid claims and claim adjustment expenses liability. Under US GAAP, equalisation reserves are not recognised as a liability.
- 5) Under Swiss GAAP, Swiss Re discounted certain property and casualty reserves, principally provisions which are discounted under US statutory accounting policies. This approach is permitted but not required under US GAAP. Swiss Re has adopted a policy not to discount property and casualty reserves under US GAAP. Purchase GAAP accounting is not affected by this policy and requires acquired assets and liabilities to be recognised at fair value.
- 6) With the adoption of US GAAP the Group designated certain fixed income securities as trading. Trading securities are remeasured through earnings rather than shareholders' equity, including the associated foreign exchange effect. Future market-to-market movements on such trading securities will be reflected in earnings.
- 7) Under Swiss GAAP, entities generally treated foreign currencies as functional. Under US GAAP, certain entities have now changed to a single functional currency. Non-monetary assets and liabilities, except for those carried at fair value, are remeasured at historical rates. Fixed income and equity securities available-for-sale are remeasured at current rates through unrealised gains/losses in shareholders' equity.
- 8) Represents the effect on income tax expense and deferred tax assets/liabilities of the adoption of the new accounting basis.

Report of the Group auditors

Report of the Group auditors
To the Annual General Meeting of
Swiss Reinsurance Company
Zurich

As auditors of the Group, we have audited the consolidated financial statements (income statement, balance sheet, statement of shareholders' equity, statement of comprehensive income, statement of cash flow and notes to the Group financial statements /pages 109 to 168) of the Swiss Re Group for the year ended 31 December 2006.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with accounting principles generally accepted in the United States of America and comply with Swiss law.

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

PricewaterhouseCoopers AG



David JA Law
Auditor in charge



Dawn M Kink

Zurich, 28 February 2007

Annual report

Swiss Reinsurance Company, Zurich

Reinsurance and holding company

Swiss Reinsurance Company, Zurich, performs a dual role within the Swiss Re Group as both a reinsurance company and a holding company. The assessment of the market position, profitability and financial strength of Swiss Re's worldwide organisation must focus primarily on the consolidated financial statements.

The following commentary on the 2006 financial year of the parent company therefore complements the review of the financial year of the Swiss Re Group.

Financial year 2006

The after-tax profit for the financial year based on the Swiss legal accounting regulations amounted to CHF 2.1 billion, compared to CHF 1.1 billion in the previous year.

The business year was characterised by a substantially improved reinsurance result mainly due to the lower natural catastrophe claims compared with the previous year. The investment result in contrast decreased mainly as a consequence of lower realised gains on sale of investments.

In the year under report Swiss Re completed the acquisition of GE Insurance Solutions. This transaction had a significant impact on the balance sheet and income statement 2006.

Accounting policy

Swiss Reinsurance Company, Zurich, modified its accounting policy in 2006, with respect to the valuation methodology for determining liabilities for life and health policy benefits. For details on the accounting policy refer to page 177. The transition impact and the prior-year comparative figures are disclosed in note "Change of accounting policy for liabilities for life and health policy benefits" on page 184.

Reinsurance result

Gross premiums written decreased from CHF 23.1 billion to CHF 19.9 billion. The 2005 premium peak resulted mainly from the portfolio transaction with Swiss Reinsurance Company's life and health subsidiaries in connection with the ALPS II securitisation. In the year under report, the absence of this one-off effect was partly compensated by the extension of Group internal retrocession as a result of the acquisition of GE Insurance Solutions.

Claims and claim adjustment expenses decreased by 10% to CHF 11.2 billion, reflecting mainly the quiet hurricane season in the United States as well as lower catastrophes in Europe.

Life and health benefits and acquisition costs were affected by the change in the valuation methodology for determining the liabilities for life and health policy benefits. In addition, the reduction of life and health benefits reflects the non-recurring impact of the portfolio transaction in connection with the ALPS II securitisation in 2005.

Investment result

The investment result decreased slightly to CHF 1.7 billion. The significantly increased income from subsidiaries and affiliated companies was offset by the absence of the large net realised gains achieved in 2005 on the sale of investments. The investment result includes the impact of derivative financial instruments to cover certain reinsurance exposures. These contracts predominantly refer to insurance-linked securities, which provide protection against lower-layer earnings volatility events as well as higher-layer capital events.

Other income and expenses

Other interest income and expenses both increased due to financing transactions in connection with the acquisition of GE Insurance Solutions.

Assets

Total assets rose by 10% to CHF 92.2 billion. This increase is reflected in the higher investments in equity and fixed income securities. Higher investments in subsidiaries and affiliated companies and other receivables resulted from the acquisition of GE Insurance Solutions.

Liabilities

Liabilities increased by CHF 2.5 billion to CHF 73.8 billion reflecting the issuance of mandatory convertible instruments and hybrid debt due to the financing of the GE Insurance Solutions acquisition.

An equalisation reserve of CHF 250 million was established for future claims fluctuations and for large and catastrophe losses.

Shareholders' equity

Shareholders' equity at 31 December 2005 amounted to CHF 12.8 billion before allocation of profit. After the dividend payment of CHF 776 million for 2005, the issuance of new shares, and the inclusion of the profit for the 2006 financial year, shareholders' equity increased to CHF 18.4 billion at year-end 2006. Other reserves increased from CHF 11.0 billion to CHF 15.5 billion in 2006, due to the newly issued shares, mainly in connection with the acquisition of GE Insurance Solutions.

The nominal share capital of the company amounted to CHF 37 million on 31 December 2006, following the new share issuance.

Income statement

Swiss Reinsurance Company, Zurich

For the years ended 31 December

CHF millions	Notes	2005	2006
Reinsurance	1		
Premiums earned		17 742	16 083
Claims and claim adjustment expenses		-12 434	-11 210
Life and health benefits		-3 323	1 112
Change in equalisation reserve		-	-250
Acquisition costs		-3 284	-5 786
Other reinsurance result		520	972
Operating costs		-1 108	-1 379
Allocated investment return		917	1 095
Reinsurance result		-970	637
Investments	2		
Investment income		4 485	5 431
Investment expenses		-1 453	-2 634
Allocated investment return		-917	-1 095
Investment result		2 115	1 702
Other income and expenses			
Other interest income		120	244
Other interest expenses		-194	-301
Other income		340	122
Other expenses		-200	-190
Result from other income and expenses		66	-125
Income before tax		1 211	2 214
Tax		-142	-70
Net income		1 069	2 144

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

Balance sheet

Swiss Reinsurance Company, Zurich

As of 31 December

Assets

CHF millions	Notes	2005	2006
Invested assets			
Investments			
Investment real estate		1 024	970
Investments in subsidiaries and affiliated companies		14 326	17 249
Loans to subsidiaries and affiliated companies		7 411	8 859
Mortgages and other loans		748	762
Equity securities		6 980	8 956
Fixed income securities		17 338	19 204
Short-term investments		968	1 709
Assets in derivative financial instruments		348	562
Total investments		49 143	58 271
Tangible assets		842	871
Intangible assets		69	59
Total invested assets		50 054	59 201
Current assets			
Premiums and other receivables from reinsurance	3	7 411	7 295
Funds held by ceding companies	3	18 908	17 698
Deferred acquisition costs	3	2 515	1 103
Cash and cash equivalents		3 489	2 158
Other receivables		121	3 134
Other assets		746	677
Accrued income		913	955
Total current assets		34 103	33 020
Total assets		84 157	92 221

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

The company has revised the classification between certain balance sheet categories, as described in the notes on page 177, and adjusted the comparative balance sheet positions.

Liabilities and shareholders' equity

CHF millions	Notes	2005	2006
Liabilities			
Technical provisions			
Unpaid claims	4	39 245	42 972
Liabilities for life and health policy benefits	4	13 153	11 459
Unearned premiums	4	4 172	4 248
Provisions for profit commissions	4	516	552
Equalisation reserve	4	–	250
Total technical provisions		57 086	59 481
Non-technical provisions			
Provision for taxation		356	205
Provision for currency fluctuation		1 101	905
Other provisions		274	570
Total non-technical provisions		1 731	1 680
Debt			
Debentures		2 464	4 319
Loans		663	620
Total debt		3 127	4 939
Funds held under reinsurance treaties	4	2 885	2 574
Reinsurance balances payable	4	5 115	2 851
Liabilities from derivative financial instruments		667	939
Other liabilities		630	1 193
Accrued expenses		114	155
Total liabilities		71 355	73 812
Shareholders' equity			
	5		
Share capital		32	37
Reserve for own shares		19	31
Other legal reserves		650	650
Other reserves		11 017	15 539
Retained earnings brought forward		15	8
Profit for the financial year		1 069	2 144
Total shareholders' equity		12 802	18 409
Total liabilities and shareholders' equity		84 157	92 221

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

Notes

Swiss Reinsurance Company, Zurich

Significant accounting principles

Basis of presentation

The financial statements are prepared in accordance with Swiss Company Law. Swiss Reinsurance Company, Zurich, modified the presentation of its financial information. The previously reported 2005 financial year figures have been adapted accordingly. Details are shown under "Balance sheet/Assets classification" on page 177.

Time period

The 2006 financial year comprises the accounting period from 1 January to 31 December 2006.

Income statement

The result of property and casualty reinsurance is based on actuarial estimates over the contract life. In addition to the recognition of the reinsurance accounts as reported by the ceding companies, empirical experience is taken into consideration. The allocation to the business year is in relation to the amount of reinsurance coverage provided.

The result of life and health reinsurance is the amount that has been earned over the coverage period. Provisions for life and health business are determined by actuarial methods.

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

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

The overall management expenses are allocated to the reinsurance business and the investment business on an imputed basis.

The taxes relate to the financial year and include taxes on income and capital as well as indirect taxes. Value-added taxes are included in the respective expense lines in the income statement.

Balance sheet/Assets

The following assets are carried at cost, less necessary and legally permissible depreciation:

- Investment real estate/own-use property (purchase or construction cost)
- Investments in subsidiaries and affiliated companies
- Equity securities and fixed income securities
- Investments in funds
- Derivative financial instruments

These assets are generally not subject to revaluation. The valuation rules prescribed by the Swiss insurance supervisory authority are observed.

With the exception of own-use property, tangible assets are carried at cost, less individually scheduled straight-line depreciation over their useful lives. Items of minor value are not capitalised. The same principles apply to the capitalisation of software development expenses as intangible assets.

Other assets include deferred expenses on retroactive reinsurance policies, which are amortised through earnings over the expected claims-paying period.

The other assets are carried at nominal value in the balance sheet, after deduction of known credit risks if applicable.

Balance sheet/Assets classification

Swiss Reinsurance Company, Zurich, has revised the classification between certain balance sheet categories. Specifically, short-term investments purchased with an original maturity of three months or less, were reclassified from short-term investments to cash and cash equivalents. Therefore, the previously reported 2005 figures of short-term investments (CHF –2.7 billion) and cash and cash equivalents (CHF +2.7 billion) and the corresponding income statement positions, income from short-term investments (CHF –40 million) and other interest income (CHF +40 million), have been changed accordingly.

Balance sheet/Liabilities

Technical provisions are valued in accordance with the following principles:

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

Liabilities for life and health policy benefits are determined on the basis of actuarially calculated present values taking experience into account. For external business, liabilities are the greater of cedent-reported information and estimates of own experience drawn from internal studies. With respect to the business ceded by the Company's life and health subsidiaries, a prospective gross premium valuation is applied taking into account expected future cash flows inherent in the reinsurance contract from the valuation date until expiry of the contract obligations. Cash flows include premiums, claims, commissions, investment income and expenses, with a margin added for prudence to reflect the uncertainties of the underlying best estimates. The gross premium valuation approach could result in a negative liability provision which is typically set to zero.

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

Premiums written relating to future periods are stated as unearned premiums and are normally calculated by statistical methods. The accrual of commissions is determined correspondingly and is reported in the line item deferred acquisition costs.

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

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

Other provisions are determined according to business principles and are based on estimated needs and in accordance with tax regulations. Provisions for taxation contain prospective taxes on the basis of the financial year just ended.

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

Debt and other liabilities are held at redemption value excluding liabilities from short sales, which are stated at the proceeds amount or increased to the higher market value of the underlying security.

Liabilities from derivative financial instruments are valued using the same principles applied for the derivative financial instruments included under investments.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange on the balance sheet date into Swiss francs. Participations are maintained in Swiss francs at historical exchange rates.

Revenues and expenses are translated at average exchange rates of the year under report into Swiss francs.

All currency differences arising from the revaluation of the opening balance sheet, the adjustments from application of year-end or average rates and foreign-exchange transactions are booked via a corresponding provision.

The currency exchange rates applicable for key currencies are shown on page 116.

Notes

Swiss Reinsurance Company, Zurich

Additional information on the financial statements

1. Reinsurance result

CHF millions	2005			2006		
	Gross	Retro	Net	Gross	Retro	Net
Premiums written	23 128	-5 261	17 867	19 891	-3 579	16 312
Change in unearned premiums	-484	359	-125	-632	403	-229
Premiums earned	22 644	-4 902	17 742	19 259	-3 176	16 083
Claims paid and claim adjustment expenses	-8 016	886	-7 130	-8 181	1 796	-6 385
Change in unpaid claims	-6 724	1 420	-5 304	-4 752	-73	-4 825
Claims and claim adjustment expenses	-14 740	2 306	-12 434	-12 933	1 723	-11 210
Life and health benefits	-5 381	2 058	-3 323	1 853	-741	1 112
Change in equalisation reserve	-	-	-	-250	-	-250
Fixed commissions	-3 426	598	-2 828	-6 116	657	-5 459
Profit commissions	-475	19	-456	-370	43	-327
Acquisition costs	-3 901	617	-3 284	-6 486	700	-5 786
Other reinsurance income and expenses	-30	-10	-40	150	-69	81
Result from cash deposits	600	-40	560	1 057	-166	891
Other reinsurance result	570	-50	520	1 207	-235	972
Operating costs			-1 108			-1 379
Allocated investment return			917			1 095
Reinsurance result			-970			637

2. Investment result

CHF millions	2005	2006
Income from investment real estate	95	90
Income from subsidiaries and affiliated companies	710	2 234
Income from equity securities	639	574
Income from fixed income securities, mortgages and other loans	660	789
Income from short-term investments	8	47
Income from investment services	60	66
Realised gains on sale of investments	2 313	1 631
Investment income	4 485	5 431
Investment management expenses	-125	-195
Valuation adjustments on investments	-1 137	-695
Realised losses on sale of investments	-191	-1 744
Investment expenses	-1 453	-2 634
Allocated investment return	-917	-1 095
Investment result	2 115	1 702

The company has revised the classification between certain balance sheet categories, as described in the notes on page 177, and adjusted the comparative income statement positions.

3. Assets from reinsurance

CHF millions	2005			2006		
	Gross	Retro	Net	Gross	Retro	Net
Premiums and other receivables from reinsurance	7 274	137	7 411	7 039	256	7 295
Funds held by ceding companies	18 833	75	18 908	17 698	-	17 698
Deferred acquisition costs	2 829	-314	2 515	1 256	-153	1 103
Assets from reinsurance	28 936	-102	28 834	25 993	103	26 096

4. Liabilities from reinsurance

CHF millions	Gross	Retro	2005 Net	Gross	Retro	2006 Net
Unpaid claims	43 074	-3 829	39 245	46 777	-3 805	42 972
Liabilities for life and health policy benefits	14 981	-1 828	13 153	12 449	-990	11 459
Unearned premiums	4 741	-569	4 172	5 202	-954	4 248
Provisions for profit commissions	523	-7	516	565	-13	552
Equalisation reserve	-	-	-	250	-	250
Funds held under reinsurance treaties	-	2 885	2 885	-	2 574	2 574
Reinsurance balances payable	3 654	1 461	5 115	1 217	1 634	2 851
Liabilities from reinsurance	66 973	-1 887	65 086	66 460	-1 554	64 906

5. Shareholders' equity

Change in shareholders' equity

CHF millions	2005	2006
Shareholders' equity on 31 December (previous year)	12 227	12 802
Dividend paid for the previous year	-497	-776
Capital increase including premium	3	4 239
Profit for the financial year	1 069	2 144
Shareholders' equity on 31 December before allocation of profit	12 802	18 409
Dividend payment	-776	-1 218¹
Shareholders' equity on 31 December after allocation of profit	12 026	17 191

¹ Board of Directors' proposal to the Annual General Meeting of 20 April 2007 subject to the actual number of shares outstanding and eligible for dividend.

Sources of shareholders' equity (after allocation of profit)

CHF millions	2005	2006
From nominal capital	32	37
From share premium	5 774	10 008
From profit allocation	5 921	6 847
From other allocations	299	299
Shareholders' equity on 31 December after allocation of profit	12 026	17 191

Contingent liabilities

Contingent liabilities, mainly towards Group companies, amounted on 31 December 2006 to CHF 3 076 million (2005: CHF 3 027 million). In addition, there were 24 unlimited guarantees; 21 of these are for obligations of Group companies. No payments are expected under these guarantees.

Leasing contracts

Off-balance sheet commitments from operating leases for the next five years and thereafter totalled in the following amounts:

CHF millions	2005	2006
2006	14	–
2007	10	13
2008	7	8
2009	4	3
2010	3	2
After 2011	1	1

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

In addition, a financial lease of IT hardware is recognised on the balance sheet. The corresponding assets and liability of CHF 19 million (2005: CHF nil) are included in the positions tangible assets and other liabilities respectively.

Security deposits

To secure the technical provisions on the 2006 balance sheet date, securities of CHF 11 286 million (2005: CHF 11 112 million) were deposited in favour of ceding companies, of which CHF 6 906 million (2005: CHF 6 758 million) was to Group companies.

Securities lending

Under securities lending agreements, on 31 December 2006, securities of CHF 5 503 million (2005: CHF 6 048 million) were lent with the right to be sold or pledged by the borrowing entity, of which CHF 3 362 million (2005: CHF 4 542 million) was to Group companies. The securities which were held and lent by the Swiss Re Institutional Fund, a separate legal entity, are excluded.

Investment funds

Equity securities of CHF 5 789 million (2005: CHF 4 325 million) and fixed income securities of CHF 4 607 million (2005: CHF 5 199 million) were held in investment funds, which are fully owned by Swiss Re Group companies and the Swiss Re Pension Fund. The securities in these funds and their revenues continue to be reported in the corresponding asset category.

Fire insurance value of tangible assets

The insurance value of tangible assets, comprising the real estate portfolio and other tangible assets, amounted on 31 December 2006 to CHF 2 364 million (2005: CHF 2 453 million).

Obligations towards employee pension funds

Other liabilities include CHF 6 million (2005: CHF 6 million) payable to the employee pension funds.

In addition, a provision of CHF 37 million (2005: CHF nil) was established as of 31 December 2006 for transitional obligations concerning the change in the pension plan structure from a defined benefit scheme to a defined contribution scheme effective 1 January 2007.

Debentures

As of 31 December 2006 the following debentures were outstanding:
3¾% interest, CHF 500 million, 2 July 1997–2007.
3¾% interest, CHF 600 million, perpetual from 15 June 1999 but not less than 12 years.

Investments in subsidiaries

Details on the Swiss Re Group's subsidiaries are disclosed on pages 161 to 165.

Treasury shares

As of 31 December 2006 the Group held 287 624 treasury shares (2005: 206 449). In the year under report, 2 262 854 treasury shares (2005: 2 948 105) were purchased at an average price of CHF 95.21 (2005: CHF 81.41) and 2 181 679 treasury shares (2005: 3 674 784) were sold at an average price of CHF 94.50 (2005: CHF 83.27).

Deposit account

Deposit arrangements generated the following balances which are included in:

CHF millions	2005	2006
Reinsurance result	10	31
Premiums and other receivables from reinsurance	378	287
Funds held by ceding companies	1 151	182
Funds held under reinsurance treaties	64	–
Reinsurance balances payable	1 580	566

Claims on and obligations towards Group companies

CHF millions	2005	2006
Premiums and other receivables from reinsurance	2 510	2 569
Funds held by ceding companies	14 243	13 714
Other receivables	13	2 996
Funds held under reinsurance treaties	315	331
Reinsurance balances payable	2 535	1 198
Loans	332	345
Other liabilities	165	673

Conditional capital and authorised capital

The Extraordinary General Meeting held on 27 February 2006 approved the creation of authorised capital of CHF 9 000 000 and an increase of conditional capital by CHF 2 000 000.

As of 31 December 2006, Swiss Reinsurance Company's total conditional capital outstanding amounted to CHF 4 649 560 (2005: CHF 2 659 565). CHF 4 000 000 was reserved for the exercise of conversion rights and warrants granted in connection with bonds and similar instruments, CHF 900 000 thereof was reserved for General Electric Company, and CHF 649 560 for employee participation purposes.

In addition, authorised capital with shareholders' subscription rights amounted to CHF 1 105 337 at year-end 2006.

Change in undisclosed reserves

The undisclosed reserves on investments and on provisions decreased by a net amount of CHF 159 million in the year under report (2005: no net release).

Major shareholders

As of 31 December 2006, there were two shareholders with a participation exceeding the 5% threshold of Swiss Reinsurance Company's share capital.

General Electric Company, Fairfield, Connecticut, held, directly or indirectly through group subsidiaries, 33 300 957 Swiss Re shares on 31 December 2006, representing 8.89% of Swiss Reinsurance Company's voting rights.

The Capital Group Companies, Inc., Los Angeles, informed SWX Swiss Exchange on 22 November 2005 that its holdings increased to 5.10% of Swiss Reinsurance Company's voting rights.

As these shares have mostly not been registered under General Electric Company or Capital Group Companies or any of their respective group companies, Swiss Re is unable to track, on its own, changes in these shareholders' aggregate holdings.

Franklin Resources, Inc., Ft. Lauderdale, Florida, known as Franklin Templeton Investments, announced on 20 March 2006 that its aggregate holdings in Swiss Re shares fell below the threshold of 5% of Swiss Reinsurance Company's voting rights.

Personnel information

Swiss Reinsurance Company, Zurich, employed a worldwide staff of 3 745 on the balance sheet date (2005: 3 696). Personnel expenses for the 2006 financial year amounted to CHF 1 187 million (2005: CHF 871 million).

In connection with the integration of GE Insurance Solutions, restructuring charges of CHF 59 million were recognised in 2006. As at 31 December 2006 a respective restructuring provision of CHF 34 million remained on the Company's books.

Management fee contribution

In 2006, management expenses of CHF 170 million (2005: CHF 194 million) were recharged to Group companies and reported net in the positions operating costs and investment expenses. In previous years, such recharges were additionally recorded on a gross basis in other income and other expenses.

Change of accounting policy for liabilities for life and health policy benefits

The valuation methodology for determining the liabilities for life and health policy benefits was modified in 2006 to ensure consistency of the Company's liabilities and thus to improve accuracy and comparability of valuations among different lines. The transition impact of CHF 92 million is included in the 2006 income statement. On a comparative basis, the previous year's balance sheet positions for deferred acquisition costs and liabilities for life and health policy benefits amounted to CHF 916 million and CHF 11 356 million respectively. The corresponding gross amounts were CHF 1 215 million for deferred acquisition costs and CHF 12 591 million for liabilities for life and health policy benefits.

Proposal for allocation of profit

The Annual General Meeting, to be held in Zurich on 20 April 2007, has at its disposal the following profit:

in CHF	2005	2006
Retained earnings brought forward from the previous year	14 544 084	7 895 490
Profit for the financial year	1 069 525 771	2 144 273 601
Disposable profit	1 084 069 855	2 152 169 091

	Number of registered shares	Nominal capital in CHF
Share structure		
For the financial year 2006		
– eligible for dividend	358 256 229	35 825 623
– not eligible for dividend	16 184 149	1 618 415
Total shares issued	374 440 378	37 444 038

The Board of Directors proposes to the Annual General Meeting to allocate this profit as follows:

in CHF	2005	2006
Dividend	776 174 365 ¹	1 218 071 179²
Allocation to reserves	300 000 000	925 000 000
Balance carried forward	7 895 490 ¹	9 097 912
Disposable profit	1 084 069 855	2 152 169 091

¹ The number of registered shares eligible for dividend at the dividend payment date has increased since the proposal for allocation of profit, dated 1 March 2006, due to the issuance of new registered shares from options being exercised. This resulted in an additional dividend of CHF 139 515 compared to the Board of Directors' proposal and in lower retained earnings brought forward from the previous year by the same amount.

² Board of Directors' proposal to the Annual General Meeting of 20 April 2007 subject to the actual number of shares outstanding and eligible for dividend.

Dividend

If the Board of Directors' proposal for allocation of profit is accepted, a dividend of CHF 3.40 per share will be paid.

After deduction of the Federal Withholding Tax of 35%, the dividend will be paid from 25 April 2007 by means of dividend order to shareholders recorded in the Share Register or to their deposit banks.

Zurich, 28 February 2007

Report of the statutory auditors

To the Annual General Meeting of
Swiss Reinsurance Company
Zurich

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes/pages 173 to 184) of Swiss Reinsurance Company for the year ended 31 December 2006.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's Articles of Association.

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

PricewaterhouseCoopers AG



David JA Law
Auditor in charge



Dawn M Kink

Zurich, 28 February 2007

Financial years 1998–2006

CHF millions	1998 ¹	1999 ¹	2000 ¹	2001 ¹	2002 ¹	2003 ¹	2004 ¹	2005	2006
Income statement									
Revenues									
Premiums earned	16 727	18 051	22 081	25 219	29 058	30 740	29 439	26 891	29 515
Fee income								881	879
Net investment income	3 131	3 846	4 802	5 765	5 494	4 606	4 857	6 137	6 990
Net realised investment gains/losses	2 509	3 588	4 275	2 665	-730	376	1 116	3 474	1 948
Trading revenues					228	472	438	346	654
Other revenues	286	246	395	455	365	236	243	283	280
Total revenues	22 653	25 731	31 553	34 104	34 415	36 430	36 093	38 012	40 266
Expenses									
Claims and claim adjustment expenses	-8 514	-9 333	-12 153	-16 266	-14 485	-14 898	-13 853	-14 758	-11 799
Life and health benefits	-4 881	-6 200	-7 478	-8 532	-10 084	-9 085	-9 331	-8 668	-9 594
Interest credited to policyholders								-3 019	-2 827
Acquisition costs	-3 661	-3 973	-4 883	-5 658	-6 220	-6 854	-6 325	-5 927	-6 079
Amortisation of goodwill	-91	-211	-310	-368	-350	-315	-277		
Other operating costs and expenses	-2 698	-2 785	-3 074	-3 384	-3 240	-2 942	-2 940	-3 081	-4 111
Total expenses	-19 845	-22 502	-27 898	-34 208	-34 379	-34 094	-32 726	-35 453	-34 410
Income/loss before income tax expense	2 808	3 229	3 655	-104	36	2 336	3 367	2 559	5 856
Income tax expense	-647	-783	-689	-61	-127	-634	-892	-255	-1 296
Net income/loss on ordinary activities	2 161	2 446	2 966	-165	-91	1 702	2 475	2 304	4 560
Extraordinary income		450							
Extraordinary charges		-450							
Net income/loss	2 161	2 446	2 966	-165	-91	1 702	2 475	2 304	4 560
Balance sheet									
Assets									
Investments	69 589	85 684	89 584	95 888	86 728	90 653	108 023	130 601	172 507
Other assets	38 748	44 516	53 056	74 342	75 129	79 045	76 417	90 698	118 793
Total assets	108 337	130 200	142 640	170 230	161 857	169 698	184 440	221 299	291 300
Liabilities									
Unpaid claims and claim adjustment expenses	45 866	54 072	59 600	68 618	62 652	63 474	61 619	71 759	95 011
Liabilities for life and health policy benefits	15 143	23 279	29 300	41 370	37 269	37 244	43 239	31 081	44 899
Unearned premiums	3 174	4 251	6 131	6 399	6 754	6 457	5 748	6 563	8 025
Other liabilities	19 142	18 819	19 764	24 200	32 833	39 205	49 361	81 651	104 508
Long-term debt	5 049	4 947	5 058	7 045	5 663	4 807	5 296	5 852	7 973
Total liabilities	88 374	105 368	119 853	147 632	145 171	151 187	165 263	196 906	260 416
Shareholders' equity	19 963	24 832	22 787	22 598	16 686	18 511	19 177	24 393	30 884
Earnings/losses per share in CHF	7.35 ²	8.55 ²	10.39 ²	-0.57	-0.29	5.48	8.00	7.44	13.49

¹ Numbers are based on the Group's previous accounting standards

² Adjusted by 20-for-1 share split