Financial statements

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Income statement

For the years ended 31 December

CHF millions	Note	2008	2009
Revenues			
Premiums earned	8, 16	25 501	**24 606**
Fee income from policyholders	8, 16	808	**916**
Net investment income	2, 16	7 881	**6 935**
Net realised investment gains/losses (total impairments for year ended 31 December 2009: 3 846 of which 2 015 recognised in earnings)	2, 16	–9 482	**733**
Other revenues	16	270	**193**
Total revenues		24 978	**33 383**
Expenses			
Claims and claim adjustment expenses	8, 16	–10 007	**–9 083**
Life and health benefits	8, 16	–9 065	**–9 348**
Return credited to policyholders	16	2 822	**–4 823**
Acquisition costs	8, 16	–5 366	**–4 883**
Other expenses	16	–3 211	**–3 198**
Interest expenses	16	–1 501	**–1 094**
Total expenses		–26 328	**–32 429**
Income/loss before income tax expense		–1 350	**954**
Income tax expense/benefit	11	486	**–231**
Net income/loss		–864	**723**
Interest on convertible perpetual capital instrument			**–217**
Net income/loss attributable to common shareholders		–864	**506**
Earnings per share in CHF			
Basic	10	–2.61	**1.49**
Diluted	10	–2.61	**1.48**

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

Balance sheet

As of 31 December

Assets

CHF millions	Note	2008	2009
Investments	2, 3, 4		
Fixed income securities:			
Available-for-sale, at fair value (incl. 8 188 in 2008 and 9 315 in 2009 subject to securities lending and repurchase agreements) (amortised cost: 2008: 106 216; 2009: 92 034)		103 438	**90 124**
Trading (including 33 in 2008 and 536 in 2009 subject to securities lending and repurchase agreements)		13 961	**11 952**
Equity securities:			
Available-for-sale, at fair value (including 9 in 2008 and 0 in 2009 subject to securities lending and repurchase agreements) (cost: 2008: 675; 2009: 406)		833	**573**
Trading		15 355	**20 252**
Policy loans, mortgages and other loans		6 611	**5 795**
Investment real estate		2 143	**2 122**
Short-term investments, at amortised cost which approximates fair value (including 0 in 2008 and 696 in 2009 subject to securities lending and repurchase agreements)		5 802	**10 487**
Other invested assets		15 822	**15 144**
Total investments		163 965	**156 449**
Cash and cash equivalents (including 2 477 in 2008 and 4 460 in 2009 subject to securities lending)		17 268	**28 749**
Accrued investment income		1 449	**1 618**
Premiums and other receivables		12 446	**12 170**
Reinsurance recoverable on unpaid claims and policy benefits	8	11 934	**11 631**
Funds held by ceding companies		11 230	**9 929**
Deferred acquisition costs	5, 8	4 311	**4 025**
Acquired present value of future profits	5	6 139	**6 259**
Goodwill		4 265	**4 274**
Income taxes recoverable		757	**621**
Other assets		6 113	**4 879**
Total assets		239 877	**240 604**

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

Liabilities and shareholders' equity

CHF millions	Note	2008	2009
Liabilities			
Unpaid claims and claim adjustment expenses	7	75 510	**70 721**
Liabilities for life and health policy benefits	3, 8	39 911	**41 292**
Policyholder account balances	8	34 518	**37 931**
Unearned premiums		7 802	**6 748**
Funds held under reinsurance treaties		5 872	**4 165**
Reinsurance balances payable		5 493	**4 916**
Income taxes payable		769	**629**
Deferred and other non-current taxes		1 329	**959**
Short-term debt	6	8 862	**8 378**
Accrued expenses and other liabilities		21 245	**18 833**
Long-term debt	6	18 113	**19 831**
Total liabilities		219 424	**214 403**
Shareholders' equity			
Convertible perpetual capital instrument			**3 000**
Common stock, CHF 0.10 par value			
2008: 363 516 036; 2009: 370 701 168 shares authorised and issued		36	**37**
Additional paid-in capital		10 776	**11 156**
Treasury shares, net of tax		–1 640	**–1 574**
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax		–2 407	**–1 437**
Cumulative translation adjustments, net of tax		–4 854	**–4 599**
Accumulated adjustment for pension and post-retirement benefits, net of tax		–529	**–469**
Total accumulated other comprehensive income		–7 790	**–6 505**
Retained earnings		19 071	**20 087**
Total shareholders' equity		20 453	**26 201**
Total liabilities and shareholders' equity		239 877	**240 604**

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

Statement of shareholders' equity

For the years ended 31 December

CHF millions	2008	2009
Convertible perpetual capital instrument		
Balance as of 1 January	0	**0**
Issued		**3000**
Balance as of period end	0	**3000**
Common shares		
Balance as of 1 January	37	**36**
Issue of common shares	1	**1**
Cancellation of shares bought back	–2	
Balance as of period end	36	**37**
Additional paid-in capital		
Balance as of 1 January	11208	**10776**
Issue of common shares[1]	992	**338**
Cancellation of shares bought back	–1453	
Convertible perpetual capital instrument issuance costs		**–10**
Share-based compensation	78	**–11**
Realised gains/losses on treasury shares	–49	**63**
Balance as of period end	10776	**11156**
Treasury shares, net of tax		
Balance as of 1 January	–1540	**–1640**
Cumulative effect of adoption of EITF 07-5[2]		**64**
Purchase of treasury shares	–2032	**–59**
Cancellation of shares bought back	1453	
Sales of treasury shares	479	**61**
Balance as of period end	–1640	**–1574**
Net unrealised gains/losses, net of tax		
Balance as of 1 January	3119	**–2407**
Cumulative effect of adoption of FSP SFAS 115-2[3]		**–280**
Other-than-temporary impairment, non-credit related[4]		**–136**
Cumulative effect of adoption of SFAS 159	–33	
Other changes during the period	–5493	**1386**
Balance as of period end	–2407	**–1437**
Foreign currency translation, net of tax		
Balance as of 1 January	–2554	**–4854**
Other changes during the period	–2300	**255**
Balance as of period end	–4854	**–4599**
Adjustment for pension and other post-retirement benefits, net of tax		
Balance as of 1 January	–115	**–529**
Change during the period	–414	**60**
Balance as of period end	–529	**–469**
Retained earnings		
Balance as of 1 January	21712	**19071**
Net income/loss	–864	**723**
Interest on convertible perpetual capital instrument		**–217**
Dividends on common shares	–1331	**–34**
Cumulative effect of adoption of FSP SFAS 115-2[3]		**355**
Cumulative effect of adoption of EITF 07-5[2]		**189**
Cumulative effect of adoption of SFAS 158	–31	
Cumulative effect of adoption of SFAS 159	–7	
Deferred income tax on cross-border business transfer[5]	–408	
Balance as of period end	19071	**20087**
Total shareholders' equity	20453	**26201**

[1] These balances represent the premium from the conversion of mandatory convertible bonds that matured in December 2008 and June 2009, respectively.
[2] The Group adopted a new accounting pronouncement, EITF 07-5, as of 1 January 2009, which resulted in a change in accounting principle for some types of instruments and embedded features linked to Swiss Re's own shares. The cumulative impact upon adoption resulted in a net increase in retained earnings of CHF 189 million, a decrease in treasury shares of CHF 64 million, an increase in other invested assets of CHF 303 million and a tax income of CHF 50 million.
[3] Retained earnings as of 31 December 2008 were increased by CHF 75 million to reflect the release of a valuation allowance against deferred tax assets associated with investment impairment losses.
[4] Refer to note 2 for further details on the presentation of non-credit related other-than-temporary impairment.
[5] The novation of certain treaties from Swiss Re's Bermuda branches to Swiss Re Zurich resulted in a net deferred tax liability transfer to Swiss Re Zurich. The respective increase in deferred tax liability is due to different jurisdictional tax rates. The transfer of the net deferred tax liability does not impact the Group's net income or effective tax rate.

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

Statement of comprehensive income

For the years ended 31 December

CHF millions	2008	**2009**
Net income/loss attributable to common shareholders	–864	**506**
Other comprehensive income, net of tax:		
Change in unrealised gains/losses (tax: – 963 in 2008 and – 4 in 2009)	–5 526	**970**
Change in foreign currency translation (tax: – 238 in 2008 and 80 in 2009)	–2 300	**255**
Change in adjustment for pension benefits (tax: – 123 in 2008 and 13 in 2009)	–414	**60**
Comprehensive income	–9 104	**1 791**

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

Statement of cash flow

For the years ended 31 December

CHF millions	2008	2009
Cash flows from operating activities		
Net income/loss attributable to common shareholders	–864	**506**
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items	871	**21**
Net realised investment gains/losses	9 482	**–733**
Change in:		
Technical provisions, net	–11 687	**–3 727**
Funds held by ceding companies and other reinsurance balances	1 941	**–642**
Reinsurance recoverable on unpaid claims and policy benefits	1 250	**–391**
Other assets and liabilities, net	–3 407	**–81**
Income taxes payable/recoverable	–1 213	**–607**
Income from equity-accounted investees, net of dividends received	1 031	**–174**
Trading positions, net	4 721	**254**
Securities purchased/sold under agreement to resell/repurchase, net	–8 214	**–2 592**
Net cash provided/used by operating activities	–6 089	**–8 166**
Cash flows from investing activities		
Fixed income securities:		
Sales and maturities	89 219	**194 127**
Purchases	–81 530	**–176 004**
Net purchase/sale/maturities of short-term investments	4 020	**–4 511**
Equity securities:		
Sales	9 137	**580**
Purchases	–1 440	**–116**
Cash paid/received for acquisitions/disposals of reinsurance transactions, net	170	**103**
Net purchases/sales/maturities of other investments	–757	**1 367**
Net cash provided/used by investing activities	18 819	**15 546**
Cash flows from financing activities		
Issuance/repayment of long-term debt	1 327	**3 440**
Issuance/repayment of short-term debt	–5 354	**–1 383**
Equity issued	1	**1**
Proceeds from the issuance of convertible perpetual capital instrument, net of issuance cost		**2 990**
Purchase/sale of treasury shares	–1 553	**2**
Interest on convertible perpetual capital instrument		**–241**
Dividends paid to shareholders	–1 331	**–34**
Net cash provided/used by financing activities	–6 910	**4 775**
Total net cash provided/used	5 820	**12 155**
Effect of foreign currency translation	–83	**–674**
Change in cash and cash equivalents	5 737	**11 481**
Cash and cash equivalents as of 1 January	11 531	**17 268**
Cash and cash equivalents as of 31 December	17 268	**28 749**

Interest paid during 2009 was CHF 1 072 million. A mandatory convertible bond with a book value of CHF 610 million matured in 2009 and was settled in equity. The impact on cash flow upon conversion was nil.

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

Notes to the Group financial statements

1 Organisation and summary of significant accounting policies

Nature of operations

The Swiss Re Group, which is headquartered in Zurich, Switzerland, comprises Swiss Reinsurance Company Ltd (the parent company, referred to as "Swiss Re Zurich") and its subsidiaries (collectively, the "Swiss Re Group" or the "Group"). The Group provides reinsurance and other related products and services to insurance companies, direct clients and others worldwide through reinsurance brokers and a network of offices in over 20 countries.

Basis of presentation

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

Principles of consolidation

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

Use of estimates in the preparation of financial statements

The preparation of financial statements requires management to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the related disclosure including contingent assets and liabilities. The Swiss Re Group's liabilities for unpaid claims and claim adjustment expenses and policy benefits for life and health include estimates for premium, claim and benefit data not received from ceding companies at the date of the financial statements. In addition, the Group uses certain financial instruments and invests in securities of certain entities for which exchange trading does not exist. The Group determines these estimates based on historical information, actuarial analyses, financial modelling, and other analytical techniques. Actual results could differ significantly from the estimates described above.

Foreign currency remeasurements and translation

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

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

Valuation of financial assets

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

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

There can also be differences between the market values implied by collateral requested by counterparties and the prices observed in the markets. The Group has provided collateral on all financial instruments in excess of the market value estimate of CHF 43 million.
For these assets or derivative structures, the Group uses market prices or inputs derived from market prices. A separate internal price verification process, independent of the trading function, provides an additional control over the market prices or market input used to determine the fair values of such assets. Whilst management considers that appropriate values have been ascribed to such assets, current market conditions increase the level of uncertainty and judgement over these valuations. Subsequent valuations could differ significantly from the results of the process described above. The Group may become aware of counterparty valuations, either directly through the exchange of information or indirectly, for example, through collateral demands. Any implied differences are considered in the independent price verification process and may result in adjustments to initially indicated valuations.

Investments

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

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

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

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

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

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

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

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

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

Cash and cash equivalents

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

Deferred acquisition costs

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

Business combinations

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

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

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

Acquired present value of future profits

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

Goodwill

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

Other assets

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

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

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

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

Capitalised software costs

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

Deferred income taxes

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

Unpaid claims and claim adjustment expenses

Liabilities for unpaid claims and claim adjustment expenses for property and casualty reinsurance contracts are accrued when insured events occur and are based on the estimated ultimate cost of settling the claims, using reports and individual case estimates received from ceding companies. A provision is also included for claims incurred but not reported, which is developed on the basis of past experience adjusted for current trends and other factors that modify past experience. The establishment of the appropriate level of reserves is an inherently uncertain process involving estimates and 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 12%. Assumed mortality rates are generally based on experience multiples applied to the actuarial select and ultimate tables based on industry experience. Liabilities for policy benefits are increased if it is determined that future cash flows, including investment income, are insufficient to cover future benefits and expenses.

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

Policyholder account balances

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

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

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

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

Funds held assets and liabilities

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

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

Premiums

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

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

Reinsurance ceded

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

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

Pensions and other post-retirement benefits

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

Share-based payment transactions

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

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

Treasury shares

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

Earnings per common share

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

Subsequent events

Subsequent events for the current reporting period have been evaluated up to 12 March 2010. This is the date on which the financial statements were issued.

Recent accounting guidance

In June 2009, the Financial Accounting Standards Board ("FASB") established the FASB Accounting Standards Codification (ASC) as the single source of authoritative non-governmental US GAAP effective from 1 July 2009. The Codification is not intended to change US GAAP, but it will change the manner in which authoritative accounting guidance is organised, presented and referenced. These financial statements have been updated accordingly. However, certain references to recently adopted standards have not been changed as equivalent references do not exist under the Codification.

In February 2008, the FASB issued an accounting standard (FASB Staff Position (FSP) No. FAS 140-3) that provides guidance on accounting for a transfer of a financial asset and a repurchase financing that was entered in to contemporaneously with or in contemplation of the initial transfer. The Group adopted the new standard as of 1 January 2009 for new transactions entered into from that date forward.

In March 2008, the FASB issued an updated accounting standard (SFAS No. 161) that requires enhanced disclosures about an entity's derivative and hedging activities. The Group adopted the new standard as of 1 January 2009. The new disclosure requirements are reflected in Note 4.

In May 2008, the FASB issued a new standard (SFAS No. 163) regarding accounting for financial guarantee insurance contracts. As required by the standard, the Group adopted as of 30 September 2008 disclosure requirements about risk management practices and exposures that have experienced credit deterioration. The remaining requirements regarding measurement and disclosures for financial guarantee insurance contracts became effective for the Group as of 1 January 2009. Refer to Note 9 for further information.

In June 2008, the FASB issued an accounting standard (EITF Issue No. 07-5) that addresses how to determine whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock and therefore may not be accounted for as a derivative instrument. The Group adopted the new standard as of 1 January 2009. The cumulative effect upon adoption is recorded in opening retained earnings and treasury stock and is presented in the statement of shareholders' equity.

On 9 April 2009, the FASB issued an accounting standard (FSP FAS 115-2 and FAS 124-2) that requires a company to recognise the credit component of an other-than-temporary impairment of a fixed maturity security in earnings and the non-credit component in accumulated other comprehensive income when a company does not intend to sell the security or it is more likely than not that the company will not be required to sell the security prior to recovery. The standard also changed the threshold for determining when an other-than-temporary impairment has occurred on a fixed maturity security with respect to intent and ability to hold until recovery. The standard requires additional related disclosures in interim and annual reporting periods. The Group chose to adopt the new standard early with effect as of 1 January 2009. The cumulative effects upon adoption are recorded in opening net unrealised gains/losses and retained earnings and are presented in the statement of shareholders' equity. The new disclosure requirements are reflected in the income statement and in Note 2.

On 9 April 2009, the FASB issued an accounting standard (FSP FAS 157-4) that provides additional guidance for estimating fair value of assets and liabilities when the volume and level of activity for the asset or liability have significantly decreased. The early adoption of the new standard as of 1 January 2009 did not have a material impact on the Group's financial statements. The new disclosure requirements are reflected in Note 3.

Also on 9 April 2009, the FASB issued an accounting standard (FSP FAS 107-1 and APB 28-1) that requires disclosures about the fair value of financial instruments for all interim reporting periods. The Group adopted the new standard as of the second quarter of 2009. Fair values of financial instruments are disclosed in Note 2, 3 and 6.

In May 2009, the FASB issued an updated accounting standard (SFAS No. 165) that establishes principles and requirements for recognition and disclosure of subsequent events. The Group adopted the new standard as of the second quarter of 2009.

In August 2009, the FASB issued a new accounting standard (ASU No. 2009-5 "Measuring Liabilities at Fair Value" an update to Topic 820 – Fair Value Measurements and Disclosures) that provides additional guidance on how the fair value of liabilities should be determined and how the fair value levels should be applied. Swiss Re adopted this new standard as of the fourth quarter of 2009. The adoption did not have a material impact on the Group's financial statements.

In September 2009, the FASB issued a new standard (ASU No. 2009-12 "Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)" an update to Topic 820 – Fair Value Measurements and Disclosures) regarding the fair value measurements and disclosures for investments in certain entities that calculate net asset value per share (or its equivalent). The Group adopted the new standard as of the fourth quarter of 2009 and it did not have a material impact on the Group's financial statements. The related disclosures are included in Note 3.

2 Investments

Investment income

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

CHF millions	2008	2009
Fixed income securities	6 788	5 518
Equity securities	767	543
Policy loans, mortgages and other loans	541	449
Investment real estate	232	200
Short-term investments	275	45
Other current investments	409	100
Share in earnings of equity-accounted investees	–944	228
Cash and cash equivalents	332	85
Deposits with ceding companies	595	676
Gross investment income	8 995	**7 844**
Investment expenses	–732	–619
Interest charged for funds held	–382	–290
Net investment income	7 881	**6 935**

Dividends received from investments accounted for using the equity method were CHF 87 million and CHF 54 million for 2008 and 2009, respectively.

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

CHF millions	2008	2009
Unit-linked investment income	767	601
With-profit investment income	249	166

Realised gains and losses

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

CHF millions	2008	2009
Fixed income securities available-for-sale:		
Gross realised gains	1 416	3 997
Gross realised losses	–2 443	–1 945
Equity securities available-for-sale:		
Gross realised gains	927	210
Gross realised losses	–1 250	–34
Other-than-temporary impairments	–2 868	–2 015
Net realised investment gains/losses on trading securities	–2 689	–56
Change in net unrealised investment gains/losses on trading securities	–5 712	4 667
Other investments:		
Gross realised/unrealised gains/losses	1 799	–2 775
Foreign exchange gains/losses	1 338	–1 316
Net realised investment gains/losses	–9 482	**733**

Proceeds from the sale of fixed income securities available-for-sale amounted to CHF 77 491 million and CHF 182 235 million for 2008 and 2009, respectively. Sale of equity securities available-for-sale were CHF 8 916 million and CHF 578 million for 2008 and 2009, respectively.

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

CHF millions	2008	**2009**
Unit-linked realised gains/losses	–4 052	3 457
With-profit realised gains/losses	–741	297

Impairment on fixed income securities relating to credit losses

The approach for measurement and recognition of other-than-temporary impairments changed in the first quarter of 2009 as a result of the Group's election for early adoption of recognition and presentation of the corresponding standard. Under the new accounting guidance, other-than-temporary impairments for debt securities are bifurcated between credit and non-credit components, with the credit component recognised through earnings and the non-credit component recognised in other comprehensive income. The Group has implemented new methodologies to measure the credit component of other-than-temporary impairments, defined as the difference between a security's amortised cost basis and expected cash flows. Methodologies for measuring the credit component of impairment are aligned to market observer forecasts of credit performance drivers which management believes are representative of median market expectations.

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

A reconciliation of the other-than-temporary impairment related to credit losses recognised in earnings during 2009 was as follows:

CHF millions	**2009**
Balance as of 1 January 2009	586
Credit losses for which an other-than-temporary impairment was not previously recognised	1 070
Reductions for securities sold during the period	–574
Increase of credit losses for which an other-than-temporary impairment has been recognised previously, when the Group does not intend to sell, or more likely than not will not be required to sell before recovery	453
Impact of increase in cash flows expected to be collected	–19
Impact of foreign exchange movements	–59
Balance as of 31 December 2009	**1 457**

Investments available-for-sale

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

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

2009 CHF millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Other-than-temporary impairment recognised in other comprehensive income	Estimated fair value
Debt securities issued by governments and government agencies:					
US Treasury and other US government corporations and agencies	26 827	272	–964		26 135
States of the United States and political subdivisions of the states	59	2	–4		57
United Kingdom	12 233	286	–492		12 027
Canada	2 377	240	–73		2 544
Germany	3 009	23	–21		3 011
France	2 285	25	–13		2 297
Other	6 108	216	–141		6 183
Total	52 898	1 064	–1 708		52 254
Corporate debt securities	18 006	1 145	–395	–25	18 731
Residential mortgage-backed securities	5 869	119	–737	–371	4 880
Commercial mortgage-backed securities	6 493	50	–900	–123	5 520
Agency securitised products	4 338	167	–7	–8	4 490
Other asset-backed securities	4 430	110	–196	–95	4 249
Fixed income securities available-for-sale	**92 034**	**2 655**	**–3 943**	**–622**	**90 124**
Equity securities available-for-sale	**406**	**194**	**–27**		**573**

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

Investments trading

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

CHF millions	2008	**2009**
Debt securities issued by governments and government agencies	9 026	7 930
Corporate debt securities	3 429	2 324
Mortgage-backed and asset-backed securities	1 506	1 698
Fixed income securities trading	13 961	**11 952**
Equity securities trading	15 355	**20 252**

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

CHF millions	2008	**2009**
Fixed income securities trading held for unit-linked business	2 230	2 460
Fixed income securities trading held for with-profit business	1 597	1 674
Fixed income securities trading	3 827	**4 134**
Equity securities trading held for unit-linked business	13 229	17 918
Equity securities trading held for with-profit business	1 005	1 243
Equity securities trading	14 234	**19 161**

Maturity of fixed income securities available-for-sale

The amortised cost or cost and estimated fair values of investments in fixed income securities available-for-sale by remaining maturity are shown below. Fixed maturity investments are assumed not to be called for redemption prior to the stated maturity date. As of 31 December 2008 and 2009, CHF 22 730 million and CHF 18 794 million, respectively, of fixed income securities available-for-sale were callable. The Group revised the 2008 presentation of callable fixed income securities available-for-sale in the previous period to conform with the 2009 presentation.

CHF millions	2008 Amortised cost or cost	2008 Estimated fair value	**2009** Amortised cost or cost	**2009** Estimated fair value
Due in one year or less	6 369	6 384	4 492	4 499
Due after one year through five years	15 468	15 095	19 798	19 931
Due after five years through ten years	17 931	17 506	15 606	15 921
Due after ten years	36 291	37 510	30 910	30 521
Mortgage and asset-backed securities with no fixed maturity	30 157	26 943	21 228	19 252
Total fixed income securities available-for-sale	106 216	103 438	**92 034**	**90 124**

Assets pledged

As of 31 December 2008 and 2009, investments with the carrying value of CHF 1 566 million and CHF 1 763 million, respectively, were on deposit with regulatory agencies in accordance with local requirements.

As of 31 December 2008 and 2009, investments (including cash and cash equivalents) with a carrying value of approximately CHF 8 689 million and CHF 9 319 million, respectively, were placed on deposit or pledged to secure certain reinsurance liabilities.

As of 31 December 2008 and 2009, securities of CHF 10 707 million and CHF 15 007 million, respectively, were pledged as collateral in securities lending transactions and repurchase agreements. The associated liabilities of CHF 4 465 million and CHF 5 174 million, respectively, were recognised in accrued expenses and other liabilities.

A real estate portfolio with a carrying amount of CHF 292 million serves as collateral for short-term senior operational debt of CHF 650 million.

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

As of 31 December 2008 and 2009, the fair value of the government and corporate bond securities received as collateral, was CHF 8 272 million and CHF 12 633 million, respectively. Of this, the amount that was sold or repledged as of 31 December 2008 and 2009 was CHF 2 554 million and CHF 783 million, respectively, which is used to settle short government bond positions. The sources of the collateral are typically highly rated banking market counterparties.

Unrealised losses on securities available-for-sale

The following table shows the fair value and unrealised losses of the Group's fixed income securities, aggregated by investment category and length of time that individual securities were in a continuous unrealised loss position as of 31 December 2008 and 2009. As of 31 December 2008, the gross unrealised loss on equity securities available-for-sale of CHF 26 million relates to declines in value for less than 12 months. As of 31 December 2009, CHF 16 million of the gross unrealised loss on equity securities available-for-sale relates to declines in value for less than 12 months and CHF 11 million to declines in value for more than 12 months.

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

2009 CHF millions	**Less than 12 months** Fair value	 Unrealised losses	**12 months or more** Fair value	 Unrealised losses	**Total** Fair value	 Unrealised losses
Debt securities issued by governments and government agencies	30 200	1 617	993	91	31 193	1 708
Corporate debt securities	3 648	303	1 050	117	4 698	420
Mortgage and asset-backed securities	8 481	1 749	3 033	688	11 514	2 437
Total	**42 329**	**3 669**	**5 076**	**896**	**47 405**	**4 565**

Mortgages, loans and real estate

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

	2008		2009	
CHF millions	Carrying value	Fair value	Carrying value	Fair value
Policy loans, mortgages and other loans	6611	6611	5795	5795
Investment real estate	2143	3093	2122	3061

As of 31 December 2008 and 2009, the Group's investment in mortgages and other loans included CHF 200 million and CHF 193 million, respectively, of loans due from employees and CHF 444 million and CHF 414 million, respectively, due from officers. These loans generally consist of mortgages offered at variable and fixed interest rates.

As of 31 December 2008 and 2009, investments in real estate included CHF 9 million and CHF 7 million, respectively, of real estate held for sale.

Depreciation expense related to income producing properties was CHF 38 million and CHF 42 million for 2008 and 2009, respectively. Accumulated depreciation on investment real estate totalled CHF 493 million and CHF 516 million as of 31 December 2008 and 2009, respectively.

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

3 Fair value disclosures

As of 1 January 2008, the Swiss Re Group adopted the Fair Value Measurements and Disclosures Topic ASC 820. This topic defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It requires disclosures of the Group's assets and liabilities that are measured at fair value.

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

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

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

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

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

The types of instruments valued, based on quoted market prices in active markets, include most US government and sovereign obligations, active listed equities and most money market securities. Such instruments are generally classified within level 1 of the fair value hierarchy. The Group does not adjust the quoted price for such instruments, even in situations where it holds a large position and a sale could reasonably impact the quoted price.

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

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

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

The fair values of assets are adjusted to incorporate the counterparty risk of non-performance. Similarly, the fair values of liabilities reflect the risk of non-performance of the Group, captured by the Group's credit spread. For the year ended 31 December 2009, these valuation adjustments have resulted in a net realised loss from assets and liabilities measured at fair value using significant unobservable inputs. Whenever the underlying assets or liabilities are reported in a specific business segment, the valuation adjustment is allocated accordingly. Valuation adjustments not attributable to any business segment are reported in Group Items.

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

Assets and liabilities measured at fair value on a recurring basis

As of 31 December 2008 and 31 December 2009, the fair values of assets and liabilities measured on a recurring basis by level of input were as follows:

As of 31 December 2008 CHF millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impact of netting[1]	Total
Assets					
Fixed income securities	11 646	94 232	11 521		117 399
Equity securities	15 185	783	220		16 188
Derivative financial instruments	382	29 394	14 286	–36 040	8 022
Other assets	36		1 580		1 616
Total assets at fair value	27 249	124 409	27 607	–36 040	143 225
Liabilities					
Derivative financial instruments	–416	–24 854	–17 916	33 615	–9 571
Liabilities for life and health policy benefits			–494		–494
Accrued expenses and other liabilities	–607	–58			–665
Total liabilities at fair value	–1 023	–24 912	–18 410	33 615	–10 730

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

The Group revised the 2008 presentation of the netting of derivative financial instruments assets and liabilities in the current period to conform with the 2009 presentation.

As of 31 December 2009 CHF millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impact of netting[1]	Total
Assets					
Fixed income securities	23 704	72 465	5 907		102 076
Debt securities issued by US government and government agencies	23 704	2 566			26 270
Debt securities issued by non-US governments and government agencies		33 831	84		33 915
Corporate debt securities		18 898	2 155		21 053
Residential mortgage-backed securities		4 026	1 346		5 372
Commercial mortgage-backed securities		5 463	206		5 669
Agency securitised products		4 513			4 513
Other asset-backed securities		3 168	2 116		5 284
Equity securities	19 763	886	176		20 825
Equity securities backing unit-linked and with-profit life and health policies	19 119	43			19 162
Equity securities held for proprietary investment purposes	644	843	176		1 663
Derivative financial instruments[2]	602	8 824	3 950	–9 264	4 112
Other assets	26	1	1 366		1 393
Total assets at fair value	**44 095**	**82 176**	**11 399**	**–9 264**	**128 406**
Liabilities					
Derivative financial instruments[2]	–473	–7 813	–5 208	7 111	–6 383
Liabilities for life and health policy benefits			–303		–303
Accrued expenses and other liabilities	–614	–1 378			–1 992
Total liabilities at fair value	**–1 087**	**–9 191**	**–5 511**	**7 111**	**–8 678**

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

[2] The Group has revised the presentation of the fair values of foreign exchange derivative assets and liabilities. The revision has no impact on balance sheet items, shareholders' equity or net income. Fair values of foreign exchange derivative assets and liabilities under the same contract with the same underlyings, terms and counterparties are presented on a net basis. In prior quarters these were presented on a gross basis.

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

As of 31 December 2008 and 31 December 2009, the reconciliation of the fair values of assets and liabilities measured on a recurring basis using significant unobservable inputs were as follows:

2008 CHF millions	Fixed income securities	Equity securities	Derivative financial instruments	Other assets	Total
Assets					
Opening balance as of 1 January 2008	8 887	140	9 389	1 498	19 914
Realised/unrealised gains/losses:					
Included in net income	–1 554	116	3 878	–324	2 116
Included in other comprehensive income	–2 689	19		–248	–2 918
Purchases, issuances, and settlements	1 733	–236	1 092	187	2 776
Transfers in and/or out of level 3	5 877	273	106	493	6 749
Impact of foreign exchange movements	–733	–92	–179	–26	–1 030
Closing balance as of 31 December 2008	11 521	220	14 286	1 580	27 607

	Liabilities for life and health policy benefits	Derivative financial instruments	Accrued expenses and other liabilities	Total
Liabilities				
Opening balance as of 1 January 2008	–102	–10 200	–170	–10 472
Realised/unrealised gains/losses:				
Included in net income	–376	–7 074		–7 450
Included in other comprehensive income		10		10
Purchases, issuances, and settlements		–760	145	–615
Transfers in and/or out of level 3		14	34	48
Impact of foreign exchange movements	–16	94	–9	69
Closing balance as of 31 December 2008	–494	–17 916	0	–18 410

2009 CHF millions	Debt securities issued by non-US governments and government agencies	Corporate debt securities	Residential mortgage-backed securities	Commercial mortgage-backed securities	Agency securitised products	Other asset-backed securities	Equity securities held for proprietary investment purposes	Derivative financial instruments	Other assets	Total
Assets										
Balance as of 1 January 2009	153	6 475	1 796	488	0	2 609	220	14 286	1 580	27 607
Realised/unrealised gains/losses:										
Included in net income	–10	300	–213	–24	–7	80	115	–11 033	–206	–10 998
Included in other comprehensive income	–16	303	187	17	–3	196	–26		40	698
Purchases, issuances, and settlements	–37	–1 070	169	–71	24	–915	–194	1 718	8	–368
Transfers in and/or out of level 3	–61	–3 600	–997	–253	–14	513	84	–663	–61	–5 052
Impact of foreign exchange movements	55	–253	404	49		–367	–23	–358	5	–488
Closing balance as of 31 December 2009	**84**	**2 155**	**1 346**	**206**	**0**	**2 116**	**176**	**3 950**	**1 366**	**11 399**

	Liabilities for life and health policy benefits	Derivative financial instruments	Total
Liabilities			
Balance as of 1 January 2009	–494	–17 916	–18 410
Realised/unrealised gains/losses:			
Included in net income	178	11 060	11 238
Included in other comprehensive income			0
Purchases, issuances, and settlements		245	245
Transfers in and/or out of level 3		907	907
Impact of foreign exchange movements	13	496	509
Closing balance as of 31 December 2009	**–303**	**–5 208**	**–5 511**

Gains and losses on assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3)

The gains and losses relating to the assets and liabilities measured at fair value using significant unobservable inputs (Level 3) for the twelve months ended 31 December 2008 and 2009 were as follows:

CHF millions	2008	**2009**
Gains/losses included in net income for the period	–5 334	200
Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date	–3 605	1 733

Other assets measured at net asset value

CHF millions	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Private equity funds	509	494	non-redeemable	na
Hedge funds	368		depends on the product[1]	90 – 120 days[2]
Private equity direct	243	33	non-redeemable	na
Real estate funds	137	90	non-redeemable[3]	na
Total	**1 257**	**617**		

[1] The redemption frequency varies from monthly to up to three years.
[2] Cash distribution can be delayed for up to three years depending on the sale of the underlyings.
[3] One exception is a real estate fund that can be redeemed annually based on a 90 day notice period. This redeemable fund had a fair value of CHF 16.6 million at the end of 2009.

The investments in private equity funds, hedge funds and real estate funds are actively managed and comprise a globally diversified investment portfolio. Hedge fund investment strategies include, among others, equity long/short, macro, emerging markets, credit, event driven and insurance-linked-securities (ILS).

The private equity direct portfolio consists of proprietary investments and co-investments alongside partner funds primarily in the financial services industry.

Non-redeemable investments are considered investments which the Group cannot readily exit and remain subject to the terms of each of the respective investment agreements. Underlying assets in each fund are expected to be liquidated based on the anticipated life of the fund. The average life of the Group's private equity funds is approximately ten years.

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

Fair value option

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

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

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

Equity securities trading
As of 1 January 2008, the Group elected the fair value option for an investment previously classified as available-for-sale within other invested assets in the balance sheet. The Group economically hedges the investment with derivative instruments that offset this exposure. The changes in fair value of the derivatives are recorded in earnings. Electing the fair value option eliminates the mismatch previously caused by the economic hedging of the investment and reduces the volatility in the income statement.

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

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

Pursuant to the election of the fair value option for the items described, the balances as of 31 December 2008 and 31 December 2009 were as follows:

CHF millions	2008	**2009**
Assets		
Fixed income securities trading	13 961	11 952
of which at fair value pursuant to the fair value option	681	809
Equity securities trading	15 355	20 252
of which at fair value pursuant to the fair value option	121	508
Liabilities		
Liabilities for life and health policy benefits	–39 911	–41 292
of which at fair value pursuant to the fair value option	–494	–303

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

Total gains/losses included in earnings for the twelve months ended 31 December 2008 and 2009, including foreign exchange impact, were CHF –1 150 million and CHF 706 million, respectively.

Fair value changes from fixed income securities trading (CHF 128 million) and equity securities trading (CHF 387 million) are reported in net realised investment gains/losses. Fair value changes from the GMDB reserves (CHF 191 million) are shown in life and health benefits.

4 Derivative financial instruments

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

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

Fair values of derivative financial instruments

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

CHF millions	Notional amount assets/liabilities[1]	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivatives not designated as hedging instruments				
Interest rate contracts	382 777	4 861	–4 682	179
Foreign exchange contracts[2]	44 863	1 145	–2 227	–1 082
Equity contracts	24 409	2 952	–1 341	1 611
Credit contracts	72 804	2 761	–2 254	507
Other contracts	44 152	1 094	–2 990	–1 896
Total	**569 005**	**12 813**	**–13 494**	**–681**
Derivatives designated as hedging instruments				
Interest rate contracts	2 973	415		415
Foreign exchange contracts	4 687	148		148
Total	**7 660**	**563**	**0**	**563**
Total derivative financial instruments	**576 665**	**13 376**	**–13 494**	**–118**
Amount offset				
Where a right of setoff exists		–6 694	6 694	
Due to cash collateral[3]		–2 570	417	
Total net amount of derivative financial instruments[4]		**4 112**	**–6 383**	**–2 271**

[1] The notional amounts of derivative financial instruments give an indication of the Group's volume of derivative activity.
[2] The Group has revised the presentation of the fair values of foreign exchange derivative assets and liabilities. The revision has no impact on balance sheet items, shareholders' equity or net income. Fair values of foreign exchange derivative assets and liabilities under the same contract with the same underlyings, terms and counterparties are presented on a net basis. In prior quarters these were presented on a gross basis.
[3] The fair value amounts that were offset are CHF 6 189 million for assets and CHF 3 765 million for liabilities as of 31 December 2008. The fair value amounts that were not offset are nil as of 31 December 2008 and 31 December 2009, respectively.
[4] The fair value assets are included in other invested assets and the fair value liabilities are included in accrued expenses and other liabilities.

Non-hedging activities

The Group primarily uses derivative financial instruments for risk management and trading strategies. For the year ended 31 December 2009, gains and losses of derivative financial instruments not designated as hedging instruments were as follows:

CHF millions	
Derivatives not designated as hedging instruments[1]	
Interest rate contracts	–104
Foreign exchange contracts	5
Equity contracts	–1 025
Credit contracts	–2 944
Other contracts	804
Total gain/loss recognised in income	**–3 264**

[1] Gains and losses of derivative financial instruments not designated as hedging instruments are recorded in net realised investment gains/losses.

Hedging activities

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

Fair Value Hedges

The Group entered into interest rate and foreign exchange swaps to reduce the exposure to interest rate and foreign exchange volatility for certain of its issued debt positions. These derivative instruments were designated as hedging instruments in qualifying fair value hedges.

For the year ended 31 December 2009, the gains and losses attributable to the hedged risks were as follows:

CHF millions	Gains/losses on derivatives	Gains/losses on hedged items
Fair value hedging relationships[1]		
Interest rate contracts	–662	748
Foreign exchange contracts	100	–27
Total gain/loss recognised in income	**–562**	**721**

[1] Gains and losses of derivative financial instruments designated as fair value hedging instruments are recorded in net realised investment gains/losses.

Hedges of the net investment in foreign operations

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

For the year ended 31 December 2008 and 31 December 2009, the Group recorded net unrealised foreign currency remeasurement losses in shareholders' equity of CHF 210 million and CHF 46 million, respectively. These offset translation gains and losses on the hedged net investment.

Maximum potential loss

In consideration of the rights of setoff and the qualifying master netting arrangements with various counterparties, the maximum potential loss as of 31 December 2009 was approximately CHF 6 682 million. The maximum potential loss is based on the positive market replacement cost assuming non-performance of all counterparties, net of cash collateral.

Credit-risk-related contingent features

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

The total fair value of derivative financial instruments containing credit-risk-related contingent features amounted to CHF 4 104 million as of 31 December 2009, for which the Group posted collateral of CHF 417 million. In the event of a reduction of the Group's credit rating to below investment grade, it would be required to post additional collateral with a fair value of CHF 3 687 million. This equals the amount needed to settle the instruments immediately as of 31 December 2009.

Credit derivatives written/sold

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

The following tables show the fair values and the maximum potential payout of the credit derivatives written/sold as of 31 December 2008 and 31 December 2009, categorised by the type of credit derivative and credit spreads, which were based on external market data. The fair values represent the gross carrying values, excluding the effects of netting under ISDA master agreements and cash collateral netting. The maximum potential payout is based on the notional values of the derivatives and represents the gross undiscounted future payments the Group would be required to make, assuming the default of all credit derivatives' underlyings.

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

The Group has purchased protection to manage the performance/payment risks related to credit derivatives. As of 31 December 2008 and 31 December 2009, the total purchased credit protection based on notional values was CHF 169 682 million and CHF 46 996 million, respectively. Thereof CHF 90 491 million and CHF 14 567 million, respectively, was related to identical underlyings for which the Group sold credit protection. For tranched indexes and baskets, only matching tranches of the respective index were determined as identical. In addition to the purchased credit protection, the Group manages the performance/payment risks through a correlation hedge, which is established with non-identical offsetting positions.

As of 31 December 2008 CHF millions	Total fair values of credit derivatives written/sold	Maximum potential payout (time to maturity)[1] 0 – 5 years	5 – 10 years	Over 10 years	Total maximum potential payout
Credit Default Swaps					
Credit spread in basis points					
0 – 250	–2 310	38 109	20 784[2]	1 180	60 073
251 – 500	–1 233	19 464	1 943	115	21 522
501 – 1 000	–1 795	12 965	1 448	85	14 498
Greater than 1 000	–6 373	13 029	587	3 392[3]	17 008
No credit spread available	–149	2 685	330	173	3 188
Total	–11 860	86 252	25 092	4 945	116 289
Credit Spread Options					
Credit spread in basis points					
0 – 250	–35	2 372			2 372
Total	–35	2 372	0	0	2 372
Credit Index Products[4]					
Credit spread in basis points					
0 – 250	–1 137	4 044	21 301		25 345
251 – 500	–695	7 494	696		8 190
501 – 1 000	–971	2 958	772		3 730
Greater than 1 000	–1 371	2 397	1 242	493	4 132
No credit spread available				134	134
Total	–4 174	16 893	24 011	627	41 531
Total Return Swaps[5]					
Credit spread in basis points					
No credit spread available	–534	7 227	716		7 943
Total	–534	7 227	716	0	7 943
Total credit derivatives written/sold	–16 603	112 744	49 819	5 572	168 135

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

As of 31 December 2009 CHF millions	Total fair values of credit derivatives written/sold	Maximum potential payout (time to maturity)[1] 0 – 5 years	5 – 10 years	Over 10 years	Total maximum potential payout
Credit Default Swaps					
Credit spread in basis points					
0 – 250	19	7 680	1 898[2]	135	9 713
251 – 500	–34	18		194	212
501 – 1 000	–31	25		93	118
Greater than 1 000	–652	405		866[3]	1 271
No credit spread available		1 068			1 068
Total	**–698**	**9 196**	**1 898**	**1 288**	**12 382**
Credit Spread Options					
Credit spread in basis points					
0 – 250					
Total	**0**	**0**	**0**	**0**	**0**
Credit Index Products					
Credit spread in basis points					
0 – 250	–399	4 052	8 353	201	12 606
251 – 500	46	98	143		241
501 – 1 000	–3	436	30		466
Greater than 1 000	–81	113			113
Total	**–437**	**4 699**	**8 526**	**201**	**13 426**
Total Return Swaps[4]					
Credit spread in basis points					
No credit spread available	85	5 597	601		6 198
Total	**85**	**5 597**	**601**	**0**	**6 198**
Total credit derivatives written/sold	**–1 050**	**19 492**	**11 025**	**1 489**	**32 006**

[1] The maximum potential payout is based on notional values of the credit derivatives.
[2] The Group terminated substantially all Portfolio CDS in the second quarter of 2009.
[3] The Group settled substantially all Structured CDS in the first quarter of 2009.
[4] The Group enters into total return swaps mainly with variable interest entities which issue insurance-linked and credit-linked securities.

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

CHF millions	2008 DAC	2008 PVFP	2009 DAC	2009 PVFP
Opening balance as of 1 January	5 152	6 769	4 311	6 139
Cumulative effect of adoption of FSP SFAS 115-2				6
Cumulative effect of adoption of SFAS 163			–25	
Deferred	2 719		2 277	
Effect of acquisitions/disposals and retrocessions		1 204		386
Amortisation	–2 842	–926	–2 661	–548
Interest accrued on unamortised PVFP		330		142
Effect of foreign currency translation	–718	–1 143	123	121
Effect of change in unrealised gains/losses		–95		13
Closing balance as of period end	4 311	6 139	**4 025**	**6 259**

The amortisation of DAC in 2009 represents CHF 2 342 million and CHF 319 million for the Property & Casualty and Life & Health business segments, respectively.

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

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

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6 Debt

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

The Group's debt as of 31 December 2008 and 2009 is presented in the following table. Certain debt positions were reclassified in the current period from senior operational long-term debt to senior operational short-term debt as they are unconditionally callable by the creditor at short notice. Balance sheet classification and interest expense, including comparatives, were adjusted accordingly. As of 31 December 2008, senior operational long-term debt was reduced from CHF 9 467 million to CHF 7 127 million and senior operational short-term debt was increased from CHF 5 085 million to CHF 7 425 million. The cash flow statement was not affected by the reclassification.

CHF millions	2008	**2009**
Senior financial debt	1 437	
Senior operational debt	7 425	8 295
Subordinated financial debt		83
Short-term debt – financial and operational debt	8 862	**8 378**
Senior financial debt	415	1 537
Senior operational debt	7 127	7 241
Subordinated financial debt	5 474	5 552
Subordinated operational debt	5 097	5 501
Long-term debt – financial and operational debt	18 113	**19 831**
Total carrying value	26 975	**28 209**
Total fair value[1]	20 623	**26 565**

[1] Fair values for all short- and long-term debt positions are disclosed on a quarterly basis due to newly issued FSP FAS 107-1 and APB 28-1 "Interim Disclosures about Fair Value of Financial Instruments". At the same time, the fair value disclosure for year-end 2008 was revised. The revision has no impact on total revenues, net income or net equity.

The Group uses debt for general corporate purposes and to fund discrete pools of operational leverage and financial intermediation assets. Operational leverage and financial intermediation are subject to strong asset and liability matching resulting in little to no risk that the assets will be insufficient to service and settle the liabilities. Debt used for operational leverage and financial intermediation is treated as operational debt and excluded by the rating agencies from financial leverage calculations. Certain debt positions are limited recourse, meaning the debtors' claims are limited to assets underlying the financing. As of 31 December 2008 and 2009, operational leverage and financial intermediation liabilities amounted to CHF 34.2 billion (thereof CHF 5.2 billion limited recourse) and CHF 29.3 billion (thereof CHF 6.2 billion limited recourse), respectively.

Maturity of long-term debt

As of 31 December 2008 and 2009, long-term debt as reported above had the following maturities:

CHF millions	2008	**2009**
Due in 2010	1 474	0[1]
Due in 2011	960	2 134
Due in 2012	55	1 678
Due in 2013	38	1 617
Due in 2014	79	1 712
Due after 2014	15 507	12 690
Total carrying value	18 113	**19 831**

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

Senior long-term debt

Maturity	Instrument	Issued in	Currency	Nominal in millions	Interest rate	Book value in CHF millions
2011	EMTN	2007	CHF	250	3.13%	250
2011	Insurance-linked placement	2007	EUR	110	3.83%	57
2011	EMTN	2008	EUR	25	4.73%	37
2012	EMTN	2009	EUR	1 000	6.00%	1 626
2013	Credit-linked note	2008	USD	2	3M Libor + 50bp	2
2013	EMTN	2009	CHF	700	4.25%	765
2013	EMTN	2009	USD	750	4.13%	817
2014	EMTN	2009	EUR	600	7.00%	1 050
2014	EMTN	2009	CHF	500	3.25%	536
2014	EMTN	2009	CHF	50	2.94%	50
2015	EMTN	2001	CHF	150	4.00%	151
2016	Credit-linked note	2007	USD	475	1M Libor	491
2019	Senior note[1]	1999	USD	400	6.45%	475
2026	Senior note[1]	1996	USD	600	7.00%	739
2030	Senior note[1]	2000	USD	350	7.75%	462
2032	Principal protected structured note	2007	USD	8	zero coupon	9
Various	Payment undertaking agreements	various	USD	1 221	various	1 261
Total senior debt as of 31 December 2009						**8 778**
Total senior debt as of 31 December 2008						7 542

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

Subordinated long-term debt

Maturity	Instrument	Issued in	Currency	Nominal in millions	Interest rate...	...first call in	Book value in CHF millions
2021	Convertible bond	2001	USD	1 150	3.25%	2011	1 175
2047	Subordinated private placement (amortising, limited recourse)	2007	GBP	1 486	4.96%		2 481
2057	Subordinated private placement (amortising, limited recourse)	2007	GBP	1 809	4.79%		3 020
	Subordinated perpetual bond (SUPERBs)	1999	CHF	600	3.75%	2011	598
	Subordinated perpetual loan note	2006	EUR	1 000	5.25%	2016	1 476
	Subordinated perpetual loan note	2006	USD	752	6.85%	2016	777
	Subordinated perpetual loan note	2007	GBP	500	6.30%	2019	831
	2 subordinated perpetual loan notes	2007	AUD	750	various	2017	695
Total subordinated debt as of 31 December 2009							**11 053**
Total subordinated debt as of 31 December 2008							10 571

Interest expense on long-term debt

Interest expense on long-term debt for the periods ended 31 December 2008 and 2009 was as follows:

CHF millions	2008	**2009**
Senior financial debt	36	48
Senior operational debt	271	294
Subordinated financial debt	330	297
Subordinated operational debt	323	272
Total	960	**911**

Long-term debt issued in 2009

In May 2009, the Group issued EUR 1 billion under the EMTN programme, with a three-year maturity and a coupon of 6% and EUR 600 million with a five-year maturity and a coupon of 7%.

In June 2009, the Group issued CHF 300 million under the EMTN programme, due in December 2010, with a coupon of 2.75%. Due to the remaining maturity, this position was reclassified to short-term debt as of 31 December 2009. Also in June, CHF 700 million senior notes were issued under the EMTN programme, with a four-year maturity and a coupon of 4.25%.

In August 2009, the Group issued CHF 500 million senior notes under the EMTN programme, with a five-year maturity and a coupon of 3.25%.

In September 2009, the Group issued USD 750 million senior notes under the EMTN programme, with a four-year maturity and a coupon of 4.13%. Further, the Group issued a senior note of CHF 50 million in a private placement under the EMTN programme, with a coupon of 2.94% and a five-year maturity.

Additional funding resources

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

7 Unpaid claims and claim adjustment expenses

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

CHF millions	2008	2009
Non-life	62 802	58 940
Life & Health	12 708	11 781
Total	75 510	**70 721**

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

CHF millions	2008	2009
Balance as of 1 January	73 171	62 802
Reinsurance recoverable	–5 041	–4 701
Deferred expense on retroactive reinsurance	–723	–540
Net	67 407	**57 561**
Incurred related to:		
Current year	10 092	8 649
Prior year	–462	140
Amortisation of deferred expense on retroactive reinsurance and impact of commutations	125	64
Total incurred	9 755	**8 853**
Paid related to:		
Current year	–1 521	–1 546
Prior year	–12 131	–11 112
Total paid	–13 652	**–12 658**
Foreign exchange	–6 527	–260
Effect of acquisitions, disposals, new retroactive reinsurance and other items	578	–1 546
Net	57 561	51 950
Reinsurance recoverable	4 701	6 519
Deferred expense on retroactive reinsurance	540	471
Balance as of 31 December	62 802	**58 940**

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 2009 the Group carried net reserves for US asbestos, environmental and other long-latent health hazards equal to CHF 2 328 millions. During 2009, the group paid net against these liabilities CHF 362 million. Incurred net losses were nil as adverse development was offset by the adverse development cover with Berkshire Hathaway.

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

Prior year development

Claims incurred development on prior years includes the impact of the adverse development cover (ADC) entered into with Berkshire Hathaway, covering non-life claims reserves for accident years 2008 and prior, with limited exceptions. The net prior year development after the ADC cover was mainly influenced by Financial Guarantee developments. Most of the remaining exposure to Financial Guarantee business was commuted during 2009.

8 Reinsurance information

For the years ended 31 December

Premiums written, premiums earned and fees assessed against policyholders

CHF millions	Non-Life	Life & Health	2008 Total	Non-Life	Life & Health	2009 Total
Premiums written						
Direct	2 204	1 520	3 724	1 992	1 517	3 509
Assumed	16 280	10 847	27 127	15 175	10 013	25 188
Ceded	–3 886	–1 306	–5 192	–4 103	–832	–4 935
Total premiums written	14 598	11 061	25 659	**13 064**	**10 698**	**23 762**
Premiums earned						
Direct	2 201	1 519	3 720	2 058	1 518	3 576
Assumed	15 418	10 851	26 269	15 996	9 981	25 977
Ceded	–3 208	–1 280	–4 488	–4 127	–820	–4 947
Total premiums earned	14 411	11 090	25 501	**13 927**	**10 679**	**24 606**
Fee income from policyholders						
Direct		654	654		731	731
Assumed		271	271		274	274
Ceded		–117	–117		–89	–89
Total fee income from policyholders		808	808		**916**	**916**

Claims and claim adjustment expenses

CHF millions	Non-Life	Life & Health	2008 Total	Non-Life	Life & Health	2009 Total
Claims						
Claims paid, gross	–15 749	–12 226	–27 975	–14 749	–12 134	–26 883
Claims paid, retro	2 097	1 429	3 526	2 091	1 037	3 128
Claims paid, net	–13 652	–10 797	–24 449	–12 658	–11 097	–23 755
Change in unpaid claims and claim adjustment expenses; life and health benefits, gross	3 813	2 928	6 741	3 940	2 005	5 945
Change in unpaid claims and claim adjustment expenses; life and health benefits, retro	–168	–1 196	–1 364	–365	–256	–621
Change in unpaid claims and claim adjustment expenses; life and health benefits, net	3 645	1 732	5 377	3 575	1 749	5 324
Claims and claim adjustment expenses; life and health benefits	–10 007	–9 065	–19 072	**–9 083**	**–9 348**	**–18 431**

Acquisition costs

CHF millions	Non-Life	Life & Health	2008 Total	Non-Life	Life & Health	2009 Total
Acquisition costs						
Acquisition costs, gross	–3 532	–3 128	–6 660	–3 510	–2 640	–6 150
Acquisition costs, retro	792	502	1 294	1 115	152	1 267
Acquisition costs, net	–2 740	–2 626	–5 366	**–2 395**	**–2 488**	**–4 883**

Reinsurance assets and liabilities

CHF millions	Non-Life	Life & Health	2008 Total	Non-Life	Life & Health	2009 Total
Assets						
Reinsurance recoverable	4 701	7 233	11 934	6 519	5 112	11 631
Deferred acquisition costs	1 189	3 122	4 311	898	3 127	4 025
Liabilities						
Unpaid claims and claim adjustment expenses	62 802	12 708	75 510	58 940	11 781	70 721
Life and health policy benefits		39 911	39 911		41 292	41 292
Policyholder account balances		34 518	34 518		37 931	37 931

9 Financial guarantee reinsurance

As of 1 January 2009, Swiss Re Group adopted SFAS No. 163 "Accounting for Financial Guarantee Insurance Contracts" (SFAS 163). SFAS 163 provides new guidance on the recognition and measurement of premium revenue and claim liabilities of financial guarantee reinsurance contracts and requires certain related disclosures.

The Group reinsured monoline insurers against the risk of default on insured financial obligations. It has stopped writing new business in this area and the current business is in run off. The Group's exposure encompasses public finance and structured finance exposures. In total, the notional exposure as of 31 December 2009 amounted to CHF 5 018 million, of which 5% is attributable to structured finance. Compared to the amounts recognised as of 31 December 2008, notional exposures decreased CHF 10 839 million due to the commutation of two cedent portfolios. The main driver of the Group's exposure is the credit risk of the underlying insured obligation.

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

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

As of 31 December 2009, the notional exposures and claims liabilities allocated to categories 1 and 2 were as follows:

CHF millions	Notional exposure	% of total notional (CHF 5 018 million)	Claims liabilities
Category 1	1 101	22%	8
Category 2	54	1%	16

Compared to the amount recognised as of 31 December 2008, notional exposures in category 1 increased CHF 373 million. The movement shows the net result of adopting the new recognition and measurement guidance, commutations, changes to the credit quality of remaining obligations insured by our cedents and updates to parameters supporting our loss estimates. The decrease of the notional amount of exposures in category 2 by CHF 553 million is mainly attributable to commutations.

As of 31 December 2009, total technical provisions for financial guarantee reinsurance amounted to CHF 104 million, which includes unpaid claims and claim adjustment expenses of CHF 24 million and unearned premiums of CHF 80 million.

The impact of adopting the recognition and measurement guidance on retained earnings was immaterial.

10 Earnings per share

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

Dividends are declared in Swiss francs. For the years ended 31 December 2008 and 2009, the Group's dividends per share were CHF 4.00 and CHF 0.10, respectively.

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

CHF millions (except share data)	2008	2009
Basic earnings per share		
Net income/loss	–864	**723**
Interest on convertible perpetual capital instrument		**–217**
Income available to common shares	–864	**506**
Weighted average common shares outstanding	331 024 378	**339 543 341**
Net income/loss per share in CHF	–2.61	**1.49**
Effect of dilutive securities		
Change in income available to common shares due to convertible bonds		**0**
Change in average number of shares due to convertible bonds and employee options		**2 846 457**
Diluted earnings per share		
Net income assuming debt conversion and exercise of options		**506**
Weighted average common shares outstanding		**342 389 798**
Net income/loss per share in CHF	–2.61	**1.48**

The effects of debt and equity instrument conversion, which totalled 104 723 290 shares for the year ended 31 December 2009, have not been included in the diluted earnings per share calculation because the impact of including these shares was antidilutive.

In March 2009, Swiss Re Zurich issued to National Indemnity Company, a subsidiary of Berkshire Hathaway Inc, a convertible perpetual capital instrument. The instrument has an aggregate face value of CHF 3 000 000 000, with a fixed coupon at a rate of 12% per annum. The coupon can be settled in cash or shares/warrants in lieu of cash at the option of Swiss Re. The instrument may be redeemed, in whole or in part, for cash, for an amount equal to 120% of the value of the instrument at the option of Swiss Re on or after the second anniversary of issuance of the instrument. The instrument may be converted, at the option of the holder, in whole or in part, into Swiss Re shares at the rate of CHF 25 per share on or after the third anniversary of the issuance of the instrument, subject to certain adjustments and exceptions. The instrument ranks junior to senior securities of Swiss Re Zurich and ranks pari passu among themselves and with parity securities.

At the Annual General Meeting of 13 March 2009, the shareholders approved an increase in conditional capital. This allows the share capital of the Swiss Re Group to be increased by an amount not exceeding CHF 16 000 000 through the issue of a maximum of 160 000 000 registered shares payable in full, each with a nominal value of CHF 0.10, through the exercise of conversion rights granted in connection with a convertible bond or a similar financial instrument issued by the company or one of its subsidiaries. These shares are available for issuance in connection with the convertible perpetual capital instrument.

11 Income taxes

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

CHF millions	2008	**2009**
Current tax expense	560	734
Deferred tax expense/benefit	–1 046	–503
Income tax expense/benefit	–486	**231**

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	2008	**2009**
Income tax at the Swiss statutory rate of 21.0%	–284	200
Increase (decrease) in the income tax charge resulting from:		
Foreign income taxed at different rates	384	–115
Impact of foreign exchange movements	–30	–18
Disallowed expenses	9	11
Tax exempt income/dividends received deduction	–39	–47
Change in valuation allowance	604	70
Basis differences in subsidiaries	–517	39
Change in statutory tax rates	–21	20
FIN 48 including interest and penalties	–88	121
Business restructuring	–250	
Life tax adjustments	–79	–6
Other, net	–175	–44
Total	–486	**231**

Deferred and other non-current taxes

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

CHF millions	2008	2009
Deferred tax assets		
Income accrued/deferred	509	688
Technical provisions	651	950
Unrealised losses on investments	650	491
Pension provisions	264	244
Benefit on loss carryforwards	4 396	4 123
Currency translation adjustments	574	537
Other	1 388	1 517
Gross deferred tax asset	8 432	8 550
Valuation allowance	–2 007	–1 657
Total	6 425	**6 893**
Deferred tax liabilities		
Present value of future profits	–1 586	–1 574
Income accrued/deferred	–147	–643
Bond amortisation	–223	–231
Deferred acquisition costs	–724	–649
Technical provisions	–840	–1 692
Unrealised gains on investments	–169	–96
Untaxed realised gains	–99	–463
Foreign exchange provisions	–666	–534
DFI losses	–389	–132
Other	–1 462	–583
Total	–6 305	**–6 597**
Deferred income taxes	120	**296**
FIN 48 liabilities including interest and penalties	–1 449	**–1 255**
Deferred and other non-current taxes	–1 329	**–959**

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 2009 was approximately CHF 3 489 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 2009, the Group had CHF 12 753 million net operating tax loss carryforwards, expiring as follows: CHF 27 million in 2010, CHF 43 million in 2011, CHF 13 million in 2012, CHF 0 million in 2013, CHF 0 million in 2014, CHF 7 847 million after 2014 and CHF 4 823 million do not expire. The Group also had capital loss carryforwards of CHF 492 million, expiring as follows: CHF 45 million in 2010, CHF 15 million in 2011, CHF 271 million in 2012, CHF 158 million in 2013, CHF 0 after 2013 and CHF 3 million never expire. Net operating tax losses of CHF 1 773 million were utilised or expired during the period ended 31 December 2009.

Income taxes paid in 2008 and 2009 were CHF 120 million and CHF 741 million, respectively.

FIN 48

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

CHF millions	2008	2009
Balance as of 1 January	1 964	1 408
Additions based on tax positions of current year	123	–22
Additions for tax positions of prior years	33	95
Reductions for tax positions of prior years	–538	–304
Settlements	–174	–1
Balance as of 31 December	1 408	**1 176**

The amount of gross unrecognised tax benefits within the tabular reconciliation that, if recognised, would affect the effective tax rate were approximately CHF 856 million and CHF 994 million at 1 January 2009 and 31 December 2009, respectively. Interest and penalties related to unrecognised tax benefits are recorded in income tax expense. Such benefit for the period ending 31 December 2009 was CHF 23 million. As of 1 January 2009 and 31 December 2009, CHF 268 million and CHF 245 million, respectively, were accrued for the payment of interest (net of tax benefits) and penalties. The accrued interest balance as of 31 December 2009 is included within the deferred and other non-current taxes section reflected above and in the statement of financial position.

The balance of gross unrecognised tax benefits as of 31 December 2009 presented in the table above is less than the FIN 48 liability reflected in the deferred and other non-current taxes section due to the impact of tax positions which offset loss carryforwards (CHF 164 million) and the removal of interest expense (CHF 245 million). Unrecognised tax benefits which have created certain loss carryforwards are net, whereby the statement of financial position does not reflect a deferred tax asset for the attribute or a liability for the unrecognised tax benefit.

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

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

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

Switzerland	2005 – 2009
Germany	1997 – 2009
United States	2005 – 2009
United Kingdom	2005 – 2009
Canada	2004 – 2009

12 Benefit plans

Defined benefit pension plans and post-retirement benefits

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

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

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

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

CHF millions	Swiss plans pension benefits 2008	**2009**	Foreign plans pension benefits 2008	**2009**	Other benefits 2008	**2009**
Benefit obligation as of 1 January	2743	2827	2212	1642	462	325
Adjustment to retained earnings	48		39		11	
Service cost	98	101	54	43	15	8
Interest cost	93	91	115	101	17	15
Amendments					–130	–1
Actuarial gains/losses	27	–22	–235	275	–22	–14
Benefits paid	–204	–219	–83	–70	–15	–14
Employee contribution	22	21	1	1		
Acquisitions/disposals/additions			6	1		
Effect of curtailment and termination benefits		–20	–27	–69		–2
Effect of foreign currency translation			–440	56	–13	–2
Benefit obligation as of 31 December	2827	**2779**	1642	**1980**	325	**315**
Fair value of plan assets as of 1 January	3169	2676	1970	1362		
Adjustment to retained earnings	38		29			
Actual return on plan assets	–432	257	–294	239		
Company contribution	83	76	172	137	15	14
Benefits paid	–204	–219	–83	–70	–15	–14
Employee contribution	22	21	1	1		
Acquisitions/disposals/additions		4	–29	–1		
Effect of foreign currency translation			–404	58		
Fair value of plan assets as of 31 December	2676	**2815**	1362	**1726**		**0**
Funded status	–151	**36**	–280	**–254**	–325	**–315**

Amounts recognised in the balance sheet in 2009 consist of:

CHF millions	Swiss plan	Foreign plans	Other benefits	Total
Non-current assets	36	102		138
Current liabilities			–15	–15
Non-current liabilities		–356	–300	–656
Net amount recognised	**36**	**–254**	**–315**	**–533**

Amounts recognised in accumulated other comprehensive income, gross of tax, in 2009 consist of:

CHF millions	Swiss plan	Foreign plans	Other benefits	Total
Net gain/loss	545	322	–172	695
Prior service cost/credit	52		–130	–78
Total	**597**	**322**	**–302**	**617**

Components of net periodic benefit cost

The components of pension and post-retirement cost for the years ended 31 December 2008 and 2009, respectively, were as follows:

	Swiss plans pension benefits		Foreign plans pension benefits		Other benefits	
CHF millions	2008	**2009**	2008	**2009**	2008	**2009**
Service cost (net of participant contributions)	98	101	54	43	15	8
Interest cost	93	91	115	101	17	15
Expected return on assets	–152	–149	–118	–110		
Amortisation of:						
Net gain/loss		9	6	7	–10	–12
Prior service cost	7	7			–11	–14
Effect of settlement, curtailment and termination		8	–9	–1		–11
Net periodic benefit cost	46	**67**	48	**40**	11	**–14**

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

CHF millions	Swiss plan	Foreign plans	Other benefits	Total
Adjustment to retained earnings				
Net gain/loss	–129	146	–14	3
Prior service cost/credit			–1	–1
Amortisation of:				
Net gain/loss	–34	–74	12	–96
Prior service cost	–11	–1	23	11
Exchange rate gain/loss recognised during the year		9	1	10
Total recognised in other comprehensive income, gross of tax	**–174**	**80**	**21**	**–73**
Total recognised in net periodic benefit cost and other comprehensive income, gross of tax	**–107**	**120**	**7**	**20**

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

The accumulated benefit obligation (the current value of accrued benefits excluding future salary increases) for pension benefits was CHF 4 282 million and CHF 4 633 million as of 31 December 2008 and 2009, respectively.

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

CHF millions	2008	**2009**
Projected benefit obligation	3 634	1 478
Accumulated benefit obligation	3 512	1 410
Fair value of plan assets	3 149	1 122

Principal actuarial assumptions

	Swiss plans pension benefits		Foreign plans pension benefits weighted average		Other benefits weighted average	
	2008	**2009**	2008	**2009**	2008	**2009**
Assumptions used to determine obligations at the end of the year						
Discount rate	3.3%	3.3%	5.9%	5.6%	4.6%	4.5%
Rate of compensation increase	2.3%	2.3%	3.3%	3.5%	4.1%	4.1%
Assumptions used to determine net periodic pension costs for the year ended						
Discount rate	3.5%	3.3%	5.8%	5.9%	4.5%	4.6%
Expected long-term return on plan assets	5.0%	5.0%	6.4%	6.3%		
Rate of compensation increase	2.3%	2.3%	4.7%	3.3%	4.5%	4.1%
Assumed medical trend rates at year end						
Medical trend – initial rate					7.2%	6.9%
Medical trend – ultimate rate					4.5%	4.8%
Year that the rate reaches the ultimate trend rate					2015	2015

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

Assumed health-care cost trend rates have a significant effect on the amounts reported for the health-care plans. A one percentage point change in assumed health-care cost trend rates would have had the following effects for 2009:

CHF millions	1 percentage point increase	1 percentage point decrease
Effect on total of service and interest cost components	1	–1
Effect on post-retirement benefit obligation	28	–23

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 2008 and 2009, are as follows:

	Swiss plans actual allocation		Foreign plans actual allocation		Swiss plans	Foreign plans
	2008	**2009**	2008	**2009**	Target allocation	
Asset category						
Equity securities	12%	23%	35%	46%	30%	42%
Debt securities	52%	53%	60%	48%	42%	51%
Real estate	18%	18%	2%	2%	18%	3%
Other	18%	6%	3%	4%	10%	4%
Total	100%	**100%**	100%	**100%**	**100%**	**100%**

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

Equity securities include Swiss Re common stock of CHF 3 million (0.1% of total plan assets) and CHF 4 million (0.1% of total plan assets) as of 31 December 2008 and 2009, respectively.

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

Assets measured at fair value

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

As of 31 December 2009, the fair values of pension plan assets by level of input were as follows:

CHF millions	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Fixed income securities:	5	2 318		2 323
Debt securities issued by the US government and government agencies	5	22		27
Debt securities issued by non-US governments and government agencies		1 040		1 040
Corporate debt securities		1 056		1 056
Residential mortgage-backed securities		160		160
Commercial mortgage-backed securities		8		8
Agency securitised products				
Other asset-backed securities		32		32
Equity securities:				
Equity securities held for proprietary investment purposes	809	612		1 421
Derivative financial instruments				
Real estate	23	41	481	545
Other assets	2	53	98	153
Total assets at fair value	**839**	**3 024**	**579**	**4 442**
Cash	99			99
Total plan assets	**938**	**3 024**	**579**	**4 541**

Assets measured at fair value using significant unobservable inputs (Level 3)

As of 31 December 2009, the reconciliation of fair value of pension plan assets using significant unobservable inputs were as follows:

CHF millions	Real estate	Other assets	Total
Assets			
Balance as of 1 January 2009	459	113	572
Realised/unrealised gains/losses:			
Relating to assets still held at the reporting date	1	–28	–27
Relating to assets sold during the period			
Purchases, issuances and settlements			
Transfers in and/or out of Level 3	21	15	36
Impact of foreign exchange movements		–2	–2
Closing balance as of 31 December 2009	**481**	**98**	**579**

Expected contributions and estimated future benefit payments

The employer contributions expected to be made in 2010 to the defined benefit pension plans are CHF 128 million and to the post-retirement benefit plan are CHF 15 million.

As of 31 December 2009, 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
2010	139	68	15
2011	135	71	16
2012	136	74	17
2013	141	78	18
2014	147	81	19
Years 2015 – 2019	766	462	107

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 2008 and in 2009 was CHF 48 million and CHF 44 million, respectively.

13 Share-based payments

As of 31 December 2008 and 2009, the Group had the share-based compensation plans described below.

Total compensation cost for share-based compensation plans recognised in net income was CHF 41 million and CHF 106 million in 2008 and 2009, respectively. The related tax benefit was CHF 9 million and CHF 29 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. No options were granted under these plans from 2007 onwards and the long-term equity award programme fully vested in the course of 2009.

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

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

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

	Weighted average exercise price in CHF	**2009** Number of shares
Outstanding as of 1 January	120	6 981 042
Options sold	86	–64 550
Options forfeited or expired	157	–595 578
Outstanding as of 31 December	**117**	**6 320 914**
Exercisable as of 31 December	117	6 320 914

The following table summarises the status of stock options outstanding as of 31 December 2009:

Range of exercise prices in CHF	Number of options	Weighted average remaining contractual life in years	Weighted average exercise price in CHF
67 – 99	3 240 552	6.0	82
128 – 187	3 080 362	3.1	154
67 – 187	**6 320 914**	**4.6**	**117**

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

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

Restricted shares

The Group issued 772 248 and 153 109 restricted shares to selected employees in 2008 and 2009, respectively. Moreover, as an alternative to the Group's cash bonus programme 389 506 and 400 663 shares were issued during 2008 and 2009, respectively.

A summary of the movements in shares relating to outstanding awards granted under the restricted share plans as of 31 December 2009 were:

	Number of shares	Weighted average grant date fair value
Non-vested at 1 January	1 662 253	84
Granted	553 772	17
Delivery of restricted shares	–740 467	84
Forfeited	–131 150	81
Outstanding as of 31 December	**1 344 408**	**57**

The weighted average fair value of restricted shares, which equals the market price of the shares on the date of the grant, was CHF 84 and CHF 57 in 2008 and 2009, respectively.

Performance share plan

In 2009, the Group introduced a performance share plan for the Chairman and Vice Chairman of the Board of Directors. The plan has a requisite service period of three years and is paid out in shares. The plan is measured based on Swiss Re's total shareholder return against a selected peer group. The grant date fair value was CHF 36.00 and the final number of shares to be released upon vesting can vary between 0% and 150% of the original grant. 111 111 units were issued under this plan in 2009.

Long-term Incentive plan

Starting in 2006, the Group annually grants a Long-term Incentive plan (LTI) to selected employees with a three-year vesting period. The requisite service periods as well the maximum contractual term for each plan is three years. LTI grants made in 2009 may lead to a payment subject to the company's reported financial performance for the periods covered by each plan. For each LTI plan year, final payment, if any, occurs at the end of the respective three-year performance measurement period. The plan includes a payout factor, which can vary between 0 and 2, driven by average return on equity (ROE), and earnings per share compound annual growth (EPS CAGR) over the vesting period. The final payment in respect of each plan year will depend on whether the performance targets, expressed by average ROE and EPS growth, have been achieved over the plan period, and the Swiss Re share price at the conclusion of the plan. The LTI grant from 2006 vested in March 2009 and there was no payout as LTI plan performance targets were not achieved.

Plans granted prior to 2009 are expected to be settled in cash. Their fair value is based on a risk neutral approach that uses the current share price as the best estimate of the share price at the end of the vesting period. Three-year average ROE and EPS CAGR used to determine fair value are based on the Group's three-year plan.

The LTI plan granted in 2009 is expected to be settled in shares. The compensation costs recognised for this plan continue to take into consideration the change in key performance indicators, while the share price used for measurement, CHF 42.40, was set as of the date the share settlement decision was made in November 2009. 2 503 750 units were granted under this plan in 2009.

Value alignment incentive

In 2009, the Group issued a compensation plan to selected employees. The plan has a requisite service period of three years and is paid out in cash. The payout is based on a three-year risk free interest rate, the Swiss Re share price performance and dividend yield over the vesting period. The grant price was based on the closing share price as of 19 February 2009 of CHF 16.74. A total of 337 427 units were granted in 2009 and as of 31 December 2009 171 489 units were outstanding.

Stock appreciation rights

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

Unrecognised compensation costs

As of 31 December 2009, the total unrecognised compensation cost (net of expected forfeitures) related to non-vested, share-based compensation awards was CHF 127 million and the weighted average period over which that cost is expected to be recognised was 2.2 years.

The number of shares authorised for the Group's share-based payments to employees was 649 773 and 10 052 510 as of 31 December 2008 and 2009, respectively.

Employee participation plan

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

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

In 2008 and 2009, 1 222 339 and 8 703 959 options, respectively, were issued to employees and the Group contributed CHF 18 million and CHF 59 million, respectively, to the plan.

14 Compensation, participations and loans of members of governing bodies

The disclosure requirements under Swiss Company Law in respect of management compensation to the members of the Board of Directors and of the Executive Committee of the Group, as well as to closely related persons, are detailed on pages 237 to 244 of the annual report of Swiss Reinsurance Company Ltd.

15 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 2009	CHF millions
2010	73
2011	67
2012	59
2013	50
2014	49
After 2014	487
Total operating lease commitments	**785**
Less minimum non-cancellable sublease rentals	–83
Total net future minimum lease commitments	**702**

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	2008	**2009**
Minimum rentals	74	76
Sublease rental income	–4	–4
Total	70	**72**

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 2009 were CHF 2 065 million.

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

Federal securities class action lawsuit

On 14 August 2009, Plumbers' Union Local No. 12 Pension Fund, a Swiss Re shareholder, filed a second amended complaint in the federal securities class action lawsuit against Swiss Re, Swiss Re's former Chief Executive Officer and Swiss Re's Chief Financial Officer arising out of Swiss Re's announcement, on 19 November 2007, that it would report a CHF 1.2 billion mark-to-market loss on two credit default swaps. The lawsuit is pending in New York federal court. Plaintiff alleges that defendants violated the anti-fraud provisions of the U.S. federal securities laws. Specifically, it contends that Swiss Re made false and misleading statements about its financial condition between March and November 2007, and that it failed to disclose that the Credit Solutions division had engaged in two credit default swaps that exposed the company to financial risk. Plaintiff seeks to certify a class of all U.S. residents or citizens that purchased Swiss Re stock between 1 March 2007 and 19 November 2007. Swiss Re plans to vigorously defend the lawsuit. On 4 September 2009, Swiss Re filed a motion to dismiss and requested oral argument. Plaintiff filed an opposition to that motion on 25 September, to which Swiss Re submitted a reply brief on 9 October. The parties await a date for oral argument and/or the Court's decision on the motion to dismiss.

Arbitration proceeding

In mid 2007, a Swiss Re subsidiary commenced an arbitration proceeding against Lincoln National Reinsurance Company (Barbados) Ltd. ("Lincoln") seeking relief from an individual disability income indemnity retrocessional agreement of 1 October 2001. In late January 2009, the arbitration panel awarded Swiss Re total rescission of the affected treaty and retained limited jurisdiction to resolve any interim disputes between the parties regarding the implementation of the panel's award. In early February 2009, Swiss Re filed a petition to confirm the arbitral award in the United States District Court for the Northern District of Indiana, Ft. Wayne Division. Lincoln has opposed Swiss Re's petition to confirm the arbitral award on procedural grounds. In July 2009, Lincoln sought clarification of the arbitral award to require Swiss Re to return to Lincoln an amount equal to the original ceding commission, plus interest. By order dated 25 September 2009 the panel denied Lincoln's request for clarification and reaffirmed its order dated 24 January 2009 granting Swiss Re's request for total rescission of the affected treaty. On 15 December 2009, the District Court granted Swiss Re's Petition and entered an order confirming the panel's arbitration ruling.

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.

16 Information on business segments

The Group provides reinsurance, insurance and capital market solutions for clients that complement our (re)insurance offering throughout the world through its business segments. The business segments are determined by the organisational structure and by the way in which management reviews the operating result of the Group.

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

The Property & Casualty segment consists of the following sub-segments: Property traditional, Casualty traditional, Specialty traditional and Non-traditional business. The Property & Casualty business segment includes Property & Casualty insurance-linked securities, Environmental & Commodity Markets business and, in the Specialty traditional sub-segment, Credit Reinsurance, Bank Trade Finance, and Credit securitisations.

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

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

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

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

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

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

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

a) Business segment results
For the years ended 31 December

2008 CHF millions	Property & Casualty	Life & Health	Asset Management	Legacy	Group items	Allocation	Total
Revenues							
Premiums earned	14 379	11 090		32			25 501
Fee income from policyholders		808					808
Net investment income/loss	2 607	3 648	5 360	231	575	–4 540	7 881
Net realised investment gains/losses	–145	–5 022	480	–5 997	1 202		–9 482
Other revenues	54		72	4	140		270
Total revenues	16 895	10 524	5 912	–5 730	1 917	–4 540	24 978
Expenses							
Claims and claim adjustment expenses; life and health benefits	–9 857	–9 065		–150			–19 072
Return credited to policyholders		2 822					2 822
Acquisition costs	–2 730	–2 626		–10			–5 366
Other expenses	–1 562	–958			–561	–130	–3 211
Interest expenses					–1 501		–1 501
Total expenses	–14 149	–9 827	0	–160	–2 062	–130	–26 328
Operating income/loss	2 746	697	5 912	–5 890	–145	–4 670	–1 350

2009 CHF millions	Property & Casualty	Life & Health	Asset Management	Legacy	Group items	Allocation	Total
Revenues							
Premiums earned	13 885	10 679		42			24 606
Fee income from policyholders		916					916
Net investment income/loss	2 454	3 445	4 622	441	316	–4 343	6 935
Net realised investment gains/losses	28	3 209	–801	46	–1 749		733
Other revenues	38		77	8	70		193
Total revenues	**16 405**	**18 249**	**3 898**	**537**	**–1 363**	**–4 343**	**33 383**
Expenses							
Claims and claim adjustment expenses; life and health benefits	–8 686	–9 348		–397			–18 431
Return credited to policyholders		–4 823					–4 823
Acquisition costs	–2 394	–2 488		–1			–4 883
Other expenses	–1 505	–844			–791	–58	–3 198
Interest expenses					–1 094		–1 094
Total expenses	**–12 585**	**–17 503**	**0**	**–398**	**–1 885**	**–58**	**–32 429**
Operating income/loss	**3 820**	**746**	**3 898**	**139**	**–3 248**	**–4 401**	**954**

The allocation is based on technical reserves and other information, including duration of the underlying liabilities, and was allocated in the years ended 31 December of 2008 and 2009 as follows:

CHF millions, for the year ended 31 December 2008	Property & Casualty	Life & Health	Asset Management	Allocation
Net investment income/loss	2 495	2 175	–130	–4 540

CHF millions, for the year ended 31 December 2009	Property & Casualty	Life & Health	Asset Management	Allocation
Net investment income/loss	2 215	2 186	–58	–4 343

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

2008 CHF millions	Property traditional	Casualty traditional	Specialty traditional	Total traditional	Non-traditional	Total
Revenues						
Premiums earned	4 884	5 187	3 815	13 886	493	14 379
Net investment income	345	1 658	434	2 437	170	2 607
Net realised investment gains/losses	–153	15	22	–116	–29	–145
Other revenues			15	15	39	54
Total revenues	5 076	6 860	4 286	16 222	673	16 895
Expenses						
Claims and claim adjustment expenses	–2 654	–4 545	–2 367	–9 566	–291	–9 857
Acquisition costs	–623	–1 010	–972	–2 605	–125	–2 730
Other expenses	–463	–691	–274	–1 428	–134	–1 562
Total expenses	–3 740	–6 246	–3 613	–13 599	–550	–14 149
Operating income	1 336	614	673	2 623	123	2 746
Claims ratio in %	54.4	87.6	62.0	68.9		
Expense ratio in %	22.2	32.8	32.7	29.0		
Combined ratio in %	76.6	120.4	94.7	97.9		

2009 CHF millions	Property traditional	Casualty traditional	Specialty traditional	Total traditional	Non-traditional	Total
Revenues						
Premiums earned	5 329	4 484	3 510	13 323	562	13 885
Net investment income	210	1 590	337	2 137	317	2 454
Net realised investment gains/losses	45	32		77	–49	28
Other revenues					38	38
Total revenues	**5 584**	**6 106**	**3 847**	**15 537**	**868**	**16 405**
Expenses						
Claims and claim adjustment expenses	–2 524	–3 356	–2 179	–8 059	–627	–8 686
Acquisition costs	–807	–765	–746	–2 318	–76	–2 394
Other expenses	–403	–670	–308	–1 381	–124	–1 505
Total expenses	**–3 734**	**–4 791**	**–3 233**	**–11 758**	**–827**	**–12 585**
Operating income	**1 850**	**1 315**	**614**	**3 779**	**41**	**3 820**
Claims ratio in %	47.4	74.8	62.1	60.5		
Expense ratio in %	22.7	32.0	30.0	27.8		
Combined ratio in %	70.1	106.8	92.1	88.3		

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

2008 CHF millions	Life traditional	Health traditional	Admin Re®	Total
Revenues				
Premiums earned	7773	2434	883	11090
Fee income from policyholders	66		742	808
Net investment income	943	412	2293	3648
Net realised investment gains/losses	–1225	–250	–3547	–5022
Other revenues				
Total revenues	7557	2596	371	10524
Expenses				
Claims and claim adjustment expenses; life and health benefits	–6162	–1671	–1232	–9065
Return credited to policyholders	884		1938	2822
Acquisition costs	–1663	–453	–510	–2626
Other expenses	–480	–179	–299	–958
Total expenses	–7421	–2303	–103	–9827
Operating income	136	293	268	697
Operating result, excluding non-participating net realised investment gains/losses	335	543	48	926
Net investment income – unit-linked	120		647	767
Net investment income – with-profit business			249	249
Net investment income – non-participating	823	412	1397	2632
Net realised investment gains/losses – unit-linked	–1026		–3026	–4052
Net realised investment gains/losses – with-profit business			–741	–741
Net realised investment gains/losses – non-participating	–199	–250	220	–229
Operating revenues[1]	8662	2846	3022	14530
Management expense ratio in %	5.5	6.3	9.9	6.6
Benefit ratio[2] in %				85.5

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

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

2009 CHF millions	Life traditional	Health traditional	Admin Re®	Total
Revenues				
Premiums earned	7 637	2 132	910	10 679
Fee income from policyholders	66		850	916
Net investment income	791	397	2 257	3 445
Net realised investment gains/losses	–93	212	3 090	3 209
Other revenues				
Total revenues	**8 401**	**2 741**	**7 107**	**18 249**
Expenses				
Claims and claim adjustment expenses; life and health benefits	–5 742	–1 284	–2 322	–9 348
Return credited to policyholders	–534		–4 289	–4 823
Acquisition costs	–1 708	–455	–325	–2 488
Other expenses	–377	–150	–317	–844
Total expenses	**–8 361**	**–1 889**	**–7 253**	**–17 503**
Operating income/loss	**40**	**852**	**–146**	**746**
Operating result, excluding non-participating net realised investment gains/losses	**611**	**640**	**40**	**1 291**
Net investment income – unit-linked	30		571	601
Net investment income – with-profit business			166	166
Net investment income – non-participating	761	397	1 520	2 678
Net realised investment gains/losses – unit-linked	478		2 979	3 457
Net realised investment gains/losses – with-profit business			297	297
Net realised investment gains/losses – non-participating	–571	212	–186	–545
Operating revenues[1]	**8 464**	**2 529**	**3 280**	**14 273**
Management expense ratio in %	4.5	5.9	9.7	5.9
Benefit ratio[2] in %				82.4

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

d) Asset Management

For the years ended 31 December

2008 CHF millions	Credit & Rates	Equity & Alternative Investments	Total
Revenues			
Net investment income/loss	6297	–937	5360
Net realised investment gains/losses	807	–327	480
Other revenues	80	–8	72
Total revenues	7184	–1272	5912
Operating income/loss	7184	–1272	5912

2009 CHF millions	Credit & Rates	Equity & Alternative Investments	Total
Revenues			
Net investment income	4583	39	4622
Net realised investment gains/losses	–639	–162	–801
Other revenues	74	3	77
Total revenues	**4018**	**–120**	**3898**
Operating income/loss	**4018**	**–120**	**3898**

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

CHF millions	2008	**2009**
United States	10 558	10 467
United Kingdom	3 677	3 170
Germany	1 486	1 323
Canada	1 069	991
Australia	943	991
France	896	1 002
Italy	849	875
Switzerland	713	664
Spain	642	519
Netherlands	632	618
Japan	521	619
Other	4 323	4 283
Total	26 309	**25 522**

17 Subsidiaries, equity investees and variable interest entities

Subsidiaries and equity investees	Share capital (CHF millions)	Affiliation in % as of 31.12.2009	Method of consolidation
Europe			
Denmark			
Swiss Re Denmark H ApS, Copenhagen	0	100	f
Swiss Re Denmark Services A/S, Copenhagen	0	100	f
France			
Protegys Assurance, Paris	11	34	e
Germany			
ASS Assekuranz, Service- und Sachverständigengesellschaft mbH, Sundern	1	49	e
EXTREMUS Versicherungs-Aktiengesellschaft, Cologne	74	15	e
Paarl Grundbesitzverwaltung GmbH & Co. KG Objekt Köln Sterrenhofweg, Munich	2	22	e
ROLAND Partner Beteiligungsverwaltung GmbH, Cologne	0	20	e
Swiss Re Germany AG, Unterföhring bei München	67	100	f
Swiss Re Germany Holding GmbH, Unterföhring bei München	38	100	f
Hungary			
Swiss Re Treasury (Hungary) Group Financing Limited Liability Company, Budapest	0	100	f
Ireland			
ALPS Capital II Plc, Dublin	1	100	e
Swiss Re International Treasury (Ireland) Ltd., Dublin	0	100	f
Swiss Reinsurance Ireland Limited, Dublin	119	100	f
Liechtenstein			
Elips Life AG, Vaduz	15	48	e
Luxembourg			
Securitas de Milo S.a.r.l., Luxembourg	0	100	e
Swiss Re Europe S.A., Luxembourg	519	100	f
Swiss Re Finance (Luxembourg) S.A., Luxembourg	1	100	f
Swiss Re Funds (Lux) I, Senningerberg [1]	10 771	100	f
Swiss Re International SE, Luxembourg	266	100	f
Swiss Re Management (Luxembourg) S.A., Luxembourg	295	100	f
Swiss Re Treasury (Luxembourg) S.A., Luxembourg	156	100	f

Method of consolidation

f full

e equity

[1] Net asset value instead of share capital

	Share capital (CHF millions)	Affiliation in % as of 31.12.2009	Method of consolidation
Malta			
Swiss Re Finance (Malta) Ltd., Mriehel	742	100	f
Swiss Re Treasury (Malta) Limited, Mriehel	742	100	f
Netherlands			
Algemene Levensherverzekering Maatschappij nv, Amsterdam	7	100	f
Atradius N.V., Amsterdam	84	25	e
Switzerland			
European Reinsurance Company of Zurich Ltd, Zurich	312	100	f
Horizon21 Private Equity Holding AG, Pfaeffikon	23	32	e
Tertianum AG, Zurich	10	20	e
United Kingdom			
Admin Re UK Limited, Shropshire	122	100	f
Banian Investments UK Limited, London	2	100	f
Barclays Life Assurance Company Limited, London	50	100	f
Calico Leasing (GB), London	0	100	f
Cyrenaic Investments (UK) Limited, London	0	100	f
Dex Name Limited, London	20	100	f
European Credit and Guarantee Insurance PCC Limited, St. Peter Port	9	100	f
NM Insurance Holdings Limited, Shropshire	219	100	f
NM Life Group Limited, Shropshire	250	100	f
NM Life Limited, Shropshire	159	100	f
NM Pensions Limited, Shropshire	250	100	f
Reassure UK Life Assurance Company Limited, London	644	100	f
SR Delta Investments (UK) Limited, London	6	100	f
SRNY Limited, London	56	100	f
Swiss Re BHI Limited, London	0	100	e
Swiss Re Capital Markets Limited, London	62	100	f
Swiss Re Financial Services Limited, London	12	100	f
Swiss Re Frankona LM Limited, London	12	100	e
Swiss Re GB Plc, London	1 067	100	f
Swiss Re Life & Health Limited, London	0	100	f
Swiss Re Services Limited, London	4	100	f
Swiss Re Specialised Investments Holdings (UK) Limited, London	2	100	f
Swiss Re Specialty Insurance (UK) Limited, London	30	100	f
Swiss Reinsurance Company UK Limited, London	0	100	f
The Mercantile & General Reinsurance Company Limited, Glasgow	31	100	f
The Palatine Insurance Company Limited, London	13	100	f
Windsor Life Assurance Company Limited, Shropshire	439	100	f
XSMA Limited, London	25	100	f

	Share capital (CHF millions)	Affiliation in % as of 31.12.2009	Method of consolidation
North America and Caribbean			
Barbados			
Accra Holdings Corp, Bridgetown	17	100	f
European Finance Reinsurance Company Ltd., Bridgetown	5	100	f
European International Holding Company Ltd., Bridgetown	3 188	100	f
European International Reinsurance Company Ltd., Bridgetown	3 183	100	f
Gasper Funding Corporation, Bridgetown	18	100	f
Underwriters Reinsurance Company (Barbados) Inc., Bridgetown	17	100	f
Bermuda			
CORE Reinsurance Company Limited, Hamilton	0	100	f
Old Fort Insurance Company, Ltd., Hamilton	0	100	f
Swiss Re Global Markets Limited, Hamilton	0	100	f
SwissRe Capital Management (Bermuda) Ltd., Hamilton	0	100	f
SwissRe Investments (Bermuda) Ltd., Hamilton	0	100	f
Canada			
Swiss Re Life & Health Canada, Toronto	112	100	f
SwissRe Holdings (Canada) Inc., Toronto	116	100	f
Cayman Islands			
Ampersand Investments (UK) Ltd., George Town	1 002	100	f
Cobham Funding Limited, George Town	0	100	f
Dunstanburgh Finance (Cayman) Limited, George Town	0	100	f
Epping Funding Limited, George Town	0	100	f
Kilgallon Finance Limited, George Town	0	100	f
SR Alternative Financing I SPC, George Town	0	100	f
SR Alternative Financing II SPC, George Town	0	100	f
SR Cayman Holdings Ltd, George Town	0	100	f
SR York Limited, George Town	0	100	f
Swiss Re Strategic Investments UK Limited, George Town	0	100	f

	Share capital (CHF millions)	Affiliation in % as of 31.12.2009	Method of consolidation
United States			
Facility Insurance Corporation, Austin	0	100	f
Facility Insurance Holding Corporation, Dallas	0	100	f
First Specialty Insurance Corporation, Jefferson City	5	100	f
Industrial Risk Insurers, Windsor	0	100	f
North American Capacity Insurance Company, Manchester	4	100	f
North American Elite Insurance Company, Manchester	4	100	f
North American Specialty Insurance Company, Manchester	13	100	f
Rialto Re I Inc, Burlington	147	100	f
SR PA Finance Inc., Wilmington	155	100	f
Sterling Re, Inc., Burlington	0	100	f
Swiss Re America Holding Corporation, Wilmington	0	100	f
Swiss Re Atrium Corporation, Wilmington	1	100	f
Swiss Re Capital Markets Corporation, New York	0	100	f
Swiss Re Financial Products Corporation, New York	2 713	100	f
Swiss Re Financial Services Corporation, Wilmington	0	100	f
Swiss Re Life & Health America Holding Company, Wilmington	4	100	f
Swiss Re Life & Health America Inc., Hartford	4	100	f
Swiss Re Partnership Holding, LLC, Dover	380	100	f
Swiss Re Solutions Holding Corporation, Wilmington	9	100	f
Swiss Re Treasury (US) Corporation, Wilmington	0	100	f
Swiss Reinsurance America Corporation, Armonk	6	100	f
Washington International Insurance Company, Manchester	4	100	f
Westport Insurance Corporation, Jefferson City	12	100	f
Australia			
Swiss Re Australia Ltd, Sydney	19	100	f
Swiss Re Life & Health Australia Limited, Sydney	144	100	f
Africa			
South Africa			
Swiss Re Africa Limited, Johannesburg	1	100	f
Swiss Re Life and Health Africa Limited, Johannesburg	0	100	f

	Share capital (CHF millions)	Affiliation in % as of 31.12.2009	Method of consolidation
Middle East			
United Arab Emirates			
GlobeMed Gulf FZ-LLC, Dubai	3	39	e
Asia			
China			
Beijing Prestige Health Consulting Services Company Limited, Beijing	6	100	e
Vietnam			
Vietnam National Reinsurance Corporation, Hanoi	38	25	e

Variable interest entities

Swiss Re Group enters into arrangements with variable interest entities (VIEs) in the normal course of business. The involvement ranges from being a passive investor to designing, structuring, and managing the VIEs. The variable interests held by the Group arise due to a modified coinsurance agreement, certain insurance-linked and credit-linked securitisations, private equity limited partnerships, hedge funds, debt financing and other entities, which meet the definition of a VIE.

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

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

The assessment if the Group is the primary beneficiary is reviewed whenever circumstances qualify as a reconsideration event under the Variable Interest Entities section of the Consolidation Topic. These events include:

- the VIE's governing documents or contractual arrangements are changed in a manner that changes the characteristics of the Group's involvement;
- the Group's assumption of additional variable interests; and
- the Group's sale or disposal of variable interests, or the issuance of variable interests by the VIE to unrelated parties.

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

Modified coinsurance agreement

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

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

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

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

Investment vehicles
Investment vehicles include private equity limited partnerships and hedge funds, in which the Group invested as part of its investment strategy. The Group's variable interests arise through an ownership interest in the vehicle. To determine if the Group is the primary beneficiary or holds a significant portion of the variable interests, the Group assesses its ownership share in relation to the total equity outstanding. The Group is exposed to losses when the values of the investments held by the vehicles decrease. The maximum exposure to loss equals the carrying amount of the ownership interest.

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

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

The Group did not provide financial or other support to any VIEs in 2009 that it was not previously contractually required to provide.

The Group has reassessed the classification of certain investment vehicles and determined that certain private equity and hedge fund participations do not actually qualify as VIE's and therefore have now been excluded from the disclosure in both years presented. The changes have no impact on the Group's earnings or balance sheet as the conclusion on consolidation of these entities has remained unchanged.

The following table shows the total assets and liabilities on the Group's balance sheet relating to VIE's. The Group is the primary beneficiary of the VIE's but does not hold the majority voting interest as of 31 December 2008 and 2009. For investment vehicles, the assets and liabilities are presented net of minority interest.

CHF millions	2008	**2009**
Fixed income securities:		
Available-for-sale (whereof restricted: 2008: 8 144; 2009: 5 630)	8 953	7 694
Trading (whereof restricted: 2008: 0; 2009: 1 021)	131	1 170
Policy loans, mortgages and other loans (whereof restricted: 2008: 260; 2009: 0)	260	224
Other invested assets (whereof restricted: 2008: 3; 2009: 0)	3	107
Cash and cash equivalents (whereof restricted: 2008: 570; 2009: 141)	570	312
Accrued investment income (whereof restricted: 2008: 80; 2009: 43)	80	75
Premiums and other receivables		15
Reinsurance recoverable on unpaid claims and policy benefits		10
Acquired present value of future profits (whereof restricted: 2008: 84; 2009: 0)	84	77
Other assets (whereof restricted: 2008: 33; 2009: 27)	33	30
Total assets	10 114	**9 714**
Unpaid claims and claim adjustment expenses		19
Liabilities for life and health policy benefits	1 327	1 259
Policyholder account balances	1 718	1 567
Reinsurance balances payable		11
Deferred and other non-current taxes	162	54
Accrued expenses and other liabilities	525	487
Long-term debt	5 155	5 559
Additional paid-in capital	241	234
Net unrealised investment gains/losses, net of tax	–187	–329
Cumulative translation adjustments, net of tax	1 204	–346
Retained earnings	–31	1 199
Total liabilities and shareholders' equity	10 114	**9 714**

The following table shows the total assets of VIEs of which the Group is the primary beneficiary, but does not hold the majority voting interest for periods ended 31 December 2008 and 2009.

CHF millions	2008	**2009**
Insurance-linked/Credit-linked securitisations	163	164
Investment vehicles	3	
Debt financing	6 097	6 282
Modified coinsurance agreement	3 830	3 351
Other	34	27
Total	10 127	**9 824**

The following table shows the total assets and liabilities in the Group's balance sheet related to VIEs in which the Group holds a significant variable interest as of 31 December 2009:

CHF millions	Assets	Liabilities
Other invested assets	901	
Accrued expenses and other liabilities		438
Total	**901**	**438**

The following table shows the total assets of VIEs in which the Group holds a significant variable interest for periods ended 31 December 2008 and 2009.

CHF millions	2008	**2009**
Insurance-linked/Credit-linked securitisations	6 510	5 325
Investment vehicles	392	272
Debt financing	5 074	5 524
Other	1 721	1 606
Total	13 697	**12 727**

The following table shows the Group's maximum exposure to loss and the liabilities related to VIEs in which the Group holds a significant variable interest as of 31 December 2008 and 2009.

			2008			**2009**
CHF millions	Maximum exposure to loss	Total liabilities	Difference	Maximum exposure to loss	Total liabilities	Difference
Insurance-linked/Credit-linked securitisations	6 255	865	5 390	5 213	179	5 034
Investment vehicles	128		128	95		95
Debt financing	266		266	208		208
Other	991	213	778	1 169	437	732
Total	7 640	1 078	6 562	**6 685**	**616**	**6 069**

The liabilities of CHF 179 million as of 31 December 2009 for insurance-linked and credit-linked securitisations represent the negative fair value of the total return swaps the Group has entered into with the securitisation vehicles. The negative fair value is caused by a decrease in value of some of the assets held as collateral by the vehicles.

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

The liabilities for the debt financing and the other categories represent the decline in value of VIE assets which are guaranteed by the Group. For VIEs where the variable interests consist of an equity stake, a loss is recognised in the income statement rather than a liability being set up when the net asset value declines. As of 31 December 2009, the liabilities for the other categories amounted to CHF 437 million.

As of 31 December 2009, the consolidation of the VIEs resulted in a minority interest in the balance sheet of CHF 409 million (31 December 2008: CHF 420 million). The minority interest is included in accrued expenses and other liabilities. The net minority interest in income was CHF 10 million and CHF 2 million net of tax for the years ended 31 December 2008 and 2009, respectively. The income statement impacts are generally included in the relevant segment with the underlying movement in income or expenses.

Reconsideration events under the Variable Interest Entities section of the Consolidation Topic required the review of the consolidation assessment of certain VIEs. As a result, the Group consolidated and deconsolidated some VIEs in the first quarter of 2009. The resulting effect on the financial statements is immaterial.

18 Restructuring provision

In 2009, the Group set up total provisions of CHF 271 million, related to the cost savings and efficiency programmes announced in early 2009, and released CHF 31 million, mostly attributable to business acquired from Insurance Solutions and the realignment of the former Financial Markets unit announced in 2007.

The increase of the provision in the Property & Casualty and the Life & Health business segments of CHF 124 million and CHF 54 million, respectively, are related to leaving benefits, office structure simplification costs and cost for the concentration of support resources allocated to the Property & Casualty and the Life & Health business segments.

The Asset Management business segment increased the provision by CHF 93 million, mostly for leaving benefits associated with current de-risking activities.

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

2009 CHF millions	Property & Casualty	Life & Health	Asset Management	Total
Balance as of 1 January	73	15	30	118
Increase in provision	124	54	93	271
Release of provision	–22	–3	–6	–31
Costs incurred	–86	–41	–70	–197
Balance as of 31 December	**89**	**25**	**47**	**161**

19 Risk assessment

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

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

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

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

- The Group Risk and Capital Committee has responsibility for allocating capital and insurance risk capacity, for approving investment risk limits, and for determining changes to the internal risk and capital methodology.
- The Group Asset-Liability Committee oversees the management of Swiss Re's balance sheet, in particular its liquidity, capital and funding positions and related policies. This committee was newly established in 2009.
- The Group Products and Limits Committee determines Swiss Re's product policy and standards, sets reinsurance and counterparty credit risk limits, and decides on large or non-standard transactions.
- The Group Regulatory Committee is the central information and co-ordination platform for regulatory matters. It ensures a consistent approach to external communication on regulatory issues.

The Chief Risk Officer (CRO), who is a member of the EC, participates in the four committees described above and chairs both the Group Risk and Capital Committee and the Group Regulatory Committee. In addition, the CRO leads the global Risk Management function, which is responsible for risk oversight and control across the Group.

The global Risk Management function operates via dedicated units for property and casualty risk, life and health risk, and financial market and credit risk. Each unit is entrusted with Group-wide responsibility for the identification, assessment, and controlling of their allocated risks and for risk governance at the risk category level.

20 Subsequent events

On 18 January 2010, the Group announced the closing of a US individual life retrocession transaction with Berkshire Hathaway. Under the terms of the contract the Group will, on a 100% quota share basis, reinsure a closed block of yearly renewable term individual life reinsurance business, written prior to 2004, with Berkshire Hathaway Life Insurance Company of Nebraska. The transaction is effective 1 October 2009 and will be reported by the Group in the first quarter of 2010. The Group will continue to provide administration and reporting services for the subject business.

On March 10, 2010, the Group announced preliminary estimates in respect of the earthquake in Chile and European winter storm Xynthia. A magnitude 8.8 earthquake hit Chile on 27 February 2010, causing several hundred fatalities and triggering severe property damage along a coastal stretch of 600 km. Xynthia was a violent European windstorm that crossed Western Europe on 26 – 28 February 2010, reaching its peak intensity over northern Spain and France and triggering massive storm surges along the French Atlantic coast. The Group's preliminary estimate of industry losses for the earthquake in Chile is in the range of USD 4 – 7 billion, and the estimate of the Group's losses, net of retrocession and before tax, is USD 500 million. The Group's preliminary estimate of its losses for Xynthia, net of retrocession and before tax, is USD 100 million. In its release the Group noted that, particularly with respect to the earthquake in Chile, the estimates are preliminary and subject to update as more information becomes available.

Report of the statutory auditor

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

Report of the statutory auditor on the Consolidated Financial Statements
As statutory auditor, we have audited the consolidated financial statements of Swiss Re Group, which comprise the income statement, balance sheet, statement of shareholders' equity, statement of comprehensive income, statement of cash flow and notes (pages 137 to 220), for the year ended 31 December 2009.

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

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

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

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2009 present fairly, in all material respects, the financial position, the results of operations and the cash flows in accordance with accounting principles generally accepted in the United States of America (US GAAP) and comply with Swiss law.

As discussed in Notes 1 and 2 to the consolidated financial statements, Swiss Re Group changed the manner in which it recognises and reports other-than-temporary impairments in 2009.

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

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

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

PricewaterhouseCoopers AG

David JA Law
Audit expert
Auditor in charge

Dawn M Kink
Audit expert

Zurich, 12 March 2010