Swiss Re

Second Quarter 2010 Report

Key information

Corporate highlights

- Strong net income of USD 812 million despite challenging market conditions
- Excellent performance in Asset Management with operating income of USD 1.2 billion; annualised return on investments of 5.8%
- July 2010 renewals demonstrate continued focus on disciplined cycle management
- Good progress in de-risking with sale of all remaining former Structured CDS positions and commutation of USD 1.0 billion of notional exposure related to the discontinued Financial Guarantee Re business

Financial highlights (unaudited)

For the three months ended 30 June

USD millions, unless otherwise stated	2009	2010	Change in %
Property & Casualty			
Premiums earned	3178	**2510**	–21
Combined ratio, traditional business in %	89.4	**102.0**	
Life & Health			
Premiums earned	2389	**2175**	–9
Benefit ratio in %	78.6	**93.5**	
Asset Management			
Operating income	472	**1229**	160
Return on investments in % (annualised)	0.5	**5.8**	
Legacy			
Operating income/loss	65	**–54**	–
Group			
Premiums earned	5578	**4679**	–16
Net income/loss attributable to common shareholders	–342	**812**	–
Earnings per share in CHF	–1.13	**2.56**	–
Shareholders' equity (31.12.2009/30.06.2010)	25344	**27517**	9
Return on equity[1] in % (annualised)	–7.4	**13.4**	–
Number of employees[2] (31.12.2009/30.06.2010)	10552	**10374**	–2

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

Financial strength ratings

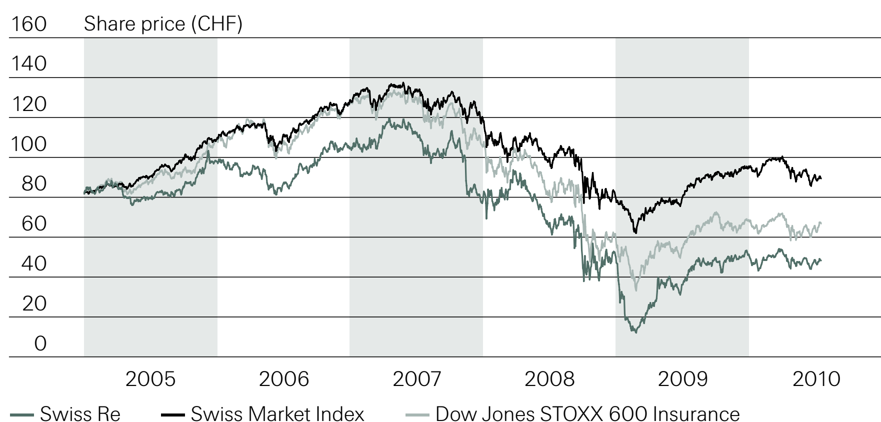
as of 30 July 2010	S&P	Moody's	A.M. Best
Rating	A+	A1	A
Outlook	stable	stable	stable

Share information

as of 30 July 2010	
Share price in CHF	47.98
Market capitalisation in CHF millions	17786

Share performance

in %	1 January 2005–30 July 2010 (p.a.)	Year to 30 July 2010
Swiss Re	–9.0	**–3.9**
Swiss Market Index	1.5	**–5.3**
Dow Jones STOXX 600 Insurance	–3.7	**0.2**



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Letter to shareholders

Walter B. Kielholz
Chairman of the Board of Directors

Stefan Lippe
Chief Executive Officer

We are well placed to meet client demands in a changing market environment, and aspire to be the leading player in the wholesale (re)insurance industry

Dear shareholders

Swiss Re's business performed strongly in the second quarter of 2010. Net income was USD 812 million and earnings per share were CHF 2.56 (USD 2.37). Annualised return on equity for the second quarter of 2010 was 13.4%. The result was supported by an excellent performance in Asset Management, and was achieved despite a number of large losses, such as the Deepwater Horizon oil rig loss and an increase in our loss estimate for the earthquake that hit Chile in February of this year.

For the past two years, Swiss Re has positioned its (re)insurance portfolio for the softening market. We have maintained our discipline in managing the cycle with a clear focus on profitability. Despite underlying market softening estimated at 3% in the July 2010 renewals, Swiss Re has succeeded in maintaining the long-term price adequacy of its portfolio.

Resilient performance in challenging market conditions

Swiss Re's underlying business proved its ability to generate sustainable, strong earnings in a challenging market environment.

Our Property & Casualty business reported operating income of USD 455 million in the second quarter of 2010, maintaining profitability despite natural catastrophes and man-made losses that were above expectations in the reporting period. Estimated claims from the Deepwater Horizon oil rig explosion of approximately USD 200 million as well as the USD 130 million increase in the loss estimate to USD 630 million for the Chile earthquake in February 2010 increased the combined ratio to 102.0%, or 100.2% excluding unwind of discount.

Life & Health posted operating income of USD 142 million. The benefit ratio rose to 93.5%. The improved operating income is the result of significantly improved results in variable annuities, partly offset by lower investment return.

Asset Management achieved an excellent result with operating income of USD 1.2 billion, based on a prudent investment approach in response to the ongoing financial market volatility. The annualised return on investments was 5.8% for the quarter. Total return on investments was excellent at 13.2%.

In the second quarter of 2010, we further reduced risks in Legacy with the sale of the entire remaining positions from the former Structured CDS and the commutation of USD 1.0 billion of notional exposure in Financial Guarantee Re. At the same time, exposure was reduced in former Portfolio CDS, securitised products and other former trading activities.

Our capital strength and expertise enabled us to support our clients with a number of innovative transactions. In June 2010, Swiss Re pioneered a public sector agreement with a US state, structuring a multi-year parametric wind cover for the Alabama State Insurance Fund (SIF) to hedge insurance price volatility after a major storm. This is the first time a governmental body from an industrialised country has used a parametric solution to transfer public catastrophe exposure to the private sector.

Swiss Re set to benefit from industry developments

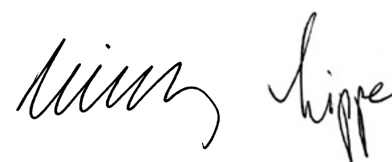
Looking ahead, we continue to build on our strengths. The reinsurance industry is expected to experience moderate but stable growth over the coming years – we anticipate that the property and casualty market will grow on average by 6.5% and the life and health market by 3.7% annually during the decade ahead.

Capital will remain a key industry issue. Higher solvency requirements, low investment returns and an increased focus on the economic costs of risk have the potential to fuel demand for (re)insurance capacity. Changes in rating, regulatory and accounting standards impose increasing constraints on investment strategies, often requiring insurers to hold additional capital. Consolidation among insurers is likely to stimulate demand for reinsurance.

Interest in longevity risk transfer will increase substantially as pension funds try to cope with an ageing population. Our ambition is to become a significant and influential longevity risk solution provider. We believe that this business can increase and diversify our earnings.

Swiss Re is well placed to meet the demand in these markets. We aspire to be the leading player in the wholesale (re)insurance industry. This means being the partner of choice for our reinsurance clients, as well as being the leading innovator in the industry.

Zurich, 5 August 2010



Walter B. Kielholz
Chairman of the Board of Directors

Stefan Lippe
Chief Executive Officer

Key events

6 May 2010

Net income of USD 158 million for the first quarter 2010

Swiss Re reported net income of USD 158 million for the first quarter of 2010. The company continued to deliver strong underlying performance, even though the Property & Casualty result was affected by high natural catastrophe losses in the first quarter. The estimated excess capital position at the AA level increased to more than USD 12 billion.

18 May 2010

Swiss Re report shows how risk managers can shape insurers' risk management culture in line with Solvency II

Swiss Re presented its new publication, entitled "Establishing a pro-active risk management culture". The company outlined its recommendations for risk management in relation to each of the main elements of the Solvency II framework directive: risk and capital modelling, governance as well as disclosure and transparency.

27 May 2010

USD 150 million natural catastrophe risk for Allianz through Blue Fin Ltd

Swiss Re Capital Markets structured and successfully placed USD 150 million of insurance-linked securities issued by Blue Fin Ltd, covering US hurricane and earthquake risk. The Blue Fin shelf programme provides Allianz with a flexible, multi-peril risk management platform to access protection capacity from the capital markets.

11 June 2010

Investors' Day conference – focus on Asset Management and the Swiss Solvency Test

Swiss Re's Investors' Day conference provided insights into the company's Asset Management function and the Swiss Solvency Test framework. The Group also updated its estimated claims from the earthquake in Chile, net of retrocession, to be approximately USD 630 million before tax.

27 July 2010

Alabama State Insurance Fund transaction marks first parametric insurance solution on behalf of US state government

Swiss Re announced an agreement with the Alabama State Insurance Fund ("SIF") to provide a three-year parametric insurance cover for SIF's primary catastrophic hurricane exposure. This is the first time a US state government has utilised such an innovative solution to transfer its financial exposure from natural catastrophes to the private sector.

Group

Swiss Re reported an excellent result of USD 812 million for the second quarter of 2010. Property & Casualty reported a solid result, despite a relatively high claim burden in the quarter. The Life & Health result in the second quarter was USD 142 million. Asset Management delivered an excellent performance with a return on investments of 5.8%. Shareholders' equity, excluding non-controlling interests, increased to USD 27.5 billion.

Group results

Swiss Re reported net income attributable to common shareholders of USD 812 million in the second quarter of 2010, compared to a net loss of USD 342 million in the second quarter of 2009. Earnings per share were CHF 2.56 (USD 2.37), compared to CHF –1.13 (USD –1.01) in the same period of the previous year.

During the quarter, the US dollar appreciated 3% against the British pound and 1% against the euro, compared to average rates in the second quarter of 2009.

Premiums earned decreased 21% to USD 2.5 billion for Property & Casualty, compared to the prior-year period. The reduction reflects lower volumes, driven by the Group's active cycle management and selective underwriting, particularly in the January renewals. The decrease includes the effect of adjustments to premium earning patterns for natural catastrophe exposures. Life & Health premiums decreased 9%, mainly as a result of the US individual life retrocession agreement announced earlier this year.

The Group's investment income and net realised gains include the investment result from assets backing unit-linked and unitised with-profit policies. These returns are credited to policyholders' accounts and are therefore excluded from the following comments on the investment performance of the Group.

Proprietary net investment income was USD 1.1 billion, a 26% decrease compared to the prior-year period, primarily driven by lower levels of corporate bonds and securitised products. Fixed income running yield was 4.4%, slightly lower compared to the same period of the prior year.

The Group reported proprietary net realised investment gains of USD 992 million in the second quarter of 2010, compared to a loss of USD 1.5 billion in the second quarter of 2009. The improvement in the reporting period was primarily due to lower impairments and foreign exchange gains, compared to the same period of the prior year.

Other revenues decreased 74% to USD 11 million in the second quarter of 2010 as a result of the disposal of non-core fee business in the Property & Casualty and Asset Management segments in the course of 2009.

Property & Casualty claims and claim adjustment expenses decreased 12% to USD 1.8 billion. This reflects the increase in the loss estimate for the earthquake in Chile. Comparatively higher man-made losses, including the impact from the Deepwater Horizon loss, also affected the second quarter of 2010. The same period in 2009 was impacted by high claims activity in aviation and space. The combined ratio increased to 102.0% in the second quarter of 2010 from 89.4% in the prior-year period, reflecting the impact of higher natural catastrophe experience and man-made losses.

Life and health benefits decreased 4% to USD 2.0 billion in the second quarter of 2010, compared to the prior-year quarter. The prior-year period included a significant one-off gain from an arbitration award on a rescinded disability income reinsurance agreement in the traditional health line of business that did not repeat in the reporting period. In the second quarter of 2010, Life traditional benefits reflect the impact of the life retrocession agreement entered into in January 2010, partially offset by increasing reserves for the Group's guaranteed minimum death benefits (GMDB) products, driven by the volatility of the underlying financial markets. The decline in the benefit expense of Admin Re® reflects the impact of financial markets on the with-profits products, although it was offset by the change in unrealised gains/losses. The benefit ratio increased to 93.5%, compared to 78.6% in the second quarter of 2009.

Return credited to policyholders reflects the investment performance on the underlying assets, mainly backing unit-linked and unitised with-profit policies, which is passed through to policyholders. In the second quarter of 2010, an investment loss of USD 1.6 billion was passed through to policyholders, mainly driven by the investment losses in the reporting period, compared to a gain of USD 1.5 billion in the prior-year period.

Acquisition costs were stable at USD 1.0 billion. Decreasing acquisition costs in the property and specialty lines of business as well as the favourable impact of a commutation of a non-traditional Property & Casualty transaction were offset by the impact of unfavourable investment performance in Admin Re® which accelerated the amortisation of present value of future profits (PVFP). As a result, the acquisition cost ratio increased to 22.2% in the second quarter of 2010, compared to 18.5% in the same period of the previous year.

Administrative expenses were stable at USD 543 million.

Other expenses decreased 73% to USD 59 million. The same period of the prior year was impacted by the restructuring plan the Group initiated in April 2009.

Interest expenses increased 17% to USD 259 million. The impact of new borrowings was partially offset by the positive impact of interest rate hedges that the Group entered into in prior quarters.

For the second quarter of 2010, the Group reported a tax charge of USD 193 million, compared to a tax benefit of USD 139 million in the same period of the previous year. The tax charge generally reflects the tax at the statutory tax rate offset by the reduction in the valuation allowance on unrealised losses.

Total equity, including non-controlling interests, increased USD 1.4 billion to USD 28.9 billion at the end of June 2010, compared to the end of the prior quarter.

Income statement

USD millions, for the three months ended 30 June	2009	2010	Change in %
Revenues			
Premiums earned	5578	**4679**	–16
Fee income from policyholders	198	**221**	12
Proprietary net investment income	1555	**1147**	–26
Net investment income from unit-linked and with-profit business	255	**213**	–16
Proprietary net realised investment gains/losses	–1531	**992**	–
Net realised investment gains/losses from unit-linked and with-profit business	1263	**–2009**	–
Other revenues	43	**11**	–74
Total revenues	7361	**5254**	–29
Expenses			
Claims and claim adjustment expenses	–2201	**–1820**	–17
Life and health benefits	–2114	**–2023**	–4
Return credited to policyholders	–1452	**1614**	–
Acquisition costs	–1032	**–1041**	1
Administrative expenses	–540	**–543**	1
Other expenses	–219	**–59**	–73
Interest expenses	–222	**–259**	17
Total expenses	–7780	**–4131**	–47
Income/loss before income tax expense	–419	**1123**	–
Income tax expense	139	**–193**	–
Net income/loss before attribution of non-controlling interests	–280	**930**	–
Income attributable to non-controlling interests	0	**–53**	–
Net income/loss after attribution of non-controlling interests	–280	**877**	–
Interest on convertible perpetual capital instrument	–62	**–65**	5
Net income/loss attributable to common shareholders	–342	**812**	–

Non-controlling interests reflect interests attributable to non-controlling owners of Swiss Re's subsidiaries. They relate to a modified co-insurance treaty and the management company of private equity funds acquired in the first quarter of 2010, which resulted in the consolidation of all the investees' assets and liabilities even though the Group does not own the majority of the equity. Swiss Re presents non-controlling interests as separate components of net income and total equity. Minority interests were classified as liabilities under the previous guidance. As of 30 June 2010, non-controlling interests totalled USD 1.4 billion.

Shareholders' equity, which excludes non-controlling interests, increased USD 1.3 billion, compared to the end of the prior quarter. Interest rate movements resulted in net unrealised investment gains of USD 2.4 billion, mostly on government bonds and securitised products. These gains and the net income for the reporting period were partially offset by unfavourable foreign exchange movements.

Basic book value per share was CHF 78.44 or USD 72.51 at the end of June 2010, compared to CHF 72.23 or USD 68.62 at the end of March 2010. Book value per share is based on shareholders' equity and excludes the impact of the convertible perpetual capital instrument issued to Berkshire Hathaway and non-controlling interests.

For the second quarter of 2010, annualised return on equity was 13.4%, compared to 2.3% for the full year of 2009 and –7.4% (annualised) for the second quarter of 2009.

Income reconciliation

The income reconciliation table below reconciles the income from the business segments and the operations of the Corporate Centre with the Group's consolidated net income/loss before tax. Net realised gains or losses on certain financial instruments, certain foreign exchange gains and losses, and other income and expenses – such as indirect taxes, capital taxes and interest charges – have been excluded from the assessment of each segment's performance.

Income reconciliation

USD millions, for the three months ended 30 June	2009	2010	Change in %
Operating income			
Property & Casualty	896	**455**	–49
Life & Health	–8	**142**	–
Asset Management	472	**1 229**	160
Legacy	65	**–54**	–
Allocation	–1 011	**–844**	–17
Total operating income	414	**928**	124
Corporate Centre expenses	–57	**–55**	–4
Items excluded from the segments:			
Net investment income	55	**37**	–33
Net realised investment gains/losses	–227	**217**	–
Foreign exchange gains/losses	–246	**332**	–
Financing costs	–222	**–259**	17
Other income/expenses	–136	**–77**	–43
Income before tax	–419	**1 123**	–

Property & Casualty

Property & Casualty operating income decreased 49% to USD 455 million in the second quarter of 2010, compared to USD 896 million in the second quarter of 2009. Foreign exchange movements had no material impact on the Property & Casualty operating income.

The lower operating income in the second quarter of 2010 was driven by the reduction in the underwriting result of USD 276 million, as well as the decrease in investment income of USD 184 million due to lower interest rates and a reduction in the level of reserves. The underwriting result suffered from unfavourable natural catastrophe experience, notably the increase in the estimate for the earthquake in Chile, and from comparatively higher man-made losses, including the impact of the estimated Deepwater Horizon loss.

Net premiums earned decreased 21% to USD 2.5 billion in the second quarter of 2010, compared to USD 3.2 billion in the same period of 2009, driven by Swiss Re's active cycle management and portfolio steering in a challenging soft price market environment. The decrease also includes the effect of adjustments to premium earning patterns for natural catastrophe exposures.

At constant foreign exchange rates, net premiums earned decreased 22% quarter on quarter.

The combined ratio increased to 102.0% in the second quarter of 2010 from 89.4% in the comparative period, mainly as a result of the unfavourable net claims experience in the second quarter of 2010. Excluding the unwind of discount, the combined ratio was 100.2% in the second quarter of 2010.

The net impact from natural catastrophes on the combined ratio in the second quarter of 2010 was 7 percentage points, which is 2 percentage points above the expected level. This includes the increases in loss estimates for natural catastrophe events in the first quarter of 2010.

The property combined ratio increased to 94.1% in the second quarter of 2010, compared to 67.7% in the second quarter of 2009, which benefited from favourable natural catastrophe experience.

The casualty combined ratio was 124.8% in the second quarter of 2010, compared to 103.8% in the second quarter of 2009. The increase was mainly due to liability claims, including those arising from the Deepwater Horizon loss.

The other specialty combined ratio decreased to 94.0% in the second quarter of 2010, compared to 96.3% in the second quarter of 2009. The improvement was largely driven by lower expenses in the second quarter of 2010.

The credit combined ratio improved to 54.2% in the second quarter of 2010, which is 58 percentage points better than in the same period of 2009. This is largely attributable to positive retained development. The 2010 portfolio changes have also had a positive effect.

Although premiums earned decreased year on year, the expense ratio remained stable at 10.8% in the second quarter of 2010, compared to 10.6% in the prior-year period.

Life & Health

Life & Health reported operating income of USD 142 million in the second quarter of 2010, compared to an operating loss of USD 8 million in the prior-year period. Excluding the effect of foreign exchange movements, operating income rose USD 152 million.

Premiums and fee income declined to USD 2.4 billion in the second quarter of 2010 from USD 2.6 billion in the same quarter of 2009. The decrease was largely due to the US individual life retrocession transaction announced in January 2010. Excluding this and the effect of foreign exchange movements, premiums and fee income rose 7%.

The overall Life & Health benefit ratio increased to 93.5% in the second quarter of 2010, compared to 78.6% in the same quarter of 2009. The change was primarily due to an increase in the benefit reserves underlying certain guaranteed minimum death benefits (GMDB) products, driven by the underlying financial market performance, as well as a prior-year benefit derived from the rescission of a disability contract together with the impact of certain commutations. In addition, morbidity was slightly unfavourable in the reporting period, compared to favourable experience in the prior year.

The management expense ratio increased to 6.5% in the second quarter of 2010, compared to 5.7% in the prior-year period. The increase is mainly due to the decline in operating revenues associated with the life retrocession agreement.

The life business reported operating income of USD 62 million in the second quarter of 2010. Mortality results were better than expectations but were offset by higher reported lapses on certain US term life insurance products, changes in cedent reporting estimates, lower allocated net investment income due to declining risk free rates and unrealised losses related to an increase in the fair value of embedded derivatives associated with certain treaties ceded by Swiss Re on a funds-withheld basis. The variable annuity and pre-2000 GMDB result was USD 74 million in the quarter, driven mainly by changes in Swiss Re's own credit spreads.

The health business operating income was USD 63 million in the second quarter of 2010, compared to USD 466 million in the same quarter of 2009. The prior-year period included several one-time items, including the gain from an arbitration award related to the rescinded disability income reinsurance agreement, as well as gains from the commutation of certain personal accident treaties. Morbidity was slightly unfavourable compared to the favourable experience in the prior-year period.

Admin Re® reported operating income of USD 17 million in the second quarter of 2010. This was primarily due to favourable mortality experience and unrealised gains related to an increase in the fair value of embedded derivatives associated with certain treaties ceded by Swiss Re on a funds-withheld basis. This was partially offset by lower allocated net investment income due to declining risk free rates, lower fee income and higher amortisation of the present value of future profits (PVFP) as a result of declining equity markets during the quarter, compared to the same period in 2009.

Asset Management

The annualised return on investments was 5.8% in the second quarter of 2010, compared to 0.5% for the same period of the previous year. This was driven mainly by realised gains and lower impairments. Operating income for the second quarter of 2010 was USD 1.2 billion, compared to USD 472 million in the second quarter of 2009. The annualised total return on investments was 13.2% in the second quarter of 2010, compared to 2.4% in the same period of the previous year. The increase was driven mainly by mark-to-market gains on government bonds as a result of lower interest rates. Total return on investments includes changes in unrealised gains or losses.

Net investment income for Asset Management was USD 0.9 billion in the second quarter of 2010, compared to USD 1.3 billion in the prior-year period. Net investment income on the credit and rates portfolio decreased USD 0.3 billion, compared to the second quarter of 2009, as a result of reducing the investment risk profile.

Net realised gains on investments in Asset Management were USD 325 million in the second quarter of 2010, compared to net realised investment losses of USD 734 million in the same period of the previous year. Net realised investment gains in the second quarter of 2010 mainly reflected net realised and unrealised gains of USD 430 million, partially offset by impairments of USD 75 million.

Asset Management's investment portfolio decreased to USD 141.3 billion at the end of June 2010, excluding unit-linked and with-profit businesses, compared to USD 142.5 billion at the end of March 2010. Swiss Re's credit and rates investment portfolio decreased to USD 78.2 billion at the end of June 2010 from USD 79.6 billion at the end of March 2010. The decrease in the portfolio was mainly due to continued de-risking of securitised products and a reduction in hedges on the corporate bond portfolio, partially offset by mark-to-market gains.

Mark-to-market gains in the credit and rates portfolio in the second quarter of 2010 increased shareholders' equity by USD 2.4 billion, mainly as a result of lower interest rates.

Legacy

Legacy generated a net operating loss of USD 54 million in the second quarter of 2010, compared to net operating income of USD 65 million in the same period of 2009. Net investment income, mainly from securitised products, was more than offset by realised losses and impairments.

The de-risking of the Legacy activities continued in the second quarter of 2010 with the sale of all of the remaining positions from the former Structured CDS and the commutation of USD 1 billion of notional exposure in Financial Guarantee Re (FG Re). Swiss Re also reduced exposure in the former Portfolio CDS, securitised products, and other former trading activities during the quarter.

Former trading activities generated an operating loss of USD 50 million in the second quarter of 2010, versus operating income of USD 181 million in the second quarter of 2009. The operating loss was driven by realised losses from exiting the remaining positions from the former Structured CDS and impairments in securitised products, although they were significantly lower than in the second quarter of 2009.

FG Re reported an operating loss of USD 4 million in the second quarter of 2010, compared to a loss of USD 116 million in the same period of 2009. The main driver was the expense associated with the commutation of approximately USD 1 billion of exposure.

Total expenses were USD 30 million in the second quarter of 2010, compared to USD 18 million in the prior-year period, due to an increase in investment expenses.

Outlook

Swiss Re continues to have a strong focus on active cycle management and portfolio steering to drive sustainable economic returns. Our capital strength, expertise and track record of continued innovation mean we are well positioned to support our clients.

We continue to make significant progress in optimising the Asset Management portfolio and in winding down the Legacy positions, and we expect to have addressed all the significant exposures in Legacy by the end of 2010.

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Income statement (unaudited)

USD millions	Note	Three months ended 30 June 2009[1]	2010	Six months ended 30 June 2009[1]	2010
Revenues					
Premiums earned	7, 11	5578	**4679**	11258	**9647**
Fee income from policyholders	7, 11	198	**221**	385	**442**
Net investment income	2, 11	1810	**1360**	3117	**2839**
Net realised investment gains/losses (total impairments for the three months ended 30 June were 1 007 in 2009 and 206 in 2010, of which 535 and 128, respectively, were recognised in earnings)[2]	2, 11	−268	**−1017**	−2292	**363**
Other revenues	11	43	**11**	81	**29**
Total revenues		7361	**5254**	12549	**13320**
Expenses					
Claims and claim adjustment expenses	7, 11	−2201	**−1820**	−4501	**−4172**
Life and health benefits	7, 11	−2114	**−2023**	−3954	**−4048**
Return credited to policyholders	11	−1452	**1614**	−271	**4**
Acquisition costs	7, 11	−1032	**−1041**	−2221	**−1932**
Other expenses	11	−759	**−602**	−1333	**−1172**
Interest expenses	11	−222	**−259**	−466	**−537**
Total expenses		−7780	**−4131**	−12746	**−11857**
Income/loss before income tax expense		−419	**1123**	−197	**1463**
Income tax expense		139	**−193**	53	**−260**
Net income/loss before attribution of non-controlling interests		−280	**930**	−144	**1203**
Income attributable to non-controlling interests		0	**−53**	0	**−100**
Net income/loss after attribution of non-controlling interests		−280	**877**	−144	**1103**
Interest on convertible perpetual capital instrument		−62	**−65**	−68	**−133**
Net income/loss attributable to common shareholders		−342	**812**	−212	**970**
Earnings per share in USD					
Basic	8	−1.01	**2.37**	−0.63	**2.83**
Diluted	8	−1.01	**1.85**	−0.63	**2.33**
Earnings per share in CHF[3]					
Basic	8	−1.13	**2.56**	−0.69	**3.06**
Diluted	8	−1.13	**1.99**	−0.69	**2.50**

[1] The Group changed its reporting currency from CHF to USD. Please refer to Note 1.
[2] Total impairments were USD 2 253 million and USD 469 million for the six months ended 30 June 2009 and 2010, respectively, of which USD 1 225 million and USD 254 million, respectively, were recognised in earnings.
[3] The translation from USD to CHF is shown for informational purposes only and has been calculated at the Group's average exchange rates for the three and six months ended 30 June 2009 and 2010, respectively.

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

Balance sheet (unaudited)

Assets

USD millions	Note	31.12.2009[1]	30.06.2010
Investments	2, 3, 4		
Fixed income securities:			
Available-for-sale, at fair value (incl. 9 011 in 2009 and 5 373 in 2010 subject to securities lending and repurchase agreements) (amortised cost: 2009: 89 031; 2010: 72 679)		87 182	**74 780**
Trading (incl. 518 in 2009 and 2 118 in 2010 subject to securities lending and repurchase agreements)		11 562	**9 947**
Equity securities:			
Available-for-sale, at fair value (cost: 2009: 392; 2010: 359)		554	**494**
Trading		19 591	**16 711**
Policy loans, mortgages and other loans		5 606	**5 370**
Investment real estate		2 052	**2 043**
Short-term investments, at amortised cost which approximates fair value (incl. 673 in 2009 and 2 250 in 2010 subject to securities lending and repurchase agreements)		10 144	**17 051**
Other invested assets		14 650	**11 214**
Total investments		151 341	**137 610**
Cash and cash equivalents (incl. 4 314 in 2009 and 4 852 in 2010 subject to securities lending)		27 810	**31 946**
Accrued investment income		1 565	**1 213**
Premiums and other receivables		11 773	**11 384**
Reinsurance recoverable on unpaid claims and policy benefits	7	11 251	**12 563**
Funds held by ceding companies		9 605	**9 170**
Deferred acquisition costs	5, 7	3 894	**3 538**
Acquired present value of future profits	5	6 054	**4 292**
Goodwill		4 134	**3 943**
Income taxes recoverable		601	**579**
Other assets		4 720	**7 632**
Total assets		232 748	**223 870**

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

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

Liabilities and equity

USD millions	Note	31.12.2009[1]	30.06.2010
Liabilities			
Unpaid claims and claim adjustment expenses	7	68 412	**63 575**
Liabilities for life and health policy benefits	3, 7	39 944	**37 663**
Policyholder account balances	7	36 692	**34 203**
Unearned premiums		6 528	**8 100**
Funds held under reinsurance treaties		4 029	**4 499**
Reinsurance balances payable		4 756	**3 749**
Income taxes payable		608	**671**
Deferred and other non-current taxes		928	**1 988**
Short-term debt	6	8 105	**6 325**
Accrued expenses and other liabilities		18 218	**14 734**
Long-term debt	6	19 184	**19 443**
Total liabilities		207 404	**194 950**
Equity			
Convertible perpetual capital instrument		2 670	**2 670**
Common stock, CHF 0.10 par value			
2009: 370 701 168; 2010: 370 704 073 shares authorised and issued		35	**35**
Additional paid-in capital		10 472	**10 497**
Treasury shares, net of tax		–1 477	**–1 477**
Accumulated other comprehensive income:			
Net unrealised investment gains/losses, net of tax		–993	**1 149**
Other-than-temporary impairment, net of tax		–397	**–130**
Cumulative translation adjustments, net of tax		–3 560	**–4 543**
Accumulated adjustment for pension and post-retirement benefits, net of tax		–453	**–442**
Total accumulated other comprehensive income		–5 403	**–3 966**
Retained earnings		19 047	**19 758**
Shareholders' equity		25 344	**27 517**
Non-controlling interests		0	**1 403**
Total equity		25 344	**28 920**
Total liabilities and equity		232 748	**223 870**

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

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

Statement of equity (unaudited)

For the twelve months ended 31 December 2009 and the six months ended 30 June 2010

USD millions	2009[1]	2010
Convertible perpetual capital instrument		
Balance as of 1 January	0	**2670**
Issued	2670	
Balance as of period end	2670	**2670**
Common shares		
Balance as of 1 January	34	**35**
Issue of common shares	1	
Balance as of period end	35	**35**
Additional paid-in capital		
Balance as of 1 January	10125	**10472**
Issue of common shares[2]	311	
Convertible perpetual capital instrument issuance costs	–9	
Share-based compensation	–10	**15**
Realised gains/losses on treasury shares	55	**10**
Balance as of period end	10472	**10497**
Treasury shares, net of tax		
Balance as of 1 January	–1540	**–1477**
Cumulative effect of adoption of EITF 07-5[3]	60	
Purchase of treasury shares	–54	**–41**
Sales of treasury shares	57	**41**
Balance as of period end	–1477	**–1477**
Net unrealised gains/losses, net of tax		
Balance as of 1 January	–2262	**–993**
Other changes during the period	1269	**2177**
Cumulative effect of adoption of ASU No. 2009-17[5]		**–35**
Balance as of period end	–993	**1149**
Other-than-temporary impairment, net of tax		
Balance as of 1 January[4]	–263	**–397**
Other changes during the period	–134	**267**
Balance as of period end	–397	**–130**
Foreign currency translation, net of tax		
Balance as of 1 January	–4709	**–3560**
Other changes during the period	1149	**–983**
Balance as of period end	–3560	**–4543**
Adjustment for pension and other post-retirement benefits, net of tax		
Balance as of 1 January	–497	**–453**
Change during the period	44	**11**
Balance as of period end	–453	**–442**
Retained earnings		
Balance as of 1 January	18069	**19047**
Net income after non-controlling interests	699	**1103**
Interest on convertible perpetual capital instrument	–203	**–133**
Dividends on common shares	–30	**–319**
Cumulative effect of adoption of FSP SFAS 115-2[4]	334	
Cumulative effect of adoption of EITF 07-5[3]	178	
Cumulative effect of adoption of ASU No. 2009-17[5]		**60**
Balance as of period end	19047	**19758**
Shareholders' equity	25344	**27517**
Non-controlling interests[6]		
Balance as of 1 January	0	**0**
Change during the period		**1303**
Income attributable to non-controlling interests		**100**
Balance as of period end	0	**1403**
Total equity	25344	**28920**

[1] The Group changed its reporting currency from CHF to USD.
[2] The balance represents the premium from the conversion of mandatory convertible bonds that matured in June 2009.
[3] 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 USD 178 million, a decrease in treasury shares of USD 60 million, an increase in other invested assets of USD 285 million and a tax income of USD 47 million.
[4] Retained earnings as of 31 December 2008 were increased by USD 71 million to reflect the release of a valuation allowance against deferred tax assets associated with investment impairment losses.
[5] The Group adopted a new accounting pronouncement, ASU No. 2009-17 (FAS167), an update to Topic 810 – Consolidation, as of 1 January 2010, which resulted in the full consolidation of certain VIEs. This resulted in a transition impact to retained earnings of USD 60 million and to net unrealised gains/losses of USD –35 million, and other balance sheet items. Please refer to note 12 for more details.
[6] Non-controlling interests relate to a modified co-insurance treaty and the acquisition of the management company of private equity funds, resulting in the consolidation of all the investees' assets and liabilities even though the Group does not own the majority of the equity.

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

Statement of comprehensive income (unaudited)

USD millions	Three months ended 30 June 2009	2010	Six months ended 30 June 2009	2010
Net income/loss before attribution of non-controlling interests[1]	–342	**865**	–212	**1 070**
Other comprehensive income, net of tax:				
Change in unrealised gains/losses	820	**1 253**	–222	**2 142**
Change in other-than-temporary impairment	–307	**95**	–960	**267**
Change in foreign currency translation	759	**–503**	548	**–983**
Change in adjustment for pension benefits	–59	**–2**	–35	**11**
Total comprehensive income/loss before attribution of non-controlling interests	871	**1 708**	–881	**2 507**
Comprehensive income/loss attributable to non-controlling interests		**–53**		**–100**
Total comprehensive income/loss attributable to common shareholders	871	**1 655**	–881	**2 407**

[1] After interest on convertible perpetual capital instrument.

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

Statement of cash flow (unaudited)

For the six months ended 30 June

USD millions	2009	2010
Cash flows from operating activities		
Net income/loss attributable to common shareholders	–212	**970**
Add net income attributable to non-controlling interests		**100**
Adjustments to reconcile net income to net cash provided/used by operating activities:		
Depreciation, amortisation and other non-cash items	297	**63**
Net realised investment gains/losses	2 292	**–363**
Change in:		
Technical provisions, net	–2 620	**274**
Funds held by ceding companies and other reinsurance balances	–1 025	**–953**
Reinsurance recoverable on unpaid claims and policy benefits	–1 641	**–1 579**
Other assets and liabilities, net	–352	**–1 917**
Income taxes payable/recoverable	–281	**–106**
Income from equity-accounted investees, net of dividends received	190	**–186**
Trading positions, net	–569	**121**
Securities purchased/sold under agreement to resell/repurchase, net	669	**1 490**
Net cash provided/used by operating activities	–3 252	**–2 086**
Cash flows from investing activities		
Fixed income securities:		
Sales and maturities	104 350	**81 333**
Purchases	–94 476	**–67 371**
Net purchase/sale/maturities of short-term investments	–3 290	**–6 197**
Equity securities:		
Sales	184	**26**
Purchases	–18	**1**
Net purchases/sales/maturities of other investments	875	**624**
Net cash provided/used by investing activities	7 625	**8 416**
Cash flows from financing activities		
Issuance/repayment of long-term debt	2 791	**1 276**
Issuance/repayment of short-term debt	–2 071	**–2 654**
Equity issued	1	
Proceeds from the issuance of convertible perpetual capital instrument, net of issuance cost	2 659	
Purchase/sale of treasury shares	–9	
Interest on convertible perpetual capital instrument	–55	**–166**
Dividends paid to shareholders	–30	**–319**
Net cash provided/used by financing activities	3 286	**–1 863**
Total net cash provided/used	7 659	**4 467**
Effect of foreign currency translation	538	**–1 124**
Change in cash and cash equivalents	8 197	**3 343**
Cash and cash equivalents as of 1 January	16 225	**27 810**
Impact of adoption of ASU No. 2009-17		**793**
Cash and cash equivalents as of 30 June	24 422	**31 946**

Interest paid was USD 505 million and USD 635 million for the six months ended 30 June 2009 and 2010, respectively. Tax paid was USD 177 million and USD 219 million for the six months ended 30 June 2009 and 2010, respectively.

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

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Notes to the Group financial statements (unaudited)

1 Organisation and summary of significant accounting policies

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

Basis of presentation
The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and comply with Swiss law. All significant inter-company transactions and balances have been eliminated on consolidation.

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

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

These interim financial statements should be read in conjunction with the Swiss Re Group's financial statements for the year ended 31 December 2009.

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

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

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

There can also be differences between the market values implied by collateral requested by counterparties and the prices observed in the markets. The Group has not provided any collateral on financial instruments in excess of the market value estimate. 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.

Subsequent events

Subsequent events for the current reporting period have been evaluated up to 4 August 2010. This is the date on which the financial statements are available to be issued.

Recent accounting guidance

In June 2009, the FASB issued "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (VIEs)" (ASU No. 2009-17), an update to Topic 810 – Consolidation. This ASU requires companies to assess VIEs under a new method for consolidation. The Group adopted this new standard as of 1 January 2010. Refer to Note 12 for further information.

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

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

2 Investments

Investment income

Net investment income by source (including unit-linked and with-profit business) for the periods ended 30 June was as follows:

USD millions	Three months ended 30 June 2009	Three months ended 30 June 2010	Six months ended 30 June 2009	Six months ended 30 June 2010
Fixed income securities	1 272	1 003	2 568	2 058
Equity securities	182	162	291	292
Policy loans, mortgages and other loans	108	103	212	213
Investment real estate	49	42	94	89
Short-term investments	17	21	23	35
Other current investments	38	–10	51	2
Share in earnings of equity-accounted investees	82	92	–145	255
Cash and cash equivalents	14	22	45	44
Deposits with ceding companies	201	98	319	198
Gross investment income	1 963	**1 533**	3 458	**3 186**
Investment expenses	–104	–142	–226	–280
Interest charged for funds held	–49	–31	–115	–67
Net investment income	1 810	**1 360**	3 117	**2 839**

Dividends received from investments accounted for using the equity method were USD 22 million and USD 3 million for the three months ended 30 June 2009 and 2010, respectively, as well as USD 41 million and USD 69 million for the six months ended 30 June 2009 and 2010, respectively.

Net investment income for the periods ended 30 June includes income on unit-linked and with-profit business, which is credited to policyholders.

USD millions	Three months ended 30 June 2009	Three months ended 30 June 2010	Six months ended 30 June 2009	Six months ended 30 June 2010
Unit-linked investment income	195	176	325	323
With-profit investment income	60	37	94	74

Realised gains and losses

Realised gains and losses for fixed income, equity securities and other investments (including unit-linked and with-profit business) for the periods ended 30 June were as follows:

USD millions	Three months ended 30 June 2009	Three months ended 30 June 2010	Six months ended 30 June 2009	Six months ended 30 June 2010
Fixed income securities available-for-sale:				
Gross realised gains	830	831	1 988	1 286
Gross realised losses	–514	–403	–1 180	–839
Equity securities available-for-sale:				
Gross realised gains	36	4	57	5
Gross realised losses	–4		–20	
Other-than-temporary impairments	–535	–128	–1 225	–254
Net realised investment gains/losses on trading securities	–132	80	–365	205
Change in net unrealised investment gains/losses on trading securities	1 850	–1 928	76	–445
Other investments:				
Gross realised/unrealised gains/losses	–1 553	195	–1 198	198
Foreign exchange gains/losses	–246	332	–425	207
Net realised investment gains/losses	–268	**–1 017**	–2 292	**363**

Proceeds from sales of fixed income securities available for sale amounted to USD 55 912 million and USD 38 194 million for the three months ended 30 June 2009 and 2010, respectively, and USD 97 769 million and USD 75 222 million for the six months ended 30 June 2009 and 2010, respectively. Sales of equity securities available for sale were USD 115 million and USD 20 million for the three months ended 30 June 2009 and 2010, respectively, and USD 194 million and USD 26 million for the six months ended 30 June 2009 and 2010, respectively.

Net realised investment gains/losses for the periods ended 30 June include income on unit-linked and with-profit business, which is credited to policyholders.

	Three months ended 30 June		Six months ended 30 June	
USD millions	2009	**2010**	2009	**2010**
Unit-linked realised gains/losses	1 131	–1 926	–298	–671
With-profit realised gains/losses	132	–83	–58	20

Impairment on fixed income securities relating to credit losses

Other-than-temporary impairments for debt securities are bifurcated between credit and non-credit components, with the credit component recognised through earnings and the non-credit component recognised in other comprehensive income. The credit component of other-than-temporary impairments is defined as the difference between a security's amortised cost basis and expected cash flows. Methodologies for measuring the credit component of impairment are aligned to market observer forecasts of credit performance drivers 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 for the six months ended 30 June was as follows:

USD millions	2009	**2010**
Balance as of 1 January	551	1 409
Credit losses for which an other-than-temporary impairment was not previously recognised	592	108
Reductions for securities sold during the period	–153	–482
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	280	71
Impact of increase in cash flows expected to be collected	–17	–22
Impact of foreign exchange movements	9	–61
Balance as of 30 June	1 262	**1 023**

Investments available-for-sale

Amortised cost or cost, estimated fair values and other-than-temporary impairments of fixed income securities classified as available-for-sale as of 31 December 2009 and 30 June 2010 were as follows:

2009 USD 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	25 951	263	–933		25 281
States of the United States and political subdivisions of the states	57	2	–4		55
United Kingdom	11 833	276	–476		11 633
Canada	2 300	232	–70		2 462
Germany	2 911	23	–20		2 914
France	2 211	24	–12		2 223
Other	5 909	209	–136		5 982
Total	51 172	1 029	–1 651		50 550
Corporate debt securities	17 419	1 107	–383	–24	18 119
Residential mortgage-backed securities	5 677	115	–713	–359	4 720
Commercial mortgage-backed securities	6 281	49	–871	–119	5 340
Agency securitised products	4 197	162	–7	–8	4 344
Other asset-backed securities	4 285	106	–190	–92	4 109
Fixed income securities available-for-sale	89 031	2 568	–3 815	–602	87 182
Equity securities available-for-sale	392	188	–26		554

2010 USD millions	Amortised cost or cost	Gross unrealised gains	Gross unrealised losses	Other-than-temporary 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	18 171	815	–167		18 819
States of the United States and political subdivisions of the states	172	5	–3		174
United Kingdom	10 683	333	–162		10 854
Canada	2 594	313	–15		2 892
Germany	2 482	90	–13		2 559
France	1 912	86	–28		1 970
Other	4 046	306	–104		4 248
Total	40 060	1 948	–492		41 516
Corporate debt securities	17 446	1 501	–252	–11	18 684
Residential mortgage-backed securities	5 055	181	–449	–148	4 639
Commercial mortgage-backed securities	4 675	98	–369	–26	4 378
Agency securitised products	2 670	164	–7		2 827
Other asset-backed securities	2 773	88	–115	–10	2 736
Fixed income securities available-for-sale	**72 679**	**3 980**	**–1 684**	**–195**	**74 780**
Equity securities available-for-sale	**359**	**167**	**–32**		**494**

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 is presented in the other-than-temporary impairments column.

Investments trading

Fixed income securities and equity securities classified as trading as of 31 December 2009 and 30 June 2010 were as follows:

USD millions	2009	2010
Debt securities issued by governments and government agencies	7 671	7 050
Corporate debt securities	2 248	2 192
Mortgage-backed and asset-backed securities	1 643	705
Fixed income securities trading	11 562	**9 947**
Equity securities trading	19 591	**16 711**

Fixed income securities and equity securities classified as trading as of 31 December 2009 and 30 June 2010 include securities held for unit-linked and with-profit business:

USD millions	2009	2010
Fixed income securities trading held for unit-linked business	2 380	2 202
Fixed income securities trading held for with-profit business	1 619	1 555
Fixed income securities trading	3 999	**3 757**
Equity securities trading held for unit-linked business	17 333	14 870
Equity securities trading held for with-profit business	1 203	963
Equity securities trading	18 536	**15 833**

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 as of 31 December 2009 and 30 June 2010 are shown below. Fixed maturity investments are assumed not to be called for redemption prior to the stated maturity date. As of 31 December 2009 and 30 June 2010, USD 18 181 million and USD 13 946 million, respectively, of fixed income securities available-for-sale were callable.

		2009		2010
USD millions	Amortised cost or cost	Estimated fair value	Amortised cost or cost	Estimated fair value
Due in one year or less	4 345	4 352	5 324	5 243
Due after one year through five years	19 152	19 281	13 583	13 966
Due after five years through ten years	15 097	15 401	12 130	13 015
Due after ten years	29 902	29 525	27 196	28 538
Mortgage and asset-backed securities with no fixed maturity	20 535	18 623	14 446	14 018
Total fixed income securities available-for-sale	89 031	87 182	**72 679**	**74 780**

Assets pledged

As of 31 December 2009 and 30 June 2010, investments with the carrying value of USD 1 706 million and USD 1 786 million, respectively, were on deposit with regulatory agencies in accordance with local requirements.

As of 31 December 2009 and 30 June 2010, investments (including cash and cash equivalents) with a carrying value of approximately USD 9 015 million and USD 8 621 million, respectively, were placed on deposit or pledged to secure certain reinsurance liabilities.

As of 31 December 2009 and 30 June 2010, securities of USD 14 516 million and USD 14 593 million, respectively, were pledged as collateral in securities lending transactions and repurchase agreements. The associated liabilities of USD 5 005 million and USD 2 138 million, respectively, were recognised in accrued expenses and other liabilities.

A real estate portfolio with a carrying amount of USD 278 million serves as collateral for short-term senior operational debt of USD 603 million.

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

As of 31 December 2009 and 30 June 2010, the fair value of the government and corporate bond securities received as collateral, was USD 12 221 million and USD 9 813 million, respectively. Of this, the amount that was sold or repledged as of 31 December 2009 and 30 June 2010 was USD 758 million and USD nil million, respectively, which is used to settle short government bond positions. The sources of the collateral are typically highly rated banking market counterparties.

Unrealised losses on securities available-for-sale

The following table shows the fair value and unrealised losses of the Group's fixed income securities, aggregated by investment category and length of time that individual securities were in a continuous unrealised loss position as of 31 December 2009 and 30 June 2010. As of 31 December 2009 and 30 June 2010, USD 15 million and USD 32 million, respectively, of the gross unrealised loss on equity securities available-for-sale relates to declines in value for less than 12 months and USD 11 million and USD nil million, respectively, to declines in value for more than 12 months.

As of 31 December 2009	Less than 12 months		12 months or more		Total	
USD millions	Fair value	Unrealised losses	Fair value	Unrealised losses	Fair value	Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	17 622	933	129		17 751	933
States of the United States and political subdivisions of the states	26	1	16	3	42	4
United Kingdom	6 396	395	700	81	7 096	476
Canada	944	70	64		1 008	70
Germany	1 291	20			1 291	20
France	769	12			769	12
Other	2 166	132	53	4	2 219	136
Total	29 214	1 563	962	88	30 176	1 651
Corporate debt	3 529	294	1 015	113	4 544	407
Residential mortgage-backed securities	2 727	795	1 244	277	3 971	1 072
Commercial mortgage-backed securities	3 281	640	1 365	350	4 646	990
Agency securitised products	416	12	113	3	529	15
Other asset-backed securities	1 780	246	212	36	1 992	282
Total	40 947	3 550	4 911	867	45 858	4 417

As of 30 June 2010	**Less than 12 months**		**12 months or more**		**Total**	
USD millions	Fair value	Unrealised losses	Fair value	Unrealised losses	Fair value	Unrealised losses
Debt securities issued by governments and government agencies:						
US Treasury and other US government corporations and agencies	1 768	167			1 768	167
States of the United States and political subdivisions of the states	60	3			60	3
United Kingdom	1 934	153	29	9	1 963	162
Canada	191	10		5	191	15
Germany	201	13			201	13
France	281	28			281	28
Other	899	104			899	104
Total	5 334	478	29	14	5 363	492
Corporate debt	2 811	261	76	2	2 887	263
Residential mortgage-backed securities	3 521	597			3 521	597
Commercial mortgage-backed securities	2 180	395			2 180	395
Agency securitised products	53	7			53	7
Other asset-backed securities	1 193	125			1 193	125
Total	**15 092**	**1 863**	**105**	**16**	**15 197**	**1 879**

Mortgages, loans and real estate
As of 31 December 2009 and 30 June 2010, investments in mortgages and other loans and real estate comprised the following:

		2009		**2010**
USD millions	Carrying value	Fair value	Carrying value	Fair value
Policy loans, mortgages and other loans	5606	5606	5370	5370
Investment real estate	2052	2961	2043	2968

As of 31 December 2009 and 30 June 2010, the Group's investment in mortgages and other loans included USD 187 million and USD 256 million, respectively, of loans due from employees and USD 400 million and USD 334 million, respectively, due from officers. These loans generally consist of mortgages offered at variable and fixed interest rates.

As of 31 December 2009 and 30 June 2010, investments in real estate included USD 7 million and USD 6 million, respectively, of real estate held for sale.

Depreciation expense related to income producing properties was USD 21 million and USD 20 million for the six months ended 30 June 2009 and 2010, respectively. Accumulated depreciation on investment real estate totalled USD 499 million and USD 499 million as of 31 December 2009 and 30 June 2010, 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

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 (e.g. markets which have few transactions and where prices are not current or price quotations vary substantially); (iii) inputs other than quoted prices that are observable (e.g. interest rates, yield curves, volatilities, prepayment speeds, credit risks and default rates); and (iv) inputs derived from, or corroborated by, observable market data.

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

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

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

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

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

The fair values of assets are adjusted to incorporate the counterparty risk of non-performance. Similarly, the fair values of liabilities reflect the risk of non-performance of the Group, captured by the Group's credit spread. These valuation adjustments from assets and liabilities measured at fair value using significant unobservable inputs are recognised in net realised gains and losses. In the second quarter of 2010, these adjustments were non-material. Whenever the underlying assets or liabilities are reported in a specific business segment, the valuation adjustment is allocated accordingly. Valuation adjustments not attributable to any business segment are reported in Group items.

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

Valuation techniques

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

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

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

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

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

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

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

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

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

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

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

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

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

Assets and liabilities measured at fair value on a recurring basis

As of 31 December 2009 and 30 June 2010, the fair values of assets and liabilities measured on a recurring basis by level of input were as follows:

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

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

As of 30 June 2010 USD millions	Quoted prices in active markets for identical assets and liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impact of netting[1]	Total
Assets					
Fixed income securities	16381	66085	2261		84727
Debt securities issued by US government and government agencies	16381	2671			19052
Debt securities issued by non-US governments and government agencies		29447	67		29514
Corporate debt securities		19209	1668		20877
Residential mortgage-backed securities		5005	12		5017
Commercial mortgage-backed securities		4507	3		4510
Agency securitised products		2845			2845
Other asset-backed securities		2401	511		2912
Equity securities	16363	667	175		17205
Equity securities backing unit-linked and with-profit life and health policies	15825	8			15833
Equity securities held for proprietary investment purposes	538	659	175		1372
Derivative financial instruments	85	7945	3362	–7846	3546
Interest rate contracts	2	4709	1071		5782
Foreign exchange contracts	3	1091	122		1216
Derivative equity contracts	78	1574			1652
Credit contracts		392	1953		2345
Other contracts	2	179	216		397
Other assets	25	1	1286		1312
Total assets at fair value	**32854**	**74698**	**7084**	**–7846**	**106790**
Liabilities					
Derivative financial instruments	–79	–6275	–5396	6947	–4803
Interest rate contracts	–12	–4099	–993		–5104
Foreign exchange contracts	–12	–1077	–60		–1149
Derivative equity contracts	–45	–746	–49		–840
Credit contracts		–274	–1522		–1796
Other contracts	–10	–79	–2772		–2861
Liabilities for life and health policy benefits			–359		–359
Accrued expenses and other liabilities	–531	–563			–1094
Total liabilities at fair value	**–610**	**–6838**	**–5755**	**6947**	**–6256**

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

Assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (level 3)
As of 31 December 2009 and 30 June 2010, the reconciliation of the fair values of assets and liabilities measured on a recurring basis using significant unobservable inputs were as follows:

2009 USD millions	Debt securities issued by non-US governments and government agencies	Corporate debt securities	Residential mortgage-backed securities	Commercial mortgage-backed securities	Agency securitised products	Other asset-backed securities	Equity securities held for proprietary investment purposes	Derivative financial instruments	Other assets	Total
Assets										
Balance as of 1 January 2009	144	6084	1687	458	0	2451	207	13422	1484	25937
Realised/unrealised gains/losses:										
Included in net income	–10	290	–206	–23	–7	77	111	–10673	–200	–10641
Included in other comprehensive income	–15	293	181	16	–3	189	–25		39	675
Purchases, issuances, and settlements	–35	–1035	163	–69	23	–885	–188	1662	8	–356
Transfers in and/or out of level 3	–59	–3482	–965	–245	–13	497	81	–641	–59	–4886
Impact of foreign exchange movements	57	–65	442	62		–282	–16	51	49	298
Closing balance as of 31 December 2009	82	2085	1302	199	0	2047	170	3821	1321	11027

	Liabilities for life and health policy benefits	Derivative financial instruments	Total
Liabilities			
Balance as of 1 January 2009	–464	–16833	–17297
Realised/unrealised gains/losses:			
Included in net income	172	10699	10871
Included in other comprehensive income			
Purchases, issuances, and settlements		237	237
Transfers in and/or out of level 3		877	877
Impact of foreign exchange movements	–1	–18	–19
Closing balance as of 31 December 2009	–293	–5038	–5331

2010 USD millions	Debt securities issued by non-US governments and government agencies	Corporate debt securities	Residential mortgage-backed securities	Commercial mortgage-backed securities	Other asset-backed securities
Assets					
Balance as of 1 January 2010	82	2 085	1 302	199	2 047
Cumulative effect of adoption of ASU No. 2009-17					–84
Realised/unrealised gains/losses:					
Included in net income		–12	–3		–73
Included in other comprehensive income	9	92	28	2	50
Purchases, issuances, and settlements	–20	–128	–73	–4	–1 131
Transfers into level 3[1]	102	71	61	11	28
Transfers out of level 3[1]	–99	–368	-1 298[2]	–205	–313
Impact of foreign exchange movements	–7	–72	–5		–13
Closing balance as of 30 June 2010	**67**	**1 668**	**12**	**3**	**511**
Liabilities					
Balance as of 1 January 2010					
Realised/unrealised gains/losses:					
Included in net income					
Included in other comprehensive income					
Purchases, issuances, and settlements					
Transfers into level 3					
Transfers out of level 3					
Impact of foreign exchange movements					
Closing balance as of 30 June 2010					

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

	Equity securities held for proprietary investment purposes	Derivative interest rate contracts	Derivative foreign exchange contracts	Derivative equity contracts	Derivative credit contracts	Other derivative contracts	Other assets	Total
	170	1 162	3	57	2 316	283	1 321	11 027
								−84
	−2	254	25	16	−219	14	−44	−44
	−1						26	206
	14	−288	40	−83	−145	−16	58	−1 776
			55	10		2	49	389
	−1	−57	−1			−49	−91	−2 482
	−5				1	−18	−33	−152
	175	**1 071**	**122**	**0**	**1 953**	**216**	**1 286**	**7 084**

	Liabilities for life and health policy benefits	Derivative interest rate contracts	Derivative foreign exchange contracts	Derivative equity contracts	Derivative credit contracts	Other derivative contracts	Total
	−293	−948	−41	−54	−1 738	−2 257	−5 331
	−66	−46	−19	5	216	−417	−327
						−97	−97
							0
							0
		1				−1	0
	−359	**−993**	**−60**	**−49**	**−1 522**	**−2 772**	**−5 755**

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 six months ended 30 June 2009 and 2010 were as follows:

USD millions	2009	**2010**
Gains/losses included in net income for the period	–328	–371
Whereof change in unrealised gains/losses relating to assets and liabilities still held at the reporting date	1 548	–773

Other assets measured at net asset value

Other assets measured at net asset value as of 31 December 2009 and 30 June 2010, respectively, were as follows:

USD millions	2009 Fair value	**2010** Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Private equity funds	492	535	495	non-redeemable	na
Hedge funds	356	344		redeemable[1]	90–120 days[2]
Private equity direct	236	218		non-redeemable	na
Real estate funds	132	153	70	non-redeemable[3]	na
Total	1 216	**1 250**	**565**		

[1] The redemption frequency varies from monthly to up to three years.
[2] Cash distribution can be delayed for up to three years depending on the sale of the underlyings.
[3] One exception is a real estate fund that can be redeemed annually based on a 90-day notice period. This redeemable fund had a fair value of USD 16.8 million as of 30 June 2010.

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

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

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

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

Fair value option

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

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

Fixed income securities trading

The Group elected the fair value option for the specific investments acquired within a transaction. These securities are classified as debt securities under the Group's accounting policies. Upon election of the fair value option the securities 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. In the second quarter of 2010, these fixed income securities matured.

Equity securities trading

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

Liabilities for life and health policy benefits

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

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

Pursuant to the election of the fair value option for the items described, the balances as of 31 December 2009 and 30 June 2010 were as follows:

USD millions	2009	**2010**
Assets		
Fixed income securities trading	11 562	9 947
of which at fair value pursuant to the fair value option	782	0[1]
Equity securities trading	19 591	16 711
of which at fair value pursuant to the fair value option	492	407
Liabilities		
Liabilities for life and health policy benefits	–39 944	–37 663
of which at fair value pursuant to the fair value option	–293	–359

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

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

Total gains/losses included in earnings for the six months ended 30 June 2009 and 2010, including foreign exchange impact, were USD 370 million and USD –175 million, respectively. Fair value changes from fixed income securities trading (USD –23 million) and equity securities trading (USD –85 million) are reported in net realised investment gains/losses. Fair value changes from the GMDB reserves (USD –67 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 and 30 June 2010, the fair values and notional amounts of the derivatives outstanding were as follows:

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

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

As of 30 June 2010 USD millions	Notional amount assets/liabilities	Fair value assets	Fair value liabilities	Carrying value assets/liabilities
Derivatives not designated as hedging instruments				
Interest rate contracts	409 675	5 083	–5 104	–21
Foreign exchange contracts	35 555	1 216	–972	244
Equity contracts	15 461	1 652	–840	812
Credit contracts	51 910	2 345	–1 796	549
Other contracts	38 760	397	–2 861	–2 464
Total	**551 361**	**10 693**	**–11 573**	**–880**
Derivatives designated as hedging instruments				
Interest rate contracts	4 683[1]	699		699
Foreign exchange contracts	1 965[1]		–177	–177
Total	**6 648**	**699**	**–177**	**522**
Total derivative financial instruments	**558 009**	**11 392**	**–11 750**	**–358**
Amount offset				
Where a right of setoff exists		–6 720	6 720	
Due to cash collateral		–1 126	227	
Total net amount of derivative financial instruments		**3 546**	**–4 803**	**–1 257**

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

The notional amounts of derivative financial instruments give an indication of the Group's volume of derivative activity. The fair value assets are included in other invested assets and the fair value liabilities are included in accrued expenses and other liabilities. The fair value amounts that were not offset were nil as of 31 December 2009 and 30 June 2010, respectively.

Non-hedging activities

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

	For the three months ended 30 June		For the six months ended 30 June	
USD millions	2009	**2010**	2009	**2010**
Derivatives not designated as hedging instruments				
Interest rate contracts	–91	20	–183	41
Foreign exchange contracts	276	–157	31	–84
Equity contracts	–717	556	–536	292
Credit contracts	–1 278	118	–1 282	–9
Other contracts	212	–375	372	–47
Total gain/loss recognised in income	–1 598	**162**	–1 598	**193**

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 30 June 2009 and 2010, the following hedging relationships were outstanding:

Fair value hedges

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

	For the three months ended 30 June		For the six months ended 30 June	
2009 USD millions	Gains/losses on derivatives	Gains/losses on hedged items	Gains/losses on derivatives	Gains/losses on hedged items
Fair value hedging relationships				
Interest rate contracts	–291	324	–421	493
Total gain/loss recognised in income	–291	324	–421	493

	For the three months ended 30 June		For the six months ended 30 June	
2010 USD millions	Gains/losses on derivatives	Gains/losses on hedged items	Gains/losses on derivatives	Gains/losses on hedged items
Fair value hedging relationships				
Interest rate contracts	279	–251	310	–270
Foreign exchange contracts	–227	249	–359	389
Total gain/loss recognised in income	**52**	**–2**	**–49**	**119**

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 2009 and the six months ended 30 June 2010, the Group recorded an accumulated net unrealised foreign currency remeasurement loss of USD 44 million and a gain of USD 405 million, respectively, in shareholders' equity. These offset translation gains and losses on the hedged net investment.

Maximum potential loss

In consideration of the rights of setoff and the qualifying master netting arrangements with various counterparties, the maximum potential loss as of 31 December 2009 and 30 June 2010 was approximately USD 6 466 million and USD 4 672 million, respectively. The maximum potential loss is based on the positive market replacement cost assuming non-performance of all counterparties, net of cash collateral.

Credit-risk-related contingent features

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

The total fair value of derivative financial instruments containing credit-risk-related contingent features amounted to USD 3 970 million and USD 1 869 million as of 31 December 2009 and 30 June 2010, respectively. For derivative financial instruments containing credit-risk-related contingent features the Group posted collateral of USD 403 million and USD 228 million as of 31 December 2009 and 30 June 2010, respectively. In the event of a reduction of the Group's credit rating to below investment grade, additional collateral would need to be posted with a fair value of USD 3 567 million and USD 1 641 million as of 31 December 2009 and 30 June 2010, respectively. The total equals the amount needed to settle the instruments immediately as of 31 December 2009 and 30 June 2010, respectively.

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

The following tables show the fair values and the maximum potential payout of the credit derivatives written/sold as of 31 December 2009 and 30 June 2010, categorised by the type of credit derivative and credit spreads, which were based on external market data. The fair values represent the gross carrying values, excluding the effects of netting under ISDA master agreements and cash collateral netting. The maximum potential payout is based on the notional values of the derivatives and represents the gross undiscounted future payments the Group would be required to make, assuming the default of all credit derivatives' underlyings.

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

The Group has purchased protection to manage the performance/payment risks related to credit derivatives. As of 31 December 2009 and 30 June 2010, the total purchased credit protection based on notional values was USD 45 462 million and USD 29 296 million, respectively. Thereof USD 14 091 million and USD 12 262 million, respectively, were related to identical underlyings for which the Group sold credit protection. For tranched indexes and baskets, only matching tranches of the respective index were determined as identical. In addition to the purchased credit protection, the Group manages the performance/payment risks through a correlation hedge, which is established with non-identical offsetting positions.

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

As of 31 December 2009 and 30 June 2010, the fair values and maximum potential payout of the written credit derivatives outstanding were as follows:

As of 31 December 2009 USD millions	Total fair values of credit derivatives written/sold	Maximum potential payout (time to maturity) 0–5 years	5–10 years	Over 10 years	Total maximum potential payout
Credit Default Swaps					
Credit spread in basis points					
0 – 250	18	7429	1 836[1]	131	9396
251 – 500	–33	17		188	205
501 – 1 000	–30	24		90	114
Greater than 1 000	–631	392		838[2]	1230
No credit spread available		1033			1033
Total	–676	8895	1836	1247	11978
Credit Index Products					
Credit spread in basis points					
0 – 250	–386	3920	8080	194	12194
251 – 500	44	95	138		233
501 – 1 000	–3	422	29		451
Greater than 1 000	–78	109			109
Total	–423	4546	8247	194	12987
Total Return Swaps					
Credit spread in basis points					
No credit spread available	82	5414	581		5995
Total	82	5414	581	0	5995
Total credit derivatives written/sold	–1017	18855	10664	1441	30960

[1] The Group terminated substantially all Portfolio CDS in the second quarter of 2009.
[2] The Group settled substantially all Structured CDS in the first quarter of 2009.

As of 30 June 2010 USD millions	Total fair values of credit derivatives written/sold	Maximum potential payout (time to maturity) 0–5 years	5–10 years	Over 10 years	Total maximum potential payout
Credit Default Swaps					
Credit spread in basis points					
0 – 250	–37	6 506	1 247	41	7 794
251 – 500	–22	277	3	95	375
501 – 1 000	–36	150		85	235
Greater than 1 000	–356	40		572	612
No credit spread available		972			972
Total	**–451**	**7 945**	**1 250**	**793**	**9 988**
Credit Index Products					
Credit spread in basis points					
0 – 250	–157	1 444	8 017	166	9 627
251 – 500	–391	2 766	204		2 970
501 – 1 000	14		29		29
Greater than 1 000					0
Total	**–534**	**4 210**	**8 250**	**166**	**12 626**
Total Return Swaps					
Credit spread in basis points					
No credit spread available	71	1 493	581		2 074
Total	**71**	**1 493**	**581**	**0**	**2 074**
Total credit derivatives written/sold	**–914**	**13 648**	**10 081**	**959**	**24 688**

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

For the twelve months ended 31 December 2009 and the six months ended 30 June 2010, the DAC and PVFP were as follows:

USD millions	2009 DAC	2009 PVFP	2010 DAC	2010 PVFP
Opening balance as of 1 January	4050	5768	3894	6054
Cumulative effect of adoption of FSP SFAS 115-2		5		
Cumulative effect of adoption of SFAS 163	–23			
Deferred	2074		1066	
Effect of acquisitions/disposals and retrocessions		372	–212	–1206
Amortisation	–2440	–483	–1082	–306
Interest accrued on unamortised PVFP		119		64
Effect of foreign currency translation	233	267	–128	–192
Effect of change in unrealised gains/losses		6		–122
Closing balance as of period end	3894	6054	**3538**	**4292**

The amortisation of DAC for the full year 2009 was USD 2 153 million for Property & Casualty and USD 287 million for Life & Health. In the first six months of 2010, the DAC amortisation represented USD 915 million and USD 167 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.

6 Debt

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

As of 1 January 2010, the Group adopted ASU No.2009-17 relating to consolidation of variable interest entities. For more information on the transition impact on debt, please refer to Note 12.

The Group's debt as of 31 December 2009 and 30 June 2010 was as follows:

USD millions	2009	**2010**
Senior operational debt	8024	5770
Subordinated financial debt	81	555
Short-term debt – financial and operational debt	8105	**6325**
Senior financial debt	1487	2115
Senior operational debt	7005	7907
Subordinated financial debt	5370	4401
Subordinated operational debt	5322	5020
Long-term debt – financial and operational debt	19184	**19443**
Total carrying value	27289	**25768**
Total fair value	25391	**24176**

The Group uses debt for general corporate purposes and to fund discrete pools of operational leverage and financial intermediation assets. Operational leverage and financial intermediation are subject to asset and liability matching resulting in little to no risk that the assets will be insufficient to service and settle the liabilities. Debt used for operational leverage and financial intermediation is treated as operational debt and excluded by the rating agencies from financial leverage calculations. Certain debt positions are limited recourse, meaning the debtors' claims are limited to assets underlying the financing. As of 31 December 2009 and 30 June 2010, debt related to operational leverage and financial intermediation amounted to USD 20.4 billion (thereof USD 6.0 billion limited recourse) and USD 18.7 billion (thereof USD 7.1 billion limited recourse), respectively.

Interest expense on long-term debt

Interest expense on long-term debt for the periods ended 30 June 2009 and 2010 was as follows:

	Three months ended 30 June		Six months ended 30 June	
USD millions	2009	**2010**	2009	**2010**
Senior financial debt	3	16	8	36
Senior operational debt[1]	64	93	115	179
Subordinated financial debt	65	66	132	136
Subordinated operational debt	61	59	118	121
Total	193	**234**	373	**472**

[1] In the Group's 2009 annual financial statements, certain debt positions and the related interest expense were reclassified from senior operational long-term debt to senior operational short-term debt as they are unconditionally callable by the creditor at short notice.

Long-term debt issued in 2010

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

7 Reinsurance information

For the three months ended 30 June

Premiums written, premiums earned and fees assessed against policyholders

USD millions	Non-Life	Life & Health	2009 Total	Non-Life	Life & Health	2010 Total
Premiums written						
Direct	487	315	802	434	332	766
Assumed	2970	2249	5219	2520	2337	4857
Ceded	–880	–164	–1044	–763	–530	–1293
Total premiums written	2577	2400	4977	**2191**	**2139**	**4330**
Premiums earned						
Direct	465	315	780	412	336	748
Assumed	3634	2233	5867	2723	2371	5094
Ceded	–910	–159	–1069	–631	–532	–1163
Total premiums earned	3189	2389	5578	**2504**	**2175**	**4679**
Fee income from policyholders						
Direct		164	164		161	161
Assumed		58	58		64	64
Ceded		–24	–24		–4	–4
Total fee income from policyholders		198	198		**221**	**221**

Claims and claim adjustment expenses

USD millions	Non-Life	Life & Health	2009 Total	Non-Life	Life & Health	2010 Total
Claims						
Claims paid, gross	–3734	–3404	–7138	–3593	–2673	–6266
Claims paid, retro	626	195	821	600	590	1190
Claims paid, net	–3108	–3209	–6317	–2993	–2083	–5076
Change in unpaid claims and claim adjustment expenses; life and health benefits, gross	1176	1105	2281	1503	74	1577
Change in unpaid claims and claim adjustment expenses; life and health benefits, retro	–269	–10	–279	–330	–14	–344
Change in unpaid claims and claim adjustment expenses; life and health benefits, net	907	1095	2002	1173	60	1233
Claims and claim adjustment expenses; life and health benefits	–2201	–2114	–4315	**–1820**	**–2023**	**–3843**

Acquisition costs

USD millions	Non-Life	Life & Health	2009 Total	Non-Life	Life & Health	2010 Total
Acquisition costs						
Acquisition costs, gross	–764	–548	–1312	–659	–646	–1305
Acquisition costs, retro	249	31	280	211	53	264
Acquisition costs, net	–515	–517	–1032	**–448**	**–593**	**–1041**

For the six months ended 30 June

Premiums written, premiums earned and fees assessed against policyholders

USD millions	Non-Life	Life & Health	2009 Total	Non-Life	Life & Health	2010 Total
Premiums written						
Direct	890	643	1 533	739	576	1 315
Assumed	8 625	4 383	13 008	7 823	4 831	12 654
Ceded	–2 292	–332	–2 624	–1 947	–1 033	–2 980
Total premiums written	7 223	4 694	11 917	**6 615**	**4 374**	**10 989**
Premiums earned						
Direct	951	643	1 594	841	578	1 419
Assumed	7 371	4 364	11 735	5 907	4 746	10 653
Ceded	–1 744	–327	–2 071	–1 392	–1 033	–2 425
Total premiums earned	6 578	4 680	11 258	**5 356**	**4 291**	**9 647**
Fee income from policyholders						
Direct		311	311		326	326
Assumed		124	124		124	124
Ceded		–50	–50		–8	–8
Total fee income from policyholders		385	385		**442**	**442**

Claims and claim adjustment expenses

USD millions	Non-Life	Life & Health	2009 Total	Non-Life	Life & Health	2010 Total
Claims						
Claims paid, gross	–6 387	–5 862	–12 249	–6 131	–5 281	–11 412
Claims paid, retro	789	486	1 275	956	732	1 688
Claims paid, net	–5 598	–5 376	–10 974	–5 175	–4 549	–9 724
Change in unpaid claims and claim adjustment expenses; life and health benefits, gross	1 160	1 548	2 708	1 423	130	1 553
Change in unpaid claims and claim adjustment expenses; life and health benefits, retro	–63	–126	–189	–420	371	–49
Change in unpaid claims and claim adjustment expenses; life and health benefits, net	1 097	1 422	2 519	1 003	501	1 504
Claims and claim adjustment expenses; life and health benefits	–4 501	–3 954	–8 455	**–4 172**	**–4 048**	**–8 220**

Acquisition costs

USD millions	Non-Life	Life & Health	2009 Total	Non-Life	Life & Health	2010 Total
Acquisition costs						
Acquisition costs, gross	–1 575	–1 178	–2 753	–1 380	–1 144	–2 524
Acquisition costs, retro	472	60	532	440	152	592
Acquisition costs, net	–1 103	–1 118	–2 221	**–940**	**–992**	**–1 932**

Reinsurance assets and liabilities

The reinsurance assets and liabilities as of 31 December 2009 and 30 June 2010, respectively, were as follows:

USD millions	Non-Life	Life & Health	2009 Total	Non-Life	Life & Health	2010 Total
Assets						
Reinsurance recoverable	6 307	4 944	11 251	5 686	6 877	12 563
Deferred acquisition costs	869	3 025	3 894	876	2 662	3 538
Liabilities						
Unpaid claims and claim adjustment expenses	57 015	11 397	68 412	52 961	10 614	63 575
Life and health policy benefits		39 944	39 944		37 663	37 663
Policyholder account balances		36 692	36 692		34 203	34 203

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8 Earnings per share

Earnings per share for the periods ended 30 June were as follows:

USD millions (except share data)	Three months ended 30 June 2009	Three months ended 30 June 2010	Six months ended 30 June 2009	Six months ended 30 June 2010
Basic earnings per share				
Net income	–280	**930**	–144	**1 203**
Non-controlling interests		**–53**		**–100**
Interest on convertible perpetual capital instrument	–62	**–65**	–68	**–133**
Net income/loss attributable to common shareholders	–342	**812**	–212	**970**
Weighted average common shares outstanding	337 072 637	**342 655 787**	336 347 246	**342 634 283**
Net income per share in USD	–1.01	**2.37**	–0.63	**2.83**
Net income per share in CHF[1]	–1.13	**2.56**	–0.69	**3.06**
Effect of dilutive securities				
Change in income available to common shares due to convertible bonds		**72**		**144**
Change in average number of shares due to convertible bonds and employee options		**134 671 732**		**134 681 915**
Diluted earnings per share				
Net income assuming debt conversion and exercise of options		**884**		**1 114**
Weighted average common shares outstanding		**477 327 519**		**477 316 198**
Net income per share in USD	–1.01	**1.85**	–0.63	**2.33**
Net income per share in CHF[1]	–1.13	**1.99**	–0.69	**2.50**

[1] The translation from USD to CHF is shown for informational purposes only and has been calculated at the Group's average exchange rates for the three months ended 30 June 2009 and 2010, respectively and for the six months ended 30 June 2009 and 2010, respectively.

In March 2009, Swiss Re Zurich issued to National Indemnity Company, a subsidiary of Berkshire Hathaway Inc, a convertible perpetual capital instrument. The instrument has an aggregate face value of CHF 3 000 000 000, with a fixed coupon at a rate of 12% per annum. The coupon 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.

9 Benefit plans

Defined benefit pension plans and post-retirement benefits

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

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

Components of net periodic benefit cost

The components of pension and post-retirement cost for the six months ended 30 June 2009 and 2010, respectively, were as follows:

		Swiss plans pension benefits		Foreign plans pension benefits		Other benefits
USD millions	2009	**2010**	2009	**2010**	2009	**2010**
Service cost (net of participant contributions)	45	40	20	6	4	3
Interest cost	41	41	45	51	6	7
Expected return on assets	–66	–61	–49	–53		
Amortisation of:						
Net gain/loss	4	5	3	7	–6	–6
Prior service cost	4	3			–6	–5
Effect of settlement, curtailment and termination	3	1				
Net periodic benefit cost	31	**29**	19	**11**	–2	**–1**

Employer's contributions for 2010

As of 30 June 2010, the Group contributed USD 76 million to its defined benefit pension plans and USD 7 million to other post-retirement plans, compared to USD 135 million and USD 6 million, respectively, in the same period of 2009.

The expected 2010 contributions to the defined benefit pension plans and to the post-retirement benefit plans, revised as of 30 June 2010 for latest information, amount to USD 122 million (30 June 2009: USD 187 million) and USD 14 million (30 June 2009: USD 13 million), respectively.

10 Contingent liabilities

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 USD 1 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 2009, to which Swiss Re submitted a reply brief on 9 October 2009. A further hearing on the motion to dismiss was held on 29 July 2010. The parties are awaiting the court's decision.

11 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 in our annual consolidated financial statements).

a) Business segment results

For the three months ended 30 June

2009 USD millions	Property & Casualty	Life & Health	Asset Management	Legacy	Group items	Allocation	Total
Revenues							
Premiums earned	3178	2389		11			5578
Fee income from policyholders		198					198
Net investment income/loss	619	850	1191	88	55	–993	1810
Net realised investment gains/losses	25	819	–734	95	–473		–268
Other revenues	10		15		18		43
Total revenues	3832	4256	472	194	–400	–993	7361
Expenses							
Claims and claim adjustment expenses; life and health benefits	–2073	–2114		–128			–4315
Return credited to policyholders		–1452					–1452
Acquisition costs	–514	–517		–1			–1032
Other expenses	–349	–181			–211	–18	–759
Interest expenses					–222		–222
Total expenses	–2936	–4264	0	–129	–433	–18	–7780
Operating income/loss	896	–8	472	65	–833	–1011	–419

2010 USD millions	Property & Casualty	Life & Health	Asset Management	Legacy	Group items	Allocation	Total
Revenues							
Premiums earned	2510	2175		–6			4679
Fee income from policyholders		221					221
Net investment income/loss	435	781	896	55	37	–844	1360
Net realised investment gains/losses	56	–1840	325	–107	549		–1017
Other revenues	–2		8		5		11
Total revenues	**2999**	**1337**	**1229**	**–58**	**591**	**–844**	**5254**
Expenses							
Claims and claim adjustment expenses; life and health benefits	–1821	–2023		1			–3843
Return credited to policyholders		1614					1614
Acquisition costs	–451	–593		3			–1041
Other expenses	–272	–193			–137		–602
Interest expenses					–259		–259
Total expenses	**–2544**	**–1195**	**0**	**4**	**–396**	**0**	**–4131**
Operating income/loss	**455**	**142**	**1229**	**–54**	**195**	**–844**	**1123**

The allocation is based on technical reserves and other information, including duration of the underlying liabilities, and was allocated in the three months ended 30 June of 2009 and 2010 as follows:

USD millions, for the three months ended 30 June 2009	Property & Casualty	Life & Health	Asset Management	Allocation
Net investment income/loss	517	494	–18	–993

USD millions, for the three months ended 30 June 2010	Property & Casualty	Life & Health	Asset Management	Allocation
Net investment income/loss	411	433	0	–844

Business segment results
For the six months ended 30 June

2009 USD millions	Property & Casualty	Life & Health	Asset Management	Legacy	Group items	Allocation	Total
Revenues							
Premiums earned	6557	4680		21			11258
Fee income from policyholders		385					385
Net investment income/loss	1174	1608	2036	148	144	–1993	3117
Net realised investment gains/losses	62	–738	–617	58	–1057		–2292
Other revenues	21		31	1	28		81
Total revenues	7814	5935	1450	228	–885	–1993	12549
Expenses							
Claims and claim adjustment expenses; life and health benefits	–4353	–3954		–148			–8455
Return credited to policyholders		–271					–271
Acquisition costs	–1098	–1118		–5			–2221
Other expenses	–621	–356			–319	–37	–1333
Interest expenses					–466		–466
Total expenses	–6072	–5699	0	–153	–785	–37	–12746
Operating income/loss	1742	236	1450	75	–1670	–2030	–197

2010 USD millions	Property & Casualty	Life & Health	Asset Management	Legacy	Group items	Allocation	Total
Revenues							
Premiums earned	5361	4291		–5			9647
Fee income from policyholders		442					442
Net investment income/loss	907	1533	1918	133	73	–1725	2839
Net realised investment gains/losses	108	–465	234	–155	641		363
Other revenues	–2		14		17		29
Total revenues	**6374**	**5801**	**2166**	**–27**	**731**	**–1725**	**13320**
Expenses							
Claims and claim adjustment expenses; life and health benefits	–4173	–4048		1			–8220
Return credited to policyholders		4					4
Acquisition costs	–945	–992		5			–1932
Other expenses	–542	–378			–252		–1172
Interest expenses					–537		–537
Total expenses	**–5660**	**–5414**	**0**	**6**	**–789**	**0**	**–11857**
Operating income/loss	**714**	**387**	**2166**	**–21**	**–58**	**–1725**	**1463**

The allocation is based on technical reserves and other information, including duration of the underlying liabilities, and was allocated in the six months ended 30 June of 2009 and 2010 as follows:

USD millions, for the six months ended 30 June 2009	Property & Casualty	Life & Health	Asset Management	Allocation
Net investment income/loss	1046	984	–37	–1993

USD millions, for the six months ended 30 June 2010	Property & Casualty	Life & Health	Asset Management	Allocation
Net investment income/loss	838	887	0	–1725

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

For the three months ended 30 June

2009 USD millions	Property traditional	Casualty traditional	Specialty traditional	Total traditional	Non-traditional	Total
Revenues						
Premiums earned	1 163	1 009	903	3 075	103	3 178
Net investment income	53	368	81	502	117	619
Net realised investment gains/losses	16		–1	15	10	25
Other revenues			–2	–2	12	10
Total revenues	1 232	1 377	981	3 590	242	3 832
Expenses						
Claims and claim adjustment expenses	–524	–742	–640	–1 906	–167	–2 073
Acquisition costs	–165	–164	–182	–511	–3	–514
Other expenses	–97	–140	–90	–327	–22	–349
Total expenses	–786	–1 046	–912	–2 744	–192	–2 936
Operating income	446	331	69	846	50	896
Claims ratio in %	45.1	73.6	70.8	62.0		
Expense ratio in %	22.6	30.2	30.3	27.4		
Combined ratio in %	67.7	103.8	101.1	89.4		

2010 USD millions	Property traditional	Casualty traditional	Specialty traditional	Total traditional	Non-traditional	Total
Revenues						
Premiums earned	953	823	650	2 426	84	2 510
Net investment income	28	313	62	403	32	435
Net realised investment gains/losses	–2		37	35	21	56
Other revenues	–1			–1	–1	–2
Total revenues	**978**	**1 136**	**749**	**2 863**	**136**	**2 999**
Expenses						
Claims and claim adjustment expenses	–624	–758	–356	–1 738	–83	–1 821
Acquisition costs	–149	–186	–140	–475	24	–451
Other expenses	–124	–83	–54	–261	–11	–272
Total expenses	**–897**	**–1 027**	**–550**	**–2 474**	**–70**	**–2 544**
Operating income	**81**	**109**	**199**	**389**	**66**	**455**
Claims ratio in %	65.5	92.1	54.8	71.7		
Expense ratio in %	28.6	32.7	29.8	30.3		
Combined ratio in %	94.1	124.8	84.6	102.0		

Property & Casualty business segment – by line of business
For the six months ended 30 June

2009 USD millions	Property traditional	Casualty traditional	Specialty traditional	Total traditional	Non-traditional	Total
Revenues						
Premiums earned	2 387	2 143	1 775	6 305	252	6 557
Net investment income	114	728	170	1 012	162	1 174
Net realised investment gains/losses	48			48	14	62
Other revenues					21	21
Total revenues	2 549	2 871	1 945	7 365	449	7 814
Expenses						
Claims and claim adjustment expenses	–1 196	–1 584	–1 215	–3 995	–358	–4 353
Acquisition costs	–382	–347	–366	–1 095	–3	–1 098
Other expenses	–152	–258	–158	–568	–53	–621
Total expenses	–1 730	–2 189	–1 739	–5 658	–414	–6 072
Operating income	819	682	206	1 707	35	1 742
Claims ratio in %	50.3	73.9	68.4	63.4		
Expense ratio in %	22.4	28.2	29.6	26.4		
Combined ratio in %	72.7	102.1	98.0	89.8		

2010 USD millions	Property traditional	Casualty traditional	Specialty traditional	Total traditional	Non-traditional	Total
Revenues						
Premiums earned	2 098	1 686	1 382	5 166	195	5 361
Net investment income	67	621	137	825	82	907
Net realised investment gains/losses	–5		35	30	78	108
Other revenues	–1			–1	–1	–2
Total revenues	**2 159**	**2 307**	**1 554**	**6 020**	**354**	**6 374**
Expenses						
Claims and claim adjustment expenses	–1 773	–1 468	–792	–4 033	–140	–4 173
Acquisition costs	–292	–352	–275	–919	–26	–945
Other expenses	–233	–185	–101	–519	–23	–542
Total expenses	**–2 298**	**–2 005**	**–1 168**	**–5 471**	**–189**	**–5 660**
Operating income/loss	**–139**	**302**	**386**	**549**	**165**	**714**
Claims ratio in %	84.5	87.0	57.3	78.1		
Expense ratio in %	25.0	31.9	27.2	27.8		
Combined ratio in %	109.5	118.9	84.5	105.9		

c) Life & Health business segment – by line of business
For the three months ended 30 June

2009 USD millions	Life traditional	Health traditional	Admin Re®	Total
Revenues				
Premiums earned	1718	451	220	2389
Fee income from policyholders	12		186	198
Net investment income	188	102	560	850
Net realised investment gains/losses	–208	180	847	819
Other revenues				
Total revenues	1710	733	1813	4256
Expenses				
Claims and claim adjustment expenses; life and health benefits	–1316	–143	–655	–2114
Return credited to policyholders	–305		–1147	–1452
Acquisition costs	–353	–102	–62	–517
Other expenses	–95	–22	–64	–181
Total expenses	–2069	–267	–1928	–4264
Operating income/loss	–359	466	–115	–8
Operating result, excluding non-participating net realised investment gains/losses	154	286	–4	436
Net investment income – unit-linked	11		184	195
Net investment income – with-profit business			60	60
Net investment income – non-participating	177	102	316	595
Net realised investment gains/losses – unit-linked	305		826	1131
Net realised investment gains/losses – with-profit business			132	132
Net realised investment gains/losses – non-participating	–513	180	–111	–444
Operating revenues[1]	1907	553	722	3182
Management expense ratio in %	5.0	4.0	8.9	5.7
Benefit ratio[2] in %				78.6

[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 three months ended 30 June

2010 USD millions	Life traditional	Health traditional	Admin Re®	Total
Revenues				
Premiums earned	1 411	519	245	2 175
Fee income from policyholders	17		204	221
Net investment income	150	77	554	781
Net realised investment gains/losses		–5	–1 835	–1 840
Other revenues				
Total revenues	**1 578**	**591**	**–832**	**1 337**
Expenses				
Claims and claim adjustment expenses; life and health benefits	–1 253	–370	–400	–2 023
Return credited to policyholders	140		1 474	1 614
Acquisition costs	–315	–121	–157	–593
Other expenses	–88	–37	–68	–193
Total expenses	**–1 516**	**–528**	**849**	**–1 195**
Operating income	**62**	**63**	**17**	**142**
Operating result, excluding non-participating net realised investment gains/losses	**–97**	**68**	**2**	**–27**
Net investment income – unit-linked	13		163	176
Net investment income – with-profit business			37	37
Net investment income – non-participating	137	77	354	568
Net realised investment gains/losses – unit-linked	–159		–1 767	–1 926
Net realised investment gains/losses – with-profit business			–83	–83
Net realised investment gains/losses – non-participating	159	–5	15	169
Operating revenues[1]	**1 565**	**596**	**803**	**2 964**
Management expense ratio in %	5.6	6.2	8.5	6.5
Benefit ratio[2] in %				93.5

[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 six months ended 30 June

2009 USD millions	Life traditional	Health traditional	Admin Re®	Total
Revenues				
Premiums earned	3 383	867	430	4 680
Fee income from policyholders	29		356	385
Net investment income	367	190	1 051	1 608
Net realised investment gains/losses	–292	177	–623	–738
Other revenues				
Total revenues	3 487	1 234	1 214	5 935
Expenses				
Claims and claim adjustment expenses; life and health benefits	–2 571	–502	–881	–3 954
Return credited to policyholders	–162		–109	–271
Acquisition costs	–698	–183	–237	–1 118
Other expenses	–172	–59	–125	–356
Total expenses	–3 603	–744	–1 352	–5 699
Operating income/loss	–116	490	–138	236
Operating result, excluding non-participating net realised investment gains/losses	317	313	–12	618
Net investment income – unit-linked	16		309	325
Net investment income – with-profit business			94	94
Net investment income – non-participating	351	190	648	1 189
Net realised investment gains/losses – unit-linked	141		–439	–298
Net realised investment gains/losses – with-profit business			–58	–58
Net realised investment gains/losses – non-participating	–433	177	–126	–382
Operating revenues[1]	3 763	1 057	1 434	6 254
Management expense ratio in %	4.6	5.6	8.7	5.7
Benefit ratio[2] in %				82.6

[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 six months ended 30 June

2010 USD millions	Life traditional	Health traditional	Admin Re®	Total
Revenues				
Premiums earned	2 886	1 000	405	4 291
Fee income from policyholders	32		410	442
Net investment income	311	156	1 066	1 533
Net realised investment gains/losses	114	–7	–572	–465
Other revenues				
Total revenues	**3 343**	**1 149**	**1 309**	**5 801**
Expenses				
Claims and claim adjustment expenses; life and health benefits	–2 274	–780	–994	–4 048
Return credited to policyholders	21		–17	4
Acquisition costs	–622	–190	–180	–992
Other expenses	–168	–68	–142	–378
Total expenses	**–3 043**	**–1 038**	**–1 333**	**–5 414**
Operating income/loss	**300**	**111**	**–24**	**387**
Operating result, excluding non-participating net realised investment gains/losses	**120**	**118**	**–37**	**201**
Net investment income – unit-linked	23		300	323
Net investment income – with-profit business			74	74
Net investment income – non-participating	288	156	692	1 136
Net realised investment gains/losses – unit-linked	–66		–605	–671
Net realised investment gains/losses – with-profit business			20	20
Net realised investment gains/losses – non-participating	180	–7	13	186
Operating revenues[1]	**3 206**	**1 156**	**1 507**	**5 869**
Management expense ratio in %	5.2	5.9	9.4	6.4
Benefit ratio[2] in %				90.4

[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 three months ended 30 June

2009 USD millions	Credit & Rates	Equity & Alternative Investments	Total
Revenues			
Net investment income/loss	1 102	89	1 191
Net realised investment gains/losses	–637	–97	–734
Other revenues	16	–1	15
Total revenues	481	–9	472
Operating income/loss	481	–9	472

2010 USD millions	Credit & Rates	Equity & Alternative Investments	Total
Revenues			
Net investment income	810	86	896
Net realised investment gains/losses	280	45	325
Other revenues	2	6	8
Total revenues	**1 092**	**137**	**1 229**
Operating income	**1 092**	**137**	**1 229**

For the six months ended 30 June

2009 USD millions	Credit & Rates	Equity & Alternative Investments	Total
Revenues			
Net investment income/loss	2 213	–177	2 036
Net realised investment gains/losses	–535	–82	–617
Other revenues	31		31
Total revenues	1 709	–259	1 450
Operating income/loss	1 709	–259	1 450

2010 USD millions	Credit & Rates	Equity & Alternative Investments	Total
Revenues			
Net investment income	1 669	249	1 918
Net realised investment gains/losses	234		234
Other revenues	2	12	14
Total revenues	**1 905**	**261**	**2 166**
Operating income	**1 905**	**261**	**2 166**

12 Variable interest entities

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

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

According to the amendment, the party that has a controlling financial interest is called the primary beneficiary and consolidates the VIE. An enterprise is deemed to have a controlling financial interest if it has both of the following:
- the power to direct the activities of the VIE that most significantly impact the entity's economic performance; and
- the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

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

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

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

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

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

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

The total assets of the insurance-linked and credit-linked securitisation vehicles, in which the Group holds variable interests but is not the primary beneficiary, was USD 4 111 million as of 30 June 2010.

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

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

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

The total assets of the debt financing vehicles in which the Group holds variable interests but is not the primary beneficiary was USD 5 072 million as of 30 June 2010.

Other

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

The total assets of other VIEs, in which the Group holds variable interests but is not the primary beneficiary, was USD 3 189 million as of 30 June 2010.

The Group did not provide financial or other support to any VIEs in the second quarter of 2010 that it was not previously contractually required to provide.

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

From first quarter 2010 on, additional entities are included in the VIE disclosures due to a different materiality threshold and scope exceptions for disclosures under ASU No. 2009-17.

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

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

The following table shows the total assets and liabilities on the Group's balance sheet relating to VIEs of which the Group is the primary beneficiary as of 31 December 2009 and 30 June 2010.

USD millions	2009	2010
Fixed income securities:		
Available-for-sale (whereof restricted: 2009: 5 447; 2010: 8 090)	7 443	8 090
Trading (whereof restricted: 2009: 988; 2010: 0)	1 132	20
Policy loans, mortgages and other loans (whereof restricted: 2010: 206)	217	566
Short-term investments (whereof restricted: 2010: 1 194)		1 194
Other invested assets	104	1 858
Cash and cash equivalents (whereof restricted: 2009: 136; 2010: 810)	302	816
Accrued investment income (whereof restricted: 2009: 42; 2010: 75)	73	75
Premiums and other receivables (whereof restricted: 2010: 11)	15	11
Reinsurance recoverable on unpaid claims and policy benefits (whereof restricted: 2010: 10)	10	10
Income taxes recoverable (whereof restricted: 2010: 19)		19
Acquired present value of future profits (whereof restricted: 2010: 15)	74	15
Other assets (whereof restricted: 2009: 27; 2010: 707)	27	719
Total assets	9 397	**13 393**
Unpaid claims and claim adjustment expenses (whereof limited recourse: 2010: 18)	19	18
Liabilities for life and health policy benefits (whereof limited recourse: 2010: 1 196)	1 218	1 196
Policyholder account balances (whereof limited recourse: 2010: 1 475)	1 515	1 475
Reinsurance balances payable (whereof limited recourse: 2010: 4)	10	4
Deferred and other non-current taxes (whereof limited recourse: 2010: 85)	40	85
Short-term debt (whereof limited recourse: 2010: 641)		2 356
Accrued expenses and other liabilities (whereof limited recourse: 2010: 184)	486	184
Long-term debt (whereof limited recourse: 2010: 5 871)	5 377	5 871
Total liabilities	8 665	**11 189**

As of 30 June 2010, the consolidation of the VIEs resulted in non-controlling interests in the balance sheet of USD 395 million (31 December 2009: USD 394 million). The net non-controlling interests in income were USD 11 million and USD –1 million net of tax for the periods ended 30 June 2009 and 2010, respectively.

The following table shows the total assets of VIEs of which the Group is the primary beneficiary for the periods ended 31 December 2009 and 30 June 2010.

USD millions	2009	2010
Insurance-linked/Credit-linked securitisations	158	1 817
Debt financing	6 077	8 187
Modified coinsurance agreement	3 242	3 363
Other	26	26
Total	9 503	**13 393**

The following table shows the Group's assets as of 30 June 2010, liabilities and maximum exposure to loss as of 31 December 2009 and 30 June 2010 which are related to VIEs in which the Group holds a variable interest but is not the primary beneficiary.

	2009			**2010**			
USD millions	Total liabilities	Maximum exposure to loss	Difference between exposure and liabilities	Total assets	Total liabilities	Maximum exposure to loss	Difference between exposure and liabilities
Insurance-linked/ Credit-linked securitisations	173	5042	4869	37	87	2115	2028
Swaps in trusts				479	439	–[1]	–
Debt financing		201	201	1081		207	207
Other	422	1222	800	224	214	1059	845
Total	595	6465	5870	**1821**	**740**	**–[1]**	**–**

[1] The maximum exposure to loss for swaps in trusts cannot be meaningfully quantified due to their derivative character.

The liabilities of USD 87 million as of 30 June 2010 for insurance-linked and credit-linked securitisations represent mainly 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.

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

Liabilities are recognised for certain debt financing VIEs when losses occur. To date the respective debt financing VIEs have not incurred any losses. Liabilities of USD 214 million recognised for the 'Other' category reflect the decline in value of the VIEs' assets which are guaranteed by the Group.

Note on risk factors

General impact of adverse market conditions
Beginning in 2007, the global financial markets experienced extreme volatility and disruption, due in large part to turmoil affecting the liquidity of the banking system and the market reaction thereto. The impact of the turmoil in the financial markets was exacerbated by adverse macroeconomic trends affecting a number of the principal economies. Volatility and disruption reached unprecedented levels. It is difficult to predict what the impact of market and economic conditions would be on the Group from a general business perspective or from a capital or liquidity perspective were conditions to again deteriorate.

Swiss Re and its subsidiaries are regulated in a number of jurisdictions in which they conduct business. New legislation as well as changes to existing legislation have been proposed in a number of jurisdictions that seek to alter, in a variety of ways, the manner in which the financial services industry is regulated. Although it is difficult to predict which proposals will become law, it is likely that aspects of existing regulatory regimes governing financial services will change. These may include changes as to which governmental bodies regulate financial institutions, changes in the way financial institutions generally are regulated, enhanced governmental authority to take control over operations of financial institutions, restrictions on the conduct of certain lines of business, changes in the way financial institutions account for transactions and securities positions, changes in disclosure obligations and changes in the way rating agencies rate the creditworthiness and financial strength of financial institutions. Changes, for example, could impact capital requirements or have other direct or indirect effects on the Group. Changes may also occur in areas of broader application, such as competition policy and tax laws. Any number of these changes could apply to the Group and its operations. These changes could increase the costs of doing business, limit the scope of business or affect the competitive balance, or could make reinsurance less attractive to primary insurers.

Market risk
Volatility and disruption in the global financial markets can expose the Group to significant financial and capital markets risk, including changes in interest rates, credit spreads, equity prices and foreign currency exchange rates, which may adversely impact the Group's financial condition, results of operations and liquidity. The Group's exposure to interest rate risk is primarily related to the market price and cash flow variability associated with changes in interest rates. Exposure to credit spreads primarily relates to market price and cash flow variability associated with changes in credit spreads. When credit spreads widen, the net unrealised loss position of the Group's investment portfolio can increase, as could other-than-temporary impairments. With respect to equity prices, the Group is exposed to changes in the level and volatility of equity prices, as they affect the value of equity securities themselves as well as the value of securities or instruments that derive their value from a particular equity security, a basket of equity securities or a stock index. The Group is also subject to equity price risk to the extent that the value of life-related benefits under certain life contracts, most notably variable annuity business, are tied to financial market values; to the extent market values fall, the financial exposure on guarantees related to these contracts would increase to the extent this exposure is not hedged. While the Group has an extensive hedging programme for variable annuities, certain risks cannot be hedged, including actuarial risks, basis risk and correlation risk. Exposure to foreign exchange risk arises from exposures to changes in spot prices, forward prices and volatile movements in exchange rates.

These risks can have a significant effect on investment returns, which in turn may affect both the Group's results of operations and financial condition. The Group is focused on asset-liability management for its investment portfolio, but pursuing even this strategy has its risks, including possible mismatch, that in turn can lead to reinvestment risk. The Group seeks to manage the risks inherent in its investment portfolio by repositioning the portfolio from time to time, as needed, and to reduce risk and fluctuations through the use of hedges and other risk management tools. The Group has moved to reduce risk to the portfolio by repositioning the components of the portfolio and, as a result, profitability will potentially be impacted, and, unless offset by underwriting returns, will be reduced.

Credit risk
Like other financial institutions, the Group was adversely impacted by the deterioration in the credit markets beginning in 2007. During this period, the unprecedented and severe ratings downgrades that the Group and others experienced, and the absence of a liquid market for credit-related and other securities, resulted in a significant and material reduction in the value of the underlying assets. Although the Group has taken significant steps to de-risk its portfolio and reposition its assets, if the credit markets were again to deteriorate, the Group could experience further losses. Changes in the market value of the underlying securities and other factors impacting their price could give rise to market value losses. If the credit markets were to deteriorate again, the Group could face further write-downs in other areas of its portfolio, including other structured instruments, and the Group and its counterparties could once again face difficulties in valuing credit-related instruments.

Valuation processes can produce significantly different outcomes, which could create additional uncertainty and differences of opinion among counterparties to swaps and other similar instruments as to obligations in respect of collateral and other terms of such instruments. These differences in opinion, in turn, could result in legal disputes among counterparties as to their respective obligations, the outcomes of which are difficult to predict and could be material.

The Group becomes aware of counterparty valuations either directly, through the exchange of information, or indirectly, for example, through demands to post collateral. These valuations may differ significantly from the Group's estimates. Counterparty valuation estimates for collateral purposes are considered during the independent price verification process and may result in adjustments to initially indicated valuations. Resolution of any dispute in relation to asset valuation in which the Group may become involved with counterparties, in a manner adverse to it could have a material adverse effect on the Group's financial condition and results of operations.

Liquidity risks
The Group's business requires, and its clients expect, that it has sufficient capital and sufficient liquidity to meet its reinsurance obligations, and that that would continue to be the case following the occurrence of any event or series of events, including extreme catastrophes, that would trigger insurance or reinsurance coverage obligations. The Group's uses of funds include obligations arising in its reinsurance business (including claims and other payments as well as insurance provision repayments due to portfolio transfers, securitisations and commutations), which may include large and unpredictable claims (including catastrophe claims), funding of capital requirements and operating costs, payment of principal and interest on outstanding indebtedness and funding of acquisitions. The Group also enters into contracts or trading arrangements that could give rise to significant short-term funding obligations and, in connection with the Group's trading operations, it could be subject to unexpected calls to deliver collateral or unwind trading positions at a net cost to it. The Group also has unfunded capital commitments in its private equity and hedge fund investments, which could result in funding obligations at a time when it is subject to liquidity constraints.

The Group manages liquidity and funding risks by focusing on the liquidity stress that is likely to result from extreme capital markets scenarios or from extreme insurance events or combinations of the two. Generally, the ability to meet liquidity needs could be adversely impacted by factors that the Group cannot control, such as market dislocations or interruptions, the economic downturn, continued severe disruption in the financial and worldwide credit markets and the related increased constraints on the availability of credit, changes in interest rates and credit spreads, or by perceptions among market participants of the extent of the Group's liquidity needs.

The Group may not be able to secure new sources of liquidity or funding, should projected or actual liquidity fall below levels it requires. The ability to meet liquidity needs through asset sales may be constrained by market conditions and the related stress on valuations and through third-party funding may be limited by constraints on the general availability of credit and willingness of lenders to lend. In addition, the Group's ability to meet liquidity needs may also be constrained by regulatory requirements that require regulated entities to maintain regulatory capital or that restrict intra-group transactions, the timing of dividend payments from subsidiaries or the fact that certain assets may be encumbered or otherwise non-tradeable. Finally, any adverse ratings action could trigger a need for further liquidity (for example, by triggering termination provisions or collateral delivery requirements in contracts to which the Group is a party) at a time when the Group's ability to obtain liquidity from external sources is limited by such ratings action.

Counterparty risks

The Group's general exposure to counterparty risk was heightened during the credit crisis, and this risk could still be exacerbated to the extent defaults, or concerns about possible defaults, by certain market participants trigger more systemic concerns about liquidity. Losses due to defaults by counterparties, including issuers of investment securities (which include structured securities) or derivative instrument counterparties, could adversely affect the Group. In addition, trading counterparties, counterparties under swaps and other derivative contracts and financial intermediaries may default on their obligations due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons, which could also have a material adverse impact on the Group.

The Group could also be adversely affected by the insolvency of, or other credit constraints affecting, counterparties in its reinsurance operations. Moreover, the Group could be adversely affected by liquidity issues at ceding companies or at third parties to whom the Group has retroceded risk, and such risk could be exacerbated to the extent any such exposures are concentrated. The Group's most significant single counterparty risk is in respect of Berkshire Hathaway Inc., with which it has a quota share arrangement, an adverse development cover and a retrocession arrangement in respect of a closed block of US individual life reinsurance business.

Risks relating to credit rating downgrades
Ratings are an important factor in establishing the competitive position of reinsurance companies, and market conditions could increase the risk of downgrade. Third-party rating agencies assess and rate the financial strength of reinsurers and insurers, such as Swiss Re. These ratings are intended to measure a company's ability to repay its obligations and are based upon criteria established by the rating agencies. The Group's ratings came under pressure due to the additional asset write-downs it recorded for the fourth quarter of 2008 and the resulting impact on the Group's capital position.

The Group's ratings reflect the current opinion of the relevant rating agencies. One or more of its ratings could be downgraded or withdrawn in the future. Rating agencies may heighten their scrutiny of rated companies, increase the frequency and scope of ratings reviews, revise their criteria or take other actions that may negatively impact the Group's ratings, which cannot be predicted. In addition, the occurrence of any of the foregoing on the part of rating agencies, or the occurrence of events or developments affecting the Group, could make it more difficult for the Group to achieve improved ratings which it would otherwise have expected.

As claims paying and financial strength ratings are key factors in establishing the competitive position of reinsurers, a decline in ratings alone could make reinsurance provided by the Group less attractive to clients relative to reinsurance from competitors with similar or stronger ratings. A decline in ratings could also cause the loss of clients who are required by either policy or regulation to purchase reinsurance only from reinsurers with certain ratings. A further decline in ratings could also impact the availability of unsecured financing and obligate the Group to provide collateral or other guarantees in the course of its reinsurance business or trigger early termination of funding arrangements. Any rating downgrades could also have a material adverse impact on the Group's costs of borrowing and limit its access to the capital markets. Further negative ratings action could also impact reinsurance contracts.

Legal and regulatory risks
The Group has been named, from time to time, as a defendant in various legal actions in connection with its operations. The Group is also involved, from time to time, in investigations and regulatory proceedings, certain of which could result in adverse judgments, settlements, fines and other outcomes. The number of these investigations and proceedings involving the financial services industry has increased in recent years. The Group could also be subject to risk from potential employee misconduct, including non-compliance with internal policies and procedures. Substantial legal liability could materially adversely affect the Group's business, financial condition or results of operations or could cause significant reputational harm, which could seriously harm its business.

A number of lawsuits have been filed against financial service firms raising claims tied to the unprecedented market turmoil. Swiss Re is subject to one such action, which is a putative securities class action filed in the United States District Court for the Southern District of New York in February 2008 against it and certain of its executive officers alleging false and misleading statements in connection with the mark-to-market loss, announced on 19 November 2007. 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 2009, to which Swiss Re submitted a reply brief on 9 October 2009. A further hearing on the motion to dismiss was held on 29 July 2010. The parties are awaiting the court's decision. The Group cannot predict whether it could be subject to further claims arising out of the market turmoil.

Insurance, operational and other risks

As part of the Group's ordinary course operations, the Group is subject to a variety of risks, including risks that reserves may not adequately cover future claims and benefits, risks that catastrophic events (including hurricanes, windstorms, floods, earthquakes, explosions, fires and pandemics) may expose the Group to unexpected large losses, competitive conditions, cyclicality of the industry, risks related to emerging claims and coverage issues, risks arising from the Group's dependence on policies, procedures and expertise of ceding companies, and risks related to the failure of operational systems and infrastructure. In addition, the occurrence of future risks that the Group's risk management procedures fail to identity or anticipate could have a material adverse effect on the Group.

Use of models; accounting matters

The Group is subject to risks relating to the preparation of estimates and assumptions that management uses, for example, as part of its risk models as well as those that affect the reported amounts of assets, liabilities, revenues and expenses in the Group's financial statements, including assumed and ceded business. For example, the Group estimates premiums pending receipt of actual data from ceding companies, which actual data could deviate from the estimates. To the extent that management's estimates or assumptions prove to be incorrect, it could have a material impact on underwriting results (in the case of risk models) or on reported financial condition or results of operations, and such impact could be material.

The Group's results may be impacted by changes in standards, or changes in the interpretation of standards, in respect of fair value accounting or impairments. Its results may also be impacted if regulatory authorities take issue with any conclusions the Group may reach on fair value accounting or other accounting matters.

The Group uses non-GAAP financial measures in its external reporting, including in this report. These measures are not prepared in accordance with US GAAP or any other comprehensive set of accounting rules or principles, and should not be viewed as a substitute for measures prepared in accordance with US GAAP. Moreover, these may be different from or otherwise inconsistent with non-GAAP financial measures used by other companies. These measures have inherent limitations, are not required to be uniformly applied and are not audited.

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Cautionary note on forward-looking statements

Certain statements and illustrations contained herein are forward-looking. These statements and illustrations provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to a historical fact or current fact.

Forward-looking statements typically are identified by words or phrases such as "anticipate", "assume", "believe", "continue", "estimate", "expect", "foresee", "intend", "may increase" and "may fluctuate" and similar expressions or by future or conditional verbs such as "will", "should", "would" and "could". These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause Swiss Re's actual results, performance, achievements or prospects to be materially different from any future results, performance, achievements or prospects expressed or implied by such statements. Such factors include, among others:

- further instability affecting the global financial system and developments related thereto;
- changes in global economic conditions;
- Swiss Re's ability to maintain sufficient liquidity and access to capital markets, including sufficient liquidity to cover potential recapture of reinsurance agreements, early calls of debt or debt-like arrangements and collateral calls under derivative contracts due to actual or perceived deterioration of Swiss Re's financial strength;
- the effect of market conditions, including the global equity and credit markets, and the level and volatility of equity prices, interest rates, credit spreads, currency values and other market indices, on Swiss Re's investment assets;
- changes in Swiss Re's investment result as a result of changes in its investment policy or the changed composition of its investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
- uncertainties in valuing credit default swaps and other credit-related instruments;
- possible inability to realise amounts on sales of securities on Swiss Re's balance sheet equivalent to its mark-to-market values recorded for accounting purposes;
- the outcome of tax audits, the ability to realise tax loss carryforwards and the ability to realise deferred tax assets (including by reason of the mix of earnings in a jurisdiction or deemed change of control), which could negatively impact future earnings;
- the possibility that hedging arrangements may not be effective;
- the lowering or loss of financial strength or other ratings of one or more of the companies in the Group or developments adversely affecting the ability to achieve improved ratings;
- the cyclicality of the reinsurance industry;
- uncertainties in estimating reserves;
- the frequency, severity and development of insured claim events;
- acts of terrorism and acts of war;
- mortality and morbidity experience;
- policy renewal and lapse rates;
- extraordinary events affecting Swiss Re's clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- current, pending and future legislation and regulation affecting Swiss Re or its ceding companies, and regulatory or legal actions;
- changes in accounting standards;
- significant investments, acquisitions or dispositions, and any delays, unexpected costs or other issues experienced in connection with any such transactions, including, in the case of acquisitions, issues arising in connection with integrating acquired operations;
- changing levels of competition; and
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks.

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

Corporate calendar and contact information

Corporate calendar

4 November 2010
Third quarter 2010 results

17 February 2011
2010 annual results

15 April 2011
147th Annual General Meeting

5 May 2011
First quarter 2011 results

4 August 2011
Second quarter 2011 results

3 November 2011
Third quarter 2011 results

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The Second Quarter 2010 Report is also available in German.

The web version of the Second Quarter 2010 Report is available at: www.swissre.com/investors

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