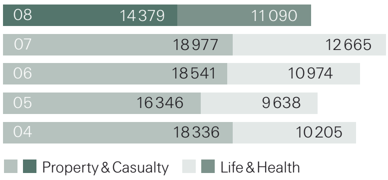
Swiss Re

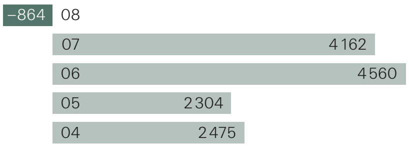
# 2008 Annual Report

# Key information

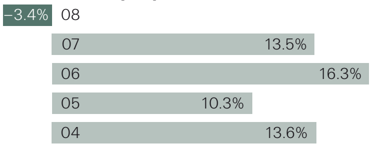
**Premiums earned**[1] (CHF millions)



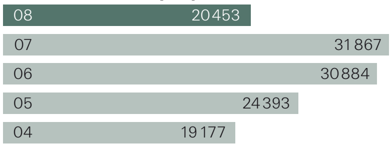

**Net income**[1] (CHF millions)




**Return on equity**[1]




**Shareholders' equity**[1] (CHF millions)



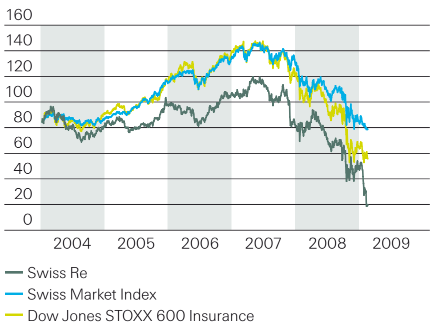

[1] 2005–2008 figures are based on US GAAP, and 2004 on Swiss GAAP FER

## Financial highlights

| CHF millions, unless otherwise stated | 2007 | 2008 | Change in % |
|---|---|---|---|
| **Property & Casualty** | | | |
| Premiums earned | 18 977 | **14 379** | –24 |
| Combined ratio, traditional business in % | 90.1 | **97.9** | |
| **Life & Health** | | | |
| Premiums earned | 12 665 | **11 090** | –12 |
| Benefit ratio in % | 87.0 | **85.5** | |
| **Asset Management** | | | |
| Assets under management, in CHF billions | 160 | **125** | –22 |
| Return on investments in % | 5.3 | **4.7** | |
| **Legacy** | | | |
| Operating loss | –1 505 | **–5 890** | – |
| **Group** | | | |
| Premiums earned | 31 664 | **25 501** | –19 |
| Net income/loss | 4 162 | **–864** | – |
| Earnings per share, in CHF | 11.95 | **–2.61** | – |
| Shareholders' equity | 31 867 | **20 453** | –36 |
| Return on equity in % | 13.5 | **–3.4** | – |
| Number of employees[1] (31.12.2007/31.12.2008) | 11 702 | **11 560** | –1 |

[1] Permanent staff

**Share price** (CHF)




**Share performance**

| in % | 2004 – 13 Feb 2009 (p.a.) | 2008 |
|---|---|---|
| Swiss Re | –25.1 | **–61.54** |
| Swiss Market Index | –1.3 | **–37.65** |
| Dow Jones STOXX 600 Insurance | –7.8 | **–52.56** |

Who we are: Swiss Re is a leading and highly diversified global reinsurer. We combine financial strength and unparalleled insurance expertise with real commitment to our clients.
What we do: We offer a comprehensive range of reinsurance solutions to manage risk. Our aim is to create sustainable value for both clients and shareholders.
How we do it: Our strong business position is founded on expertise, dialogue with clients and sound governance. We attract, develop and inspire the best talent to advance our performance and deliver innovative solutions.

Peter Forstmoser

Jacques Aigrain

Stefan Lippe

## Dear shareholders

In view of extreme financial market turbulence and a higher natural catastrophe burden faced by the insurance industry, Swiss Re delivered a strong underwriting performance in our Property & Casualty and Life & Health business. However, the result was severely impacted by investment results. The sobering analysis is that even though we introduced corrective measures during 2008, in retrospect, we should have acted faster to de-risk the asset side of our balance sheet. All financial market activities that are not insurance-related have been terminated or put in run-off. We continue to focus on reduction of risk in our investment portfolio.

We are disappointed to have to report a loss for the year: 2008 ends with a net loss of CHF 0.9 billion and a severe reduction in the book value per share to CHF 60.96.

However, we take to heart the criticism that we have to further de-risk our investment portfolio. We must ensure the resilience of our balance sheet and protect the company's long-term financial strength. Our challenge is to ensure that we are taking the necessary actions to build a stronger firm for the years to come.

We propose to take a number of measures to reinforce our capital position in order to maintain the financial flexibility to capitalise on client opportunities. The total capital to be raised is likely to amount up to CHF 5.0 billion.

While we take no pleasure in reporting these results, we do wish to recognise the enormous effort of our employees to stay focused on delivering solid operational results and taking advantage of business opportunities that present themselves in the current market environment. Their dedication to meeting our clients' needs should not go unmentioned.

### Business performance

Our Property & Casualty segment delivered superior underwriting discipline. It achieved an excellent combined ratio of 97.9% for the fourth consecutive year, despite the impact of large natural catastrophes and the lack of material benefit from prior year reserve development. Our underwriting strength was rewarded by major new insurance transactions with clients seeking innovative insurance risk solutions.

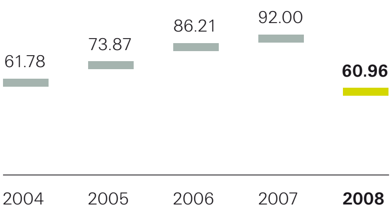
Life & Health produced a benefit ratio of 85.5% and it is encouraging that we expect higher return on capital employed from the new business written. In a highly competitive market for life reinsurance, we are proud to report that our market share of new business, coupled with better pricing, improved in the Americas.

### Reduce asset risk

We disbanded our former Financial Markets division to establish two new units: Asset Management and Legacy. Asset Management has two core strategic mandates: to manage the assets generated through (re)insurance activities and match them to the benchmark set by reinsurance liabilities; and to work closely with the Client Markets and Products Underwriting teams to provide insurance-related solutions to our clients.

**Book value**

Per share (CHF), as of 31 December




Legacy manages specified products that Swiss Re no longer offers. These products comprise Structured CDS, Portfolio CDS, Financial Guarantee Re and former trading activities. The run-off or sale of discontinued businesses has been accelerated and we do not exclude the possibility of future disposal of other businesses.

We took further decisive action to de-risk the asset portfolio during 2008 through a combination of sales and hedging. Consequently, at the end of 2008 the portfolio was composed of substantially more than 55% cash, short-term investments, treasuries or government-backed instruments, and only 1% remained invested in equity securities. New cash flow is invested in short-term investments, government and government-backed securities.

### Restore and maintain capital strength

In addition to reducing asset risk, we propose to raise capital to re-establish an appropriate buffer given the continuing uncertainties in the financial markets. We want to be a strong counterparty and retain the trust of our clients. The total amount of capital to be raised is likely to be up to CHF 5.0 billion. Subject to your approval, Berkshire Hathaway will invest CHF 3.0 billion in Swiss Re in the form of a convertible instrument. Subject to regulatory approval, the Group has also agreed to enter into an arrangement with Berkshire Hathaway to cover the potential effects of adverse developments, such as inflation, on its Property & Casualty reserves.

We are further seeking your approval to increase capital to provide the Board of Directors with the flexibility to raise up to CHF 2.0 billion. Given the need to strengthen the capital position of the Group, we propose to reduce the dividend to CHF 0.10.

This combination of actions is expected to allow us to continue to benefit from improvements in pricing in the reinsurance market, and to reinforce our capital strength.

**Our fundamental business is solid**

Our business model is sound: we deliver insurance solutions to our clients and invest the premiums that we receive. Our vision has been based on fundamental trends such as primary insurance market consolidation and broader insurance risk transfer needs; changing roles of insurance brokers and intermediaries; and growing integration of capital and insurance markets. Given the substantial dislocations that we have seen in 2008, it makes sense to conduct a thorough review to make sure that we devote our resources to those areas where we can maximise returns.

**Appointments**

On 11 February 2009, Swiss Re's Board of Directors accepted the resignation of Jacques Aigrain as Chief Executive Officer. The Board thanks Jacques Aigrain for his significant contributions and personal commitment to Swiss Re. Under his leadership, Swiss Re successfully completed several major acquisitions, including the Insurance Solutions operations from General Electric.

On 12 February 2009, the Board announced that Stefan Lippe, former Deputy Chief Executive Officer and Chief Operating Officer, assumes the position of Chief Executive Officer. The Board is confident that Stefan's proven track record in reinsurance will support our efforts to focus on the core business, while at the same time ensuring operational continuity.

The Board appointed Brian Gray, formerly Head of Property and Specialty Underwriting, as Chief Underwriting Officer. Brian will ensure the continuity of Swiss Re's underwriting standards and focus on quality and selective underwriting.

We have also brought on board David Blumer, as our new Chief Investment Officer and Head of Asset Management. David, who has extensive expertise in asset management, has already been critical to a successful reorganisation of our Asset Management function.

**Outlook**

Swiss Re is one of the largest worldwide (re)insurance companies. Our scale and global reach mean that we are well positioned to assist our clients in achieving their ambitious goals in terms of insurance risk-taking or insurance sales growth. Recent transactions demonstrate Swiss Re's strong reputation and outstanding execution capabilities. This is the basis for the earnings power of the firm going forward.

Demand for reinsurance is growing as clients face capital constraints or pursue opportunities for consolidation. The 2009 January renewals were promising with rates and volume increasing. As the reinsurance premium cycle continues to harden, Swiss Re is well positioned to provide clients with effective solutions.

Zurich, 19 February 2009

**Peter Forstmoser**
Chairman of
the Board of Directors

**Jacques Aigrain**
Chief Executive Officer
(until 11 February 2009)

**Stefan Lippe**
Chief Executive Officer
(as of 12 February 2009)

# Profile

Our business is to reduce the financial uncertainty associated with risk. We anticipate extreme scenarios, just to be ready if and when they occur. In other words, we enable the risk taking that is essential for progress and prosperity.

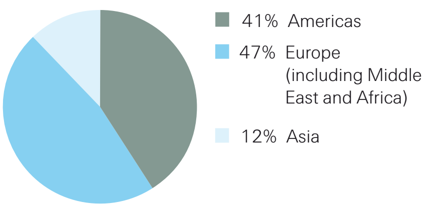
# Swiss Re at a glance

## How we operate

**We offer traditional reinsurance for property and casualty and for life and health businesses. We complement these with insurance-based capital market solutions and services for comprehensive risk management.**

**Property & Casualty**
Property & Casualty services encompass traditional reinsurance as well as insurance products for corporate clients. Combining global expertise and local knowledge, we provide clients with financially sound reinsurance support in all lines of business.

**2008 net premiums earned by region**



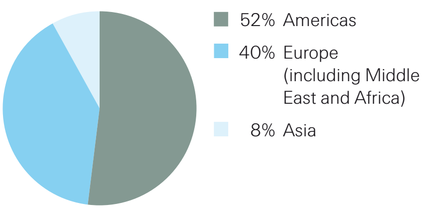

14 379 m
CHF

2007: CHF 18 977 m

– 24%

**Life & Health**
Backed by our strong balance sheet and global diversity, we are a leading provider of reinsurance to life insurance companies worldwide. Using specialist knowledge of global mortality and morbidity trends, we support clients with sustainable, pragmatic solutions.

**2008 net premiums earned by region**



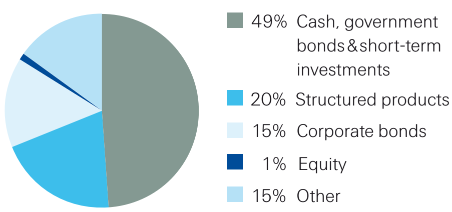

11 090 m
CHF

2007: CHF 12 665 m

– 12%


**Asset Management**
Asset Management is responsible for the investment of Swiss Re's asset portfolio. Our approach is focused on asset-liability matching. We also develop solutions for our clients with insurance risks embedded in capital market structures.

**2008 investment portfolio**




160 244 m
CHF
(excl. unit-linked and with-profit business)

2007: CHF 210 697 m

– 24%

# How we add value

**Our clients demand value. This is real value beyond matching products and services to what we perceive to be their needs. Clients want to better understand and manage their own risks and capital. They want reinsurance products that help them pursue greater business opportunities.**

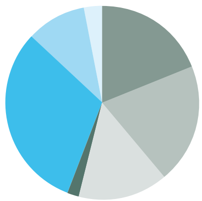
## What clients are seeking

**Clients want solutions**
Our clients want a solution that will make a difference to their specific business, not just a standardised product or service. Having unique needs, challenges, and goals, they look for solutions that reflect their individual risk and capital management strategy.

## What clients can expect from Swiss Re

- Expertise in all forms of insurable risk;
- An integrated product offering, combining risk and capital management elements;
- Clear presentation of the true cost and benefit of different options, based on firm data and realistic models;
- Superior scale and financial capacity to take on risk; and
- Ability to respond to changing risk landscapes with sustainable solutions.

**2008 net premiums earned by product line**




**Clients want a relationship with us that suits their style**
Our clients may want a personal, customised approach or prefer a more clear-cut, conventional relationship. Results are what matter – the method is flexible.

- A lasting, effective relationship;
- Delivery of excellent service through all available channels, directly or in conjunction with a broker; and
- Client satisfaction. We continuously measure individual areas of client satisfaction.

**Property & Casualty channel distribution**

54% Direct

46% Broker

**Clients want a strong partner**
Our clients want to be sure that their chosen partner can withstand market dislocations and continue to deliver sustainable solutions in exceptional economic circumstances.

- A reputation for reliability and integrity built up over the past 145 years;
- Products and services backed by financial strength ratings that are among the best in the industry; and
- Strong business and value proposition.

A+ Standard & Poor's

Aa3 Moody's

A+ A.M. Best

# Executive Committee

From left:
**Raj Singh**
**Andreas Beerli**
**Stefan Lippe**
**George Quinn**
**Jacques Aigrain**
**Brian Gray**
**Michel M. Liès**
**David J. Blumer**

# Swiss Re Group

/EC Member of the Executive Committee
/EB Member of the Executive Board

**Jacques Aigrain**/EC
Chief Executive Officer
(until 11 February 2009)

**Stefan Lippe**/EC
Chief Executive Officer
(as of 12 February 2009)
Chief Operating Officer

## Client Markets

**Michel M. Liès**/EC
Head of Client Markets

**Martin Albers**/EB
Europe

**Pierre L. Ozendo**/EB
Americas

**Martyn Parker**/EB
Asia

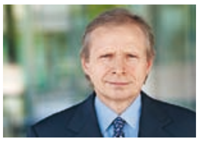
**Agostino Galvagni**/EB
Insurance & Specialty

**W. Weldon Wilson**/EB
Global Admin Re®

## Products Underwriting

**Brian Gray**/EC
Chief Underwriting Officer

**Matthias Weber**/EB
Property & Specialty



**Martin Oesterreicher**/EB
Casualty

**Christian Mumenthaler**/EB
Life & Health

## Operations

**Stefan Lippe**/EC
Chief Executive Officer
(as of 12 February 2009)
Chief Operating Officer

**Markus Schmid**/EB
Global IT

**Hermann Geiger**/EB
Group Legal

**Jonathan Isherwood**/EB
Claims & Liability Management

## Asset Management

**David J. Blumer**/EC
Chief Investment Officer

## Finance

**George Quinn**/EC
Chief Financial Officer

## Risk Management

**Raj Singh**/EC
Chief Risk Officer

## Associated Units & Special Projects

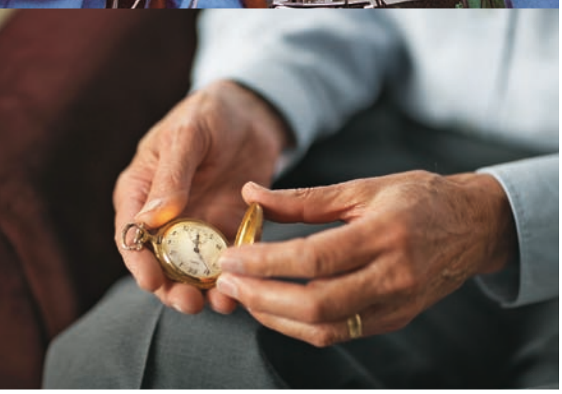
**Andreas Beerli**/EC

## Communications & HR

**Charlotte A. Gubler**/EB

We are an industry leader in (re)insurance. We aim to stay ahead by catering to our clients' needs and focusing on what we do best: writing insurance risk and investing the premiums we receive.

# Strategy



**2008 was a difficult year for Swiss Re. Our core business – (re)insurance – delivered excellent results both in Property & Casualty as well as Life & Health. However, this was more than offset by the adverse impact of the worst economic crisis for decades on our financial market activities.**

In response to this crisis, we de-risked our balance sheet and disbanded our Financial Markets division in 2008. Our priorities are geared towards reinforcing our financial strength to support our clients in a challenging economic environment, further reducing capital allocation to investments and simplifying our business model.

## Asset de-risking

A changing risk landscape and challenging market conditions called for an adjustment of our business focus in 2008. We reacted to the worst financial market crisis for decades by adopting measures to reduce our investment risk. We hedged our corporate credit exposure and reduced our exposure to equities early in the year. New cash flows were invested in short-term investments, government or government-backed securities. Notwithstanding these efforts, we encountered significant losses on parts of our non-insurance related financial market activities. In response to these developments, we disbanded our Financial Markets division and created two new units, Asset Management and Legacy.

Asset Management focuses on two main mandates. The primary mandate is to manage the assets generated through reinsurance activities. The secondary mandate is to provide capital market solutions for insurance risks to our clients, complementary to our traditional reinsurance solutions. Other capital market activities have been discontinued or put in run-off in the Legacy unit. The Legacy unit focuses its efforts on accelerating the natural run-off of these activities.

## Focus on profitable (re)insurance business

In 2008, we continued our focus on strict (re)insurance cycle management. As we reduced risk in our investment portfolio, we directed capacity to the most profitable lines of business and transactions. Our superior Property & Casualty combined ratio is a result of these successful efforts. We leveraged our size to write large lines – such as a USD 1.5 billion gross reinsurance cover with the California Earthquake Authority – and to participate in several multi-year, privately placed catastrophe programmes. We also closed significant Admin Re® transactions with Barclays Life and Phoenix. January 2009 renewals were very strong both in terms of volume and price. We were able to win large new insurance transactions such as a property quota share with Liberty Mutual and a structured life reinsurance treaty with Irish Life.

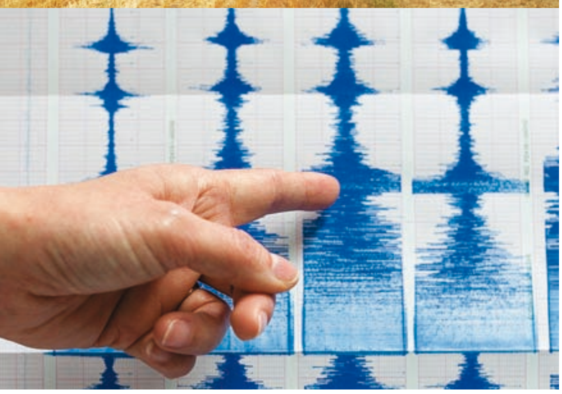
We further enhanced our (re)insurance offering in 2008, notably in the areas of health and longevity – segments in which we have traditionally had only limited involvement. To help satisfy the growing risk transfer needs of our clients, we also provide capital market instruments such as insurance-linked securities (ILS), as well as life and retirement solutions. Our know-how and execution capabilities in these instruments give us a strong competitive advantage. These capital market instruments are firmly embedded in our insurance underwriting.

## Next steps

Our priorities are centred around our clients. Subject to shareholder approval, we will raise additional capital in order to support our clients with the security they are seeking in a difficult economic environment. We will focus on what we do best, ie writing insurance risk and investing the premiums to match the underlying liabilities. We will focus on deploying capital where it earns the best returns and continue to shift capital from investments to (re)insurance. We will simplify our business model and our organisation to achieve greater effectiveness and efficiency.

We recognise that our clients have increasingly complex (re)insurance needs. Our 145-year track record provides us with the experience and skills to develop innovative products – from natural catastrophe modelling to insurance-linked securities transactions – that help our clients manage their risk exposure.

# Innovation for our clients



**Innovation is not an isolated process at Swiss Re; it is integral to our daily work. Our commitment to accurate and timely identification of risk and our cooperative approach to product development – working with clients, brokers and partners to develop customised solutions – naturally generate innovation. A changing world constantly presents new risks and opportunities – our job is to anticipate, not just respond to them.**

2008 saw a number of products and tailored solutions introduced for new and existing clients.

**Extra Expense Protection**
Our Aviation & Space team – whose global services comprise direct insurance, facultative reinsurance, proportional/non-proportional treaty reinsurance and alternative risk solutions – launched Extra Expense Protection (ExEP).

The ExEP product protects our clients against the financial consequences of a major loss, such as a sudden increase in insurance premiums. Traditional aviation insurance markets tend to overreact following a catastrophic loss, resulting in such an increase the following year. An analysis of 20 of the largest losses over the past 13 years showed that the average premium increase was 79%.

In addition to mitigating the additional cost burden following a catastrophic aviation event, ExEP protects our clients against hidden costs not covered by traditional insurance policies, including the use of emergency services, consequential losses and marketing/public relations efforts.

**Title Insurance and Judicial Review Insurance**
In response to the growing risk appetite of our clients in Europe and Asia, we adapted for local use two reinsurance offerings previously used in US and UK markets for underlying Title Insurance (TI) and Judicial Review Insurance (JRI) products.

The TI product covers losses arising from disputed real estate titles, while JRI provides cover for costs incurred when third-party action causes a municipality or other local government entity to revoke a building permit or change a zoning plan. This provides a cost-effective alternative to the more expensive financial guarantees that developers must often secure to get a project started. Ideally offered to clients through a quota share agreement, our reinsurance products provide additional capacity to cedents who adapt their TI and JRI products to enter new geographical markets.

**Bancassurance**
In Europe and Latin America we continued to offer our clients support with their bancassurance strategies – selling insurance products to consumers through traditional banks – via partnerships and complex, high-volume deals.

# Innovation for our clients

In Italy, we secured an innovative placement for fire and earthquake covers. These protect real estate assets that serve as collateral for reverse mortgages sold by a leading financial institution. We also arranged a private variable annuity placement – the first of its kind in continental Europe – for a large Italian insurance company.

In Bolivia, we joined with a local bank and a third-party software administrator to offer life insurance products in a market with low insurance penetration but significant growth potential. All these projects draw on Swiss Re's expertise in providing unique solutions – from product design to policy wording – that span the divide between financial markets and insurance.

**Agriculture**
Our Environmental & Commodity Markets unit continues to generate innovative ideas in fields ranging from agricultural insurance to emissions trading and weather derivatives, effectively combining our global expertise with local market needs.

Our offerings are tailored to the needs of the various participants in the agricultural sector, ranging from suppliers, growers and traders to grain processors.

About 80% of the agro policies sold in the US are revenue covers. Direct insurance companies risk high losses if policyholder revenues drop below 85% of the five-year average yield multiplied by the future crop prices in spring. To mitigate this risk, we developed a product with additional price risk protection for our clients.

**Parametric solutions**
The past few years have seen increasing demand among clients for parametric solutions to natural catastrophe protection – that is, for policies that link cover to an agreed parameter of event intensity, rather than to individually assessed loss. A number of different teams at Swiss Re are involved in structuring and offering such products. This year, we introduced a parametric earthquake business interruption cover solution for corporate clients in Japan.

The Japanese insurance market is mature, yet only 4–5% of companies have earthquake-related cover, despite their obvious vulnerability to business interruption. Such companies have found traditional cover difficult to obtain because of the complexity of risk assessment and measurement. Swiss Re's new parametric product is based on the Shindo earthquake intensity scale. It features a highly transparent trigger point with the guarantee of a payout without delay, and is designed to enable customers to return to business quickly after an earthquake-related loss.

# The value of client loyalty

**Swiss Re firmly believes that listening carefully to our customers and working in close partnership with them is critical to ensuring their long-term loyalty and financial success. We conduct surveys, focus groups and one-on-one client visits to constantly gauge the quality of the services we provide to clients, brokers and business partners.**

We measure our clients' loyalty by using the Net Promoter® methodology, which asks the question: "How likely are you to recommend us to a business associate or colleague?". Using this methodology, combined with qualitative analysis, we annually survey more than 20 000 customers worldwide to directly capture their feedback. The surveys give us insight into the key drivers of customer service and loyalty and have led to internal improvement projects to increase client satisfaction.

For example, one of our business units enhanced its processes to substantially reduce quote turnaround time. It also implemented a programme called "Boost Industry Participation (BIP)", which challenges qualifying employees to assume leadership positions in the industry, whether as a speaker at an industry meeting, a trade organisation committee member or as the author of an industry magazine article. The BIP programme resulted in a significant improvement in our knowledge and expertise scores from our clients.

This continued focus on our service to clients is beneficial to our customers and also to our strategic objective of turning our customers into promoters of our business.

Net Promoter®, NPS and Net Promoter Score are registered trademarks of Bain & Company, Inc., Satmetrix Systems, Inc., and Fred Reichheld.

# Clients' views

## Our clients want innovative solutions to support their risk and capital management strategies. Two clients with unique challenges and goals talk about the difference Swiss Re has made to their business and provide insights into how we can further improve our services to better respond to their needs.

**Grupo Nacional Provincial (GNP) of Mexico is one of Swiss Re's most important clients in Latin America: our relationship with GNP dates back to the 1960s. In recent years, the firm has had to cope with several natural catastrophe losses, including Hurricane Wilma in 2005 – which caused the company to re-evaluate its strategy for these risks.**

Ignacio Gil Antón, GNP's Commercial Lines Head, called on Swiss Re's expertise and resources to develop a customised risk transfer solution that allowed GNP to decrease volatility of its results. The result: a quota share arrangement in which GNP transferred a large part of its natural catastrophe risk to Swiss Re. This benefits both companies in terms of market participation and results stability.

### How did Swiss Re help your company achieve its financial targets?

We asked Swiss Re to help us optimise our capital position following a spate of natural catastrophes, combined with adverse development from prior years. Our aim was to reduce capital requirements and volatility of our results. Their experts looked at our books, our market position and our growth potential and offered us proportional reinsurance cover to mitigate the risk of earthquake and hurricane.

Ignacio Gil Antón, GNP's Commercial Lines Head

But GNP's relationship with Swiss Re goes beyond pure risk transfer. Swiss Re is a business partner with a truly holistic approach; ours is a strong alliance in which both parties benefit from each other. We rely on Swiss Re's financial strength, expertise and capacity to achieve our financial and growth targets.

### Which of Swiss Re's capabilities made the most difference to you?

Swiss Re's technical expertise, financial strength and integrated approach to risk management are undoubtedly valuable assets. From the planning process to the actual risk placement, we work together to find a solution that suits our needs.

The current global financial crisis is putting pressure on everyone, but we at GNP have been kept aware of Swiss Re's capital position throughout. We feel comfortable transferring our risk to them. Whenever we had queries about the financial strength of the company and its asset risk profile, we got almost immediate, transparent answers from the Swiss Re team. It's reassuring and it also demonstrates the strength of our relationship.

### How would you summarise Swiss Re's service?

Reliable, innovative and customer focused.

### Do you recommend Swiss Re to other industry colleagues?

Absolutely. Swiss Re's broad capabilities are difficult to match.

### Where could Swiss Re improve its response to your needs?

We believe that the claims processing function could be optimised. We are already working with the local Swiss Re team to find ways to improve claims assessment and processing time that will ultimately benefit GNP's client base.

### How can Swiss Re help you with the challenges you face in 2009?

Our focus is on growth and profitability. We will need to continue relying on Swiss Re's expertise to help us develop insurance and reinsurance products – and channels – that can increase our market penetration.

**Insurance Australia Group Limited (IAG) has a portfolio of general insurance businesses. It has leading and established brands across its home markets of Australia and New Zealand, a growing presence in Asia, and other specialist underwriting operations.**

The company experienced two years of natural perils that exceeded its allowances. Specifically, in 2007/2008, IAG's businesses incurred AUD 502 million of natural perils claims costs (with AUD 411 million the year before).

After discussions between senior executives at IAG and the Head of Swiss Re's Australia & New Zealand unit, Swiss Re developed a way to reduce the P&L effect of natural perils losses without the financial impact of a retention buy-down option on its catastrophe cover. The result was an innovative multi-year solution. The new cover enabled IAG to reduce its maximum event retention whilst ensuring it was not penalised for its recent loss history.

**How did Swiss Re help your company achieve its financial targets?**
IAG faced a year of varied challenges. Over the course of the past 12 months, we looked to Swiss Re for a number of solutions including those that stabilised earnings, aided in our capital management or facilitated new product development. In each case Swiss Re was able to respond with a range of options or structures that gave us the flexibility we desired.

**Which of Swiss Re's capabilities made the most difference to you?**
Innovation. Flexibility. Capacity.

**How would you summarise Swiss Re's service?**
Quality of products and services; global capability.

**Do you recommend Swiss Re to other industry colleagues?**
Yes, primarily due to the size, scale and innovation that Swiss Re can provide.

**Where could Swiss Re improve its response to your needs?**
Provide greater clarity over the pricing and quotation process such that the exceptional interaction over the year is not lost at the point of transaction.

Assist in the training and development of our staff. Reinsurance skill is a rare resource and we would highly value training and development assistance.

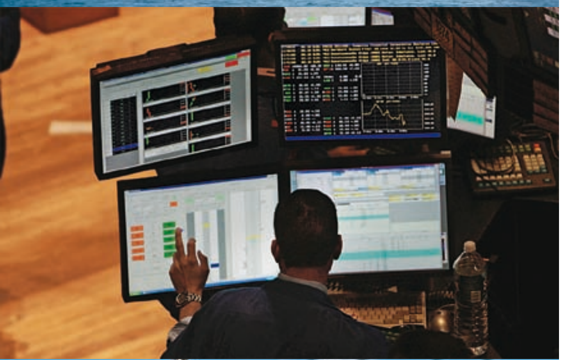
Michael Wilkins, IAG's Managing Director and CEO

Recognise that, due to the size of our relationship and the degree of transparency that exists between us, Swiss Re is an ambassador of the IAG brand, both within Australia and globally.

**How can Swiss Re help you with the challenges you face in 2009?**
With the impact of the current economic environment and the particular nature of the Australian investor base, we have for some time been looking at protections that reduce the volatility of our earnings. Given Swiss Re's intimate knowledge of our portfolio, we would like to continue to work together to model options that would assist us in doing just that.

Risk landscapes change. That´s why we have to manage them: from detecting first signals, through mapping and modelling, to assessing which risks may have a major impact on our clients´ businesses and our own balance sheet.

# Changing risk landscape



**Using models alone to represent emerging or complex risks creates a danger of false certainty as well as an unrealistic sense of control. That is the reason we often take a scenario approach: to explore how a risk situation might unfold and see what could happen, recognising that outcomes which at first sight may seem implausible – may still be possible.**

Modelling and scenario development combine to create our risk landscape: Swiss Re's snapshot of the world of risk in which it does business. But we have to be mindful of change. The risk landscape is constantly evolving, at a rate that itself can change suddenly and unpredictably. With our worldwide portfolio of natural, technical, economic and social risks, we must constantly monitor this rate of change, compare different perspectives and seek to understand how risks interlink.

## SONAR framework

Early warning and risk awareness are the keys to Swiss Re's profitability because our opportunities and challenges both stem from a changing global risk landscape. SONAR, our framework for managing emerging risks and addressing key industry issues, takes a collaborative approach, drawing on risk experts from across the business to create a holistic picture of the risks we face and to determine how we should manage them.

The first step in assessing emerging risks is to systematically review them and translate them into quantifiable information. We want to be anticipatory and pre-emptive in our response, which means prioritising risks, evaluating their impact and making recommendations on how new insurance products or mitigation can support our clients' business. The three key methodologies we use within the SONAR framework are described below.

### Rapid Risk Research

Since early 2007, we have conducted 24 Rapid Risk Research studies on topics from dam failures to food contamination, space debris to Thames flooding. Here we shine a spotlight on a specific risk, gather experts and ask them what its impact could be on all lines of business. Such focused investigations also incorporate desk research, quantitative analysis and a review of existing contract wording. This proactive approach helps us combine existing knowledge with creative thinking to avoid surprises and spot new business opportunities.

# Changing risk landscape

### Emerging risk scenarios

Building effective scenarios has become a key part of understanding future risk exposure, especially under the conditions of rapid change or uncertainty. Through definition of parameters and specific events, insurance risks can be assessed in terms of potential future loss patterns and their knock-on effects or connection to other risks. Output takes the form of recommendations and guidance for business actions, from changing contract wording to developing new product opportunities.

### Threat scenarios

Making the unthinkable thinkable is critical to capturing potential emerging risks. Using threat scenarios, we review risk from many angles to seek out unexpected correlations, sudden increases in loss potential or previously unseen complexity in risk factors. Managing the uncertainty of new situations requires a disciplined approach combined with innovation. It takes what appears to be an unlikely threat and builds scenarios that can test the established assumptions about how the surrounding environment and the threat itself might evolve.

### Integrative risk management

The impact of hazardous events continues to broaden, so our work on emerging risk management must also be extended. In addition to increased density of people and infrastructure in catastrophe-prone areas, climate change will lead to more severe storms, floods and drought, but it will also reduce agricultural yields.

Insurance has a role in answering the challenge of interlinked risks. In the case of climate change, we not only collaborate with our clients to understand the risks and mitigate the effects of global warming within their risk portfolios, we are also actively involved in clean energy funds and in advising communities on how to deal with the challenges of climate adaptation. In agriculture, we are helping insurers create new index-based products as well as cooperating with governments and international organisations to devise parametric coverage that pays out, not simply in response to individual loss, but following defined trigger points in weather, crop yield or price.

As an ultimate risk taker, Swiss Re is particularly exposed to the consequences of linked risks. More than ever, an all-hazard approach is needed to implement effective prevention and adaptation strategies. No party can tackle this alone. We see a paradigm shift towards a holistic "ex-ante" or before-the-event approach to disaster risk management.

By understanding the entire risk landscape and prioritising the allocation of resources, it is possible to improve disaster preparedness, including the accumulation and availability of funds as well as the collaborative implementation of mechanisms before a loss occurs. Aiming at a more resilient society, this will result in an optimal balance of public and private contribution to risk management.

One example of this approach is the proposed inclusion of adaptation funding measures within the post-Kyoto agreement, to be finalised in Copenhagen in 2009. We recognise that considerable efforts are needed for societies to become more resilient to the effects of global warming in order to reduce potential loss and harm in the long term.

### Global risks

**Swiss Re contributes annually to the creation of the World Economic Forum (WEF) Risk Map in collaboration with the WEF and other major partners.**

Such dialogues with leading organisations increase our understanding of global trends and risks. Our task is then to assess how our portfolio of reinsurance risks is positioned and how this may influence our pricing and approach to capacity allocation.

The changes in the 2009 Risk Map reflect the severe impact the financial crisis has had on global risks. Many of the risks with high likelihood and severity are related to the effects of the financial crisis: a sudden drop in China's growth to 6% or below, deteriorating government fiscal positions, potential asset price collapse, continued retrenchment from globalisation, and global governance gaps.

We are also committed to financing a Chair in Risk Management at the Swiss Federal Institute of Technology (ETH) in Zurich. The Risk Chair will act as a focal point in the development, implementation and dissemination of knowledge and tools (eg risk maps) in integrated risk research.

**Our Top Topics**

It is essential for the Group's success to address emerging issues and industry trends that are shaping the business and social environment in which we operate, thus sharing knowledge and helping to develop innovative solutions.

Top Topics are the core of our issue management approach. They allow us to prioritise and translate the cutting-edge knowledge and solutions generated by our risk experts into consistent messages relevant to key decision-makers in our business environment. Top Topics cover a range of issues from regulatory developments to where we see potential for future business growth and new risk management techniques and risk transfer approaches.

The current Top Topics are:
- Agriculture
- Climate change
- Country risk management
- Insurance-linked securities
- Liability dynamics
- Longevity
- Natural catastrophes
- Solvency II
- US regulatory insurance reform

Diversity drives our company's innovative power and our relationships with clients, business partners and peers. We attract talent from a broad spectrum of disciplines to help us fully understand and meet the needs of our clients.

# Our talent



**Swiss Re enables the risk taking activities that are essential to enterprise and progress in today's business world. To be successful, we must know the risk inside and out, and transform this knowledge into business opportunities. Our people deliver the expertise and creativity to offer our clients solutions that best meet their ever-changing risk needs.**

**Diversity drives innovation**
The diversity of our staff continues to be essential to securing a full view of our business and creating a working environment that encourages fresh ideas. We bring together smart, dedicated people from around the world who are all experts in their field. A broad range of cultural backgrounds, different viewpoints and various levels of experience are equally important to us. We currently employ more than 11000 people from more than 80 nations around the world, and have operations in nearly 30 countries.

Our employees are today more then ever a source of vital skill and knowledge. An active and respectful exchange of ideas is at the heart of our way of finding competitive and sustainable answers to key business issues.

The prospect of working in an organisation which actively cultivates diversity is certainly one reason why people decide to join our company. Recent graduates and experienced professionals alike are just as much attracted by the intellectually stimulating work involved in facing up to a wide range of current and future challenges in our world – from globalisation to climate change and the ever-changing capital markets.

Naturally, diversity and expertise can only ever be of any practical use in a collaborative environment. That is why we actively encourage staff to expand their global network of contacts and increase their exposure to other business areas within Swiss Re. There are many options available to our staff to do so through training, expert networks or project teams. To be part of a cross-disciplinary team developing cutting-edge products is a challenge our staff are eager to meet. This is diversity in action: it drives innovation and allows us to develop solutions that go beyond standard ways of thinking.

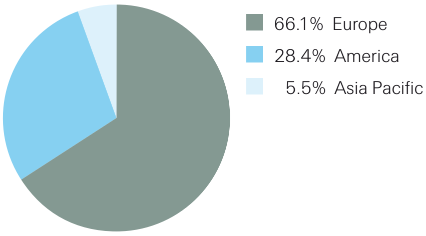
**A collaborative environment**
We also make sure that collaboration does not stop within the doors of our company. We have a long-standing history of sharing expertise with various stakeholders, and actively promote cooperation with external industry experts, risk analysts, business managers, scientists and public institutions. Swiss Re's Centre for Global Dialogue plays an important role in this knowledge sharing strategy. The Centre regularly hosts international and regional conferences on a variety of global risk issues.

We gather different points of view to gain a thorough understanding and we build knowledge communities which play a crucial role in our day-to-day work. The Swiss Re Academy also continues its strong legacy of providing industry-leading technical training and learning opportunities to clients and external partners.

# Our talent

**Employees by region**

As of 31 December 2008




**Rewarding drive and achievement**

We value the talent and motivation of our people as one of our core assets. After all, it is the productivity of our staff that moves the company forward, and we honour their achievements with more than just competitive compensation, but also by offering ample opportunities to further develop their skills, build networks and advance their careers.

We also strive to meet our employees' expectations with regard to the company's active ethical, environmental and social engagement. Over the past decade, we have consciously stepped up our efforts to be a leader in corporate responsibility. The positive effects of our engagement are a source of pride and inspiration for our employees to use their expertise and participate in the company's projects serving the public good.

**Hiring staff for their potential**

We do not hire staff only for the abilities they have, but also for the abilities they can develop. We want everyone to be passionate about personal development – their own and that of their colleagues. We provide the platform and processes for employees to meet their career objectives. By aligning business needs and personal goals, we aim to create a development culture that enables employees and the company to realise their full potential.

This is why on-the-job training is an integral part of any development plan – backed by technical grounding, of course. Our staff can expand their capabilities by working as a part of a cross-functional project team, or broaden their horizons and experience other cultures by taking part in a job rotation.

It is not all about professional qualifications and experience. We place just as much emphasis on developing leadership, multicultural competencies and interpersonal skills. Various corporate learning programmes are in place to ensure continuous learning, sharing best practices, promoting understanding of strategies and providing networking platforms. In 2008, more than 10 000 participants attended people management, leadership and social skills courses and well over 14 000 participants attended technical professional programmes.

At Swiss Re we also use new learning technology to provide various learning platforms to reach our staff across the globe. Classroom courses make up 54% of our learning environment and 39% are online e-Learning courses. With this blended approach we meet the need for different learning styles of our diverse workforce.

Each year we identify high performers who have the potential and interest to grow in a changing global environment, and we foster their development. Talent pools of graduates and high-potential employees are always considered when filling open key positions. In 2008, about two-thirds of our vacancies at Managing Director level were filled internally. This proves that by investing in outstanding talent today, we ensure the sustainable development of the company in the future.

# Building on our staff's talent and potential

**At Swiss Re we promote diversity, networking and professional development to create a work environment that attracts and motivates employees with diverse knowledge backgrounds. Our employees drive our power of innovation.**

**Eliana Ortega**
Graduates programme participant, New York
Born in Ecuador, Eliana graduated from Leonard N. Stern School of Business at New York University in May 2008 with a dual concentration in finance and information systems. She recently joined Swiss Re in New York City to participate in the graduates@swissre programme.

"My rotational programme here at Swiss Re helps me understand the various functions within Operations both on a local and global level. As I progress among the different groups, I am getting a deeper insight into how these groups work together. What's more, I can experience directly how valuable cultural diversity is at Swiss Re: my on-the-job training programme will take me to London, Zurich and Bratislava."

**Philippe Brahin**
Head of Global Regulatory Affairs, Zurich
A French citizen, Philippe received a master's degree in economics and finance from the Sorbonne, Paris, in 1992.

"I joined Swiss Re in early 2000. Since then I had the chance to work in various functions first in the UK, then in the USA and now in Switzerland. The cooperation and exchange with colleagues from many different disciplines in such diverse cultural environments has greatly influenced my professional and personal development."

We strive to create sustainable environmental value for our stakeholders. Our risk expertise allows us to form effective responses to major environmental and social challenges. In particular, we offer solutions that help mitigate as well as adapt to climate change; and we are keen to engage in innovative partnerships to extend insurance cover in less developed countries.

# Delivering sustainable value

**Swiss Re continued to respond in an innovative way to key environmental and social challenges, both in its business and in cooperation with external partners. Our focus areas were climate change and insurance cover in emerging countries.**

For us, being a responsible company is about contributing to sustainable, long-term value creation for all stakeholders. We believe there are three areas that are especially important for the achievement of this goal: corporate governance, corporate sustainability and corporate citizenship. These are the pillars of our corporate responsibility framework.

In 2008, we received major recognition for our efforts to act responsibly when we regained the position of sector leader in the Dow Jones Sustainability Indexes (DJSI). The DJSI count among the most important sustainability indexes worldwide and assess companies' performance in economic, environmental and social terms (www.sustainability-indexes.com).

**Corporate sustainability**

A number of environmental and social issues are endangering or hindering sustainable economic development. We strive to address sustainability challenges that are relevant to our business in three ways: by developing reinsurance solutions for our clients, employing sustainability-specific risk management tools and tackling the environmental impact of our own operations.

**Risk transfer and asset management solutions**

Climate change and poor insurance cover in emerging countries are two focal points of our sustainability efforts. There is a far-reaching consensus today that climate change increases the frequency and severity of extreme weather events. Innovative solutions are needed both to tackle climate change and to adapt to some of its financial consequences. Lacking risk cover against volatile weather and other kinds of risk presents a particular challenge in emerging countries. Through public-private partnerships and our Climate Adaptation Development Programme, we strive to develop effective responses to this serious development obstacle.

We won a bidding process to become the counterparty of the World Bank in a pilot weather derivative project developed with the government of Malawi. The solution provides cover against shortfalls in maize production due to droughts and works as an option on a rainfall index: when rainfall drops below a certain level, the World Bank pays the government the projected loss in maize production and is itself compensated by Swiss Re.

## Key achievements in 2008

- Developed innovative solutions to address challenges such as climate change and risk cover in emerging countries.
- Continued to make progress in reducing our own $CO_2$ emissions and granted subsidies for emissions-cutting investments to a total of 1 231 employees since 2007.
- Achieved further increase in the use of the Sensitive Business Risks process, a risk management tool specifically developed to assess sustainability, ethical and related concerns in business transactions.
- Sharpened the focus of our activities on the prevention of humanitarian disasters through risk education measures.

# Delivering sustainable value

In 2008, we also became the lead reinsurer of the World Bank's Caribbean Catastrophe Risk Insurance Facility (CCRIF). This facility offers parametric hurricane and earthquake cover to 16 governments in the Caribbean. In parametric coverage, payouts are automatically triggered when an event reaches a certain level of intensity (eg wind speed), so funds become immediately available after a catastrophe has occurred. Such "ex-ante" risk management strategies are becoming increasingly popular because they allow advance planning of responses to natural disasters.

Further activities focused on the micro-insurance sector, which aims to provide essential insurance products to people with low incomes in emerging and developing countries. In Pakistan, we support the Aga Khan Foundation and a local insurer in a micro health insurance pilot project designed to protect poor families against medical and hospitalisation expenses. The Group also developed an effective system with several other organisations to offer protection against weather risks to farmers in Malawi.

The carbon markets that have sprung up around the flexible mechanisms introduced under the Kyoto Protocol play an important role in the fight against climate change. Through the Clean Development Mechanism (CDM), so-called carbon credits can be earned by funding climate-friendly projects in emerging countries, and through Joint Implementation (JI) in countries which themselves have reduction targets under the protocol. In the European Union's Emissions Trading Scheme (EU ETS), major emitters have been granted emissions allowances. Both carbon credits and allowances can be bought and sold. In addition to these compliance markets, voluntary markets have been established for companies or individuals who want to offset their $CO_2$ emissions.

Through our risk assessment capabilities, we offer tailor-made products and services for the carbon markets. We also launched an innovative service, to be offered with partner organisations, for retail customers who want to offset their carbon emissions voluntarily. A first product developed with Mobiliar, Switzerland's largest property insurer, offers this service to car users. On an internet portal, they can calculate the yearly emissions they cause through their car travel and pay in the corresponding amount. We then purchase and retire carbon credits from high-quality projects that meet internationally recognised quality standards.

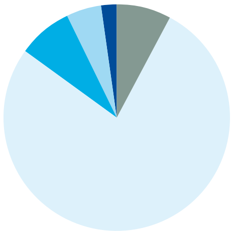
In asset management, we have over several years built up a sizeable sustainability portfolio of investments in alternative energy, water, resource efficiency, carbon and sustainable forestry/agriculture. In 2008, the portfolio was merged with the existing infrastructure portfolio, in response to the increasing need for low-carbon infrastructure financing (eg in wind and solar power) and the growing relevance of sustainability criteria within traditional infrastructure.

At the end of 2008, the total amount of investments and unfunded commitments in the sustainability sector was CHF 695 million. By far the largest new transaction was the commitment of CHF 167 million to Generation Investment Management's Climate Solutions fund, which invests in companies providing solutions to address climate change.

**Sustainability portfolio (excluding traditional infrastructure)**

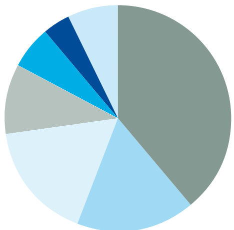
| CHF millions, as of 31 December | 2005 | 2006 | 2007 | **2008** |
|---|---|---|---|---|
| Investments (at market value) | 69 | 122 | 286 | **256** |
| Unfunded commitments | 81 | 254 | 330 | **439** |
| **Total portfolio** | 150 | 376 | 616 | **695** |

**Sensitive Business Risks referrals 2008 by recommendation**



- 8% Abstain
- 77% Proceed
- 8% Proceed with conditions
- 5% No final recommendation
- 2% Ongoing

**Sensitive Business Risks referrals 2008 by industry**



- 39% Defence
- 17% Dams and Infrastructure
- 17% Extractive Industries
- 10% Medicine & Health
- 6% Heavy Industry & Manufacturing
- 4% Food
- 7% Other

### Risk management

While we are keen to develop new business solutions addressing sustainability and related challenges, we also take corresponding precautions in our risk management. A key tool is the "Sensitive Business Risks" (SBR) process. Originally introduced in 2002, the SBR process offers employees the possibility to request advice from internal experts on any transaction they think may violate the business principles laid out in the Group Code of Conduct. Most of the screened transactions were found to constitute acceptable risk; the share of negative recommendations in 2008 remained stable at 8%.

In 2008, the largest number of SBR referrals (about one third) related to the defence industry and armaments. A further third were projects and transactions that can have significant environmental, social and governance impacts, especially in the mining, oil and gas industries or infrastructure projects, such as dam building. Sustainability risks associated with food exports emerged as a new sensitive issue last year.

### Reducing the Group's environmental impact

Reducing the environmental impact caused by our business operations is a third key activity in our sustainability efforts. When the Greenhouse Neutral Programme was launched in 2003, it was the first such initiative launched by a large financial services provider. The programme combined a pledge to cut 15% from $CO_2$ emissions per employee by 2013 with the purchase of carbon credits to offset the remaining emissions. We already met this target in 2007, having achieved a 25% reduction in $CO_2$ emissions, mainly through a switch to renewable energy sources at our major business locations. In response, we doubled our original reduction goal to 30%. At the end of 2008, our reduction in emissions slightly exceeded this target figure. Further extending the use of renewable energy, especially in the US, made an important contribution. So did a decrease in emissions from business travel between 2007 and 2008 (–2.5%), which may have been mainly due to difficult market conditions, and may thus not represent a permanent change.

**Swiss Re Group $CO_2$ emissions per employee (FTE)[1]**

| | 2003 | | 2007 | | **2008** | | Change from base year |
|---|---|---|---|---|---|---|---|
| | kg/FTE | Share in % | kg/FTE | Share in % | **kg/FTE** | **Share in %** | 2003 in % |
| Power | 3 794 | 57.3 | 2 149 | 41.9 | **1 686** | **36.5** | –55.6 |
| Heating | 705 | 10.6 | 558 | 10.9 | **582** | **12.6** | –17.4 |
| Business travel | 2 123 | 32.1 | 2 416 | 47.2 | **2 355** | **50.9** | 10.9 |
| **Total** | 6 622 | 100.0 | 5 123 | 100.0 | **4 623** | **100.0** | –30.2 |

[1] Employee numbers are based on full-time equivalents (FTE).

# Delivering sustainable value

As an extension of our own efforts, in 2007 we launched the $CO_{You2}$ Programme, which grants employees subsidies of up to 50% for emissions-reducing investments in their private lives. By the end of 2008, a total of 1 231 contributions had been paid out, equivalent to about 14% of the Group's workforce. The most popular investments so far have been season tickets for public transport (31.3%).

**Corporate citizenship**
For us, being a good corporate citizen means supporting the development of solutions to key environmental and social issues ("solution building"), and benefiting the communities we work in ("community building").

**Solution building**
In cooperation with leading charitable organisations, we promote viable solutions to environmental and social challenges related to our business. At present, natural catastrophes, climate change and water are the programme's target areas. By contributing risk expertise as well as financial aid to projects, we aim to improve humanitarian disaster prevention and to provide instant relief.

Regarding the prevention of humanitarian disasters, we have embarked on a new project in Peru, one of Latin America's most disaster-prone countries. After the magnitude eight earthquake of summer 2007 killed several hundred people and destroyed more than 100 000 houses in three rural provinces, it became apparent that the rebuilding efforts suffered from the same design errors that had made the original structures vulnerable. Managed in partnership with the SDC (Swiss Agency for Development and Cooperation), the project aims to build up local capacity for earthquake-safe housing construction. It will also provide direct technical assistance for families without access to the government's reconstruction programme.

We supported a second new project in Honduras, in partnership with the Swiss Red Cross. Honduras is not only the third poorest country in Latin America, but also strongly exposed to natural catastrophes, which can set back development by years. Focusing on the communities of San Esteban, Olancho, the project aims to increase the risk awareness of the local population and authorities and to improve living conditions. Measures include the mapping of risk zones, education and strengthening of village committees, reforestation and protection of water resources, and training of Red Cross volunteers in community-based first aid.

In the past year, both Myanmar and Sichuan Province in China were hit by devastating natural disasters – a massive tropical cyclone and the strongest earthquake in the country for 30 years respectively. Our donation of CHF 300 000 to UNICEF and the Red Cross was split between the two countries and used to provide safe drinking water and food as well as to arrange urgent medical care.

In continuing our efforts to address major water issues, we presented our ReSource Award for Sustainable Watershed Management for the sixth time. There were two joint winners, sharing prize money of USD 150 000. In Yunnan Province in China a project was selected for its integrated reservoir watershed model with strong involvement of the local community. And a project in the Solomon Islands was recognised for the way it protects a watershed forest vital to the local community against external logging interests. On the occasion of the International Water Day, we donated CHF 1 000 000 to the International Committee of the Red Cross (ICRC) for an infrastructure project in Ethiopia which provides clean water to communities and displaced people in the country's strife-torn regions.

## Working with Oxfam America

In cooperation with Oxfam America, Swiss Re recently launched a new risk management initiative to help poor communities most vulnerable to the impacts of climate change. As part of the initiative, we set up a pilot project funded by our corporate citizenship programme. This project focuses on introducing weather risk insurance for a staple cereal crop in the Ethiopian village of Adi Ha, which is highly drought-prone. Taking a holistic approach, the project also examines risk reduction measures such as seasonal forecasting and improved agricultural practices.

The new initiative was presented as a joint "Commitment to Action" at the annual meeting of the Clinton Global Initiative (CGI), which strives to tackle major global issues through a focus on concrete action. We are one of the CGI's original sponsors and have previously made successful commitments such as the European Clean Energy Fund, the $CO_{You2}$ Programme and the Climate Adaptation Development Programme.

**Community building**
With our "community building" initiatives, we support local institutions and foster employee-initiated charity projects in the communities where we operate.

The launch of the "Charity of the Year" (COTY) programme in selected locations was a highlight of 2008. Building on existing local commitments, this Group-wide initiative will provide a platform for employees in each location to select charities and raise funds for them. In London, employees raised a substantial amount for the Alzheimer's Society, holding a charity quiz night and a Christmas raffle. In Zurich, the local Employees Association ("Angestellten-vereinigung"), which had run the popular Christmas Collection now subsumed under the COTY programme, was presented with a one-time donation of CHF 75 000 on the occasion of its 100-year anniversary. The money was used to support the "Rucksack-schule" ("backpack school"), a Zurich-based organisation that arranges environmental education with simple equipment in the outdoors – hence the term "backpack".

Many of our locations carry out their own community initiatives. In Armonk, for example, we started a partnership with the local Girl Scouts in support of their efforts to promote environmental stewardship. Employees spent a full day building an environmentally friendly campsite. Further contributions are planned to include youth mentoring activities and support towards the construction of an environmental learning centre. Continuing a tradition stretching back 25 years, the Kansas City location again took part in the annual United Way Campaign, which raises funds for a large number of local charities. A full 96% of all employees made donations, bringing the total, including our matching contribution, to more than USD 220 000.

Our offices in Italy funded new diagnostic equipment for the hospital of Ngozi in Burundi. The contribution will assist efforts by the Fondazione Pro-Africa and the University of Verona to turn the hospital into a regional centre of excellence for medical treatment and training. In South Africa we have been funding the construction of a school hall at a primary school in Bosmont, a Johannesburg suburb, for three years. The final phase of building brick walls was completed in 2008, and 1100 pupils, mostly from less advantaged backgrounds, can now benefit from the new school facility.

# Financial year



**Key developments in 2008**

- Net loss of CHF 0.9 billion and earnings per share of CHF –2.61 due to lower investment performance.
- Property & Casualty delivered strong underwriting performance with combined ratio of 97.9%.
- Life & Health operating income reflected difficult market conditions but improved benefit ratio of 85.5%.
- Return on investments, excluding Legacy, was 4.7%. Total invested assets were CHF 124.8 billion.
- Operating loss in Legacy was CHF 5.9 billion.

Intense financial market turbulence, a very high natural catastrophe burden and a considerable reduction in the market value of our investment portfolio culminated in a net loss in 2008. We have therefore taken further action to reduce the risk in our investments as well as to restore our capital position to remain a strong counterparty for our clients.

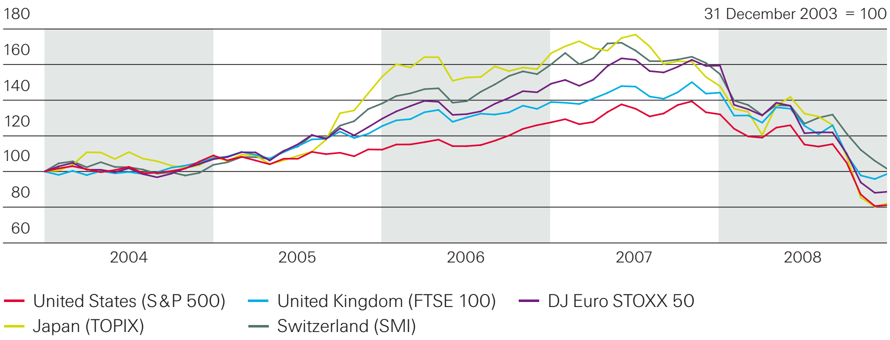
# Market environment

**The impact of the global financial crisis made 2008 a difficult year for the insurance industry. Non-life underwriting results remained solid, however, despite high losses from catastrophic events. Life insurance saw robust growth in most markets.**

### Economy and financial markets

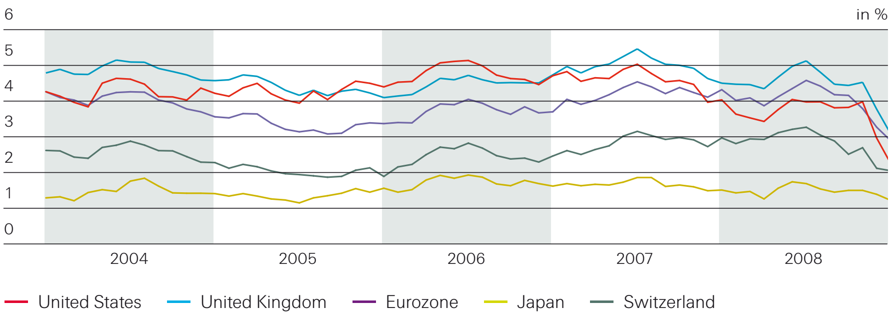
The collapse of the US subprime mortgage market in 2007 brought major turmoil to global financial markets. Demand for securitised credit virtually disappeared, producing a systemic banking crisis. The situation worsened sharply in 2008: the banking system collapsed, world stock markets plunged, and most major economies went into recession. The insurance industry's investment activities suffered as a result of these developments. However, in contrast to the banking system, which is central to the supply of credit to the economy and which is exposed to a short-term liquidity risk (ie a bank run), the insurance industry is not facing a systemic crisis or causing systemic problems for the economy.

**Stock markets 2004–2008**




Source: Datastream

**Interest rates for ten-year government bonds 2004–2008**




Source: Datastream

Stock markets continued to decline during the first months of 2008. They fell further in September 2008 as the financial crisis worsened following the bankruptcy of Lehman Brothers investment bank and the US government bailout of American International Group Inc. (AIG). By the end of 2008, the world's major stock markets had all fallen between 40% and 50% from the end of 2007.

In response to the rapid deterioration of the economic outlook, central banks cut interest rates. Government bond yields dropped sharply as investors shifted funds to more secure investments.

After a slight devaluation of the US dollar and the British pound against the other major currencies in the first half of 2008, foreign exchange rates showed high volatility during the second half. By the end of the year, the Swiss franc had gained in value against the Euro (+6%), the US dollar (+9%), and the British pound (+31%), and had lost in value against the very strong Japanese yen (–16%).

2008 annual GDP growth figures do not fully reflect the real impact of the financial crisis on the global economy. Recession only hit industrialised countries during the third quarter of 2008 and emerging markets are also weakening rapidly.

**Economic indicators 2007 – 2008**

| Yearly average | | USA | | Eurozone | | UK | | Japan | | China |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** |
| Real GDP growth | 2.0 | **1.3** | 2.6 | **1.0** | 3.0 | **0.9** | 2.4 | **0.1** | 11.9 | **9.0** |
| Inflation | 2.9 | **3.8** | 2.1 | **3.4** | 2.3 | **3.6** | 0.1 | **1.5** | 4.8 | **5.9** |
| Long-term interest rate | 4.0 | **2.3** | 4.3 | **2.9** | 4.5 | **3.1** | 1.5 | **1.2** | 4.7 | **4.6** |
| Per 100 units of foreign currency, as of 31 December 2008 | | | | | | | | | | |
| USD | – | **–** | 147 | **142** | 199 | **146** | 0.90 | **1.10** | 13.7 | **14.7** |
| CHF | 113 | **107** | 167 | **152** | 225 | **156** | 1.01 | **1.18** | 15.5 | **15.7** |

Source: Economic Research & Consulting, Datastream

**Property and casualty insurance**

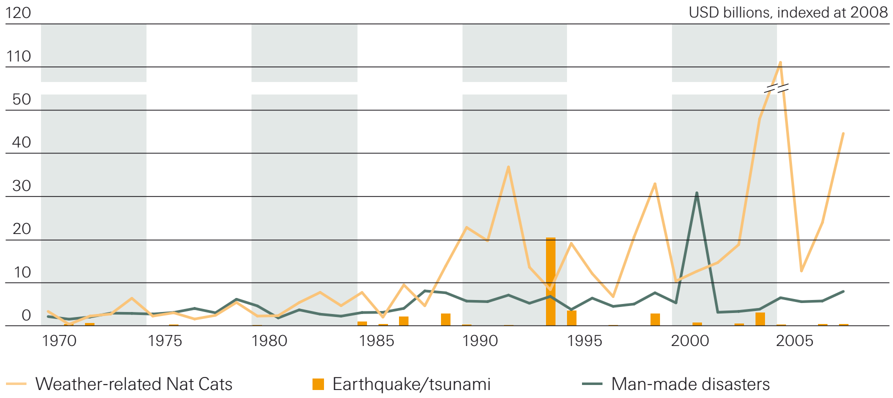
The global property and casualty insurance industry fared comparatively well in 2008, although declining securities markets forced increased write-downs on invested assets and impairments on fixed income portfolios. Investment returns were low or negative and shareholders' equity fell 10% to 15%. Fortunately, most insurance companies had entered the crisis with healthy balance sheets.

Underwriting continued to post solid results despite an increasingly competitive market. Results in the largest primary markets were mostly positive, delivering combined ratios below 100%. The main exception was the US, where third-quarter 2008 results suggested an industry-wide combined ratio of around 103%, up from 95% in 2007. The main reasons were:

- high property claims, around USD 25 billion, due both to devastating hurricanes Gustav and Ike, and to several mid-sized catastrophes during the first half of 2008;
- significant underwriting losses by mortgage and financial guarantee insurers; and
- competitive pricing in most lines of business, which reduced underlying underwriting profitability.

# Market environment

**Insured losses 1970–2008**




Source: Swiss Re

European insurance markets had a relatively benign year with few large natural catastrophes and man-made disasters. Winter storm Emma, the only event in 2008 to exceed the billion-dollar mark, cost the industry USD 1.4 billion. Compared to previous years, however, underlying underwriting profitability deteriorated slightly due to lower prices and to a lesser extent to higher claims.

The reinsurance sector reported positive underwriting results overall with a combined ratio of around 97%, reinforcing the continued robust state of reinsurance markets. Nevertheless, underwriting profitability declined in 2008 against 2007. The main reasons were:

- higher property losses stemming from natural catastrophes, most notably hurricanes Gustav and Ike. An unusually high proportion of the losses were carried by primary insurance companies as a result of extraordinarily high retentions; however, the loss burden was significant, in particular for most Bermudian reinsurance companies;
- a number of costly man-made disasters totalling USD 5 billion;
- mounting losses in financial guarantee and credit reinsurance due to the financial crisis; and
- general softening of rates and underwriting terms and conditions, leading to a gradual decrease in underwriting profitability.

Growth was sluggish, below GDP growth, in most mature markets, due to a gradual weakening of premium rates. Premiums in the US, the UK, Europe, and Japan grew in the low single-digit range. Hong Kong, Taiwan, and Australia were also affected by further price softening in major lines, lowering top-line premium growth. Emerging markets were an important exception to this development. With wealth and income rising, consumers and corporations increasingly discovered the value of insurance. Despite growing competition, underwriting results in the largest emerging markets were mostly positive.

**Insurance in emerging markets**

Swiss Re's sigma study on "Insurance in emerging markets: overview and prospects for Islamic insurance", published in December 2008, explores the latest developments in the insurance sector of emerging market economies, with a special focus on the growing market for takaful, a form of shariah-compliant insurance.

The first half of the study covers the latest developments in the insurance industry in emerging markets. Since the turn of the century, growth in the insurance industry has been solid in emerging markets, with double-digit annual growth rates. South and East Asia are clearly leading in both consistency and pace. The financial crisis, however, has clouded the near-term outlook. Insurance in emerging markets is therefore expected to grow at a slower pace in 2009, although the longer-term perspective remains positive.

The second half of the study is devoted to a discussion of takaful, a form of financial protection based on mutual assistance and joint risk bearing that is widely accepted by Islamic scholars.

Five markets are analysed in detail: Bahrain, Indonesia, Malaysia, Saudi Arabia and the United Arab Emirates. The two takaful markets with the largest growth potential are Saudi Arabia and Malaysia, although their insurance markets are at very different stages of development. Commercial lines of business and non-life insurance dominate the market in the Middle East; in Malaysia, however, life assurance and personal lines of business are the most prevalent.

Takaful is set to grow in popularity because populations of Muslim countries are growing rapidly and because shariah scholars agree that Muslims should refrain from buying conventional insurance if a takaful operator is selling the same product and offering similar benefits and services. Between 2004 and 2007, the average annual growth rate for takaful was estimated at 25% (adjusted for inflation), compared to 10.2% in the conventional market. Many companies – global, regional and local – have set up new takaful operations over the past five years and retakaful capacity is also expanding.

This sigma study can be downloaded electronically or ordered as a print copy in English, German, French, Spanish, Italian and Chinese at www.swissre.com.

# Market environment

**Life insurance**
The worsening economic outlook and continuing financial crisis will have an impact on the life and health sector, weakening life insurers' balance sheets and eroding capital. Nevertheless, the industry appears to be weathering the financial storm without major solvency problems, thanks to the very strong capital positions it built up prior to the crisis and to sound risk management.

Demand for life insurance has slowed and is expected to continue weakening as the economic impact of the financial crisis deepens. In-force premiums stagnated in 2008, in stark contrast to an outstanding 2007. The products most affected by the crisis are those considered to be "discretionary" as well as unit-linked savings products, which are less popular due to their poor returns and the continuing high volatility in the stock markets. This is especially true in countries where single premium business prevails. While there was a revival in fixed-benefit products, it did not compensate declines in unit-linked sales.

Most major markets have seen a downward trend in sales of traditional protection products. In countries where mortgages are secured with term insurance, such as the UK, Ireland, Spain, and to a lesser degree France, the decline has been substantial. In the US, where business is not mortgage-related, term sales have dropped slightly. Group business is also losing momentum due to weakened job and salary growth.

The marked slowdown in sales will reduce life industry profitability, especially since the other main driver of profitability, investment returns, declined sharply in 2008. Falling equity markets, widening credit spreads and exposure to subprime and Alt-A investments have caused significant losses for some life insurers. Additionally, the low availability and high cost of capital have impacted financing of XXX/AXXX business in the US. As a result, term rates have stabilised and an upward trend is expected.

Life insurers in the US and Japan have been most exposed to the fall in stock markets and the subsequent impairment of investments. In the US, realised capital losses reached USD 37 billion through the third quarter of 2008, or 12% of 2007 industry capital. In the UK, some insurers also suffered as a result of their equity exposure. Continental European companies are least affected, due to their limited exposure to impaired assets and stocks. Government support for the insurance industry has been restricted to the few cases of large bancassurance groups facing problems as a result of their banking activities.

The financial crisis has eroded life insurers' shareholder equity, which declined by an average of 20% to 25%, year-on-year, through the third quarter of 2008. Unrealised losses have increased significantly; nevertheless, because life companies often hold securities to maturity or until prices recover, some of these unrealised losses may reverse over time as financial markets stabilise.

**Innovative ways of financing retirement**
Swiss Re's sigma study "Innovative ways of financing retirement", published in October 2008, highlights solutions that help individuals and companies manage the risks of retirement. The study addresses outsourcing pension plan risks and transferring existing pension liabilities to (re)insurers. It notes how reinsurance and capital market capabilities help companies and insurers provide these solutions.

The study highlights two solutions: variable annuities and long-term care insurance (LTCI). Variable annuities, where payouts are linked to the performance of an investment portfolio, are newer products that have grown in popularity in the US and Japan, and have recently been introduced in other Asian countries and Europe. LTCI, a solution designed to help people cope with the costs of nursing homes and other types of long-term care, is still in the early stages of development but has vast market potential. Sales of hybrid products that combine LTCI with life insurance are expected to contribute to LTCI's popularity.

Crucial to these and similar solutions is longevity risk, the risk to which a life insurance company could be exposed as a result of higher than expected life expectancy among policyholders, resulting in higher than estimated payout levels. Developing a liquid longevity risk market would enable insurers to create innovative retirement solutions for individuals and institutions. It would also provide a mechanism for pricing the risk and a sizeable new class of investments whose return distribution differs from those of existing major asset classes.

This sigma study can be downloaded electronically or ordered as a print copy in English, German, French, Spanish, Italian, Japanese and Chinese at www.swissre.com.

**Insurance market outlook**
Barring any extraordinary catastrophe losses, underwriting results in the most important non-life primary markets will remain stable in 2009 or even improve in some segments. Premium income is expected to be subdued because of the economic downturn. While some investment-linked lines of business, such as engineering, will suffer significant declines, premium income for most other business is expected to remain stable.

The challenges to the life sector from a slowing economy and continuing turbulence in financial markets will persist into 2010. Profitability is likely to remain impaired because of pressures from declining sales, lower investment returns, lower asset management fees from equity-linked business, higher hedging costs of guarantees and possibly higher surrenders on some products. We believe this negative impact will be temporary, however, with the industry expected to return to growth in 2010–2011. Long-term prospects are favourable in view of ageing societies worldwide.

# Group results

**Net loss of CHF 0.9 billion and earnings per share of CHF –2.61 were driven by lower investment performance. Property & Casualty continued to deliver a solid underwriting result. Life & Health performed in line with expectations. The fourth quarter of 2008 was impacted by impairment losses of CHF 2.2 billion.**

Swiss Re reported an annual net loss of CHF 0.9 billion in 2008, down CHF 5.1 billion from a strong result of CHF 4.2 billion income in the previous year. Earnings per share were CHF –2.61, CHF 14.56 lower than in 2007.

In the fourth quarter of 2008, net income was CHF –1.7 billion, compared to CHF 170 million in the prior year period. Significant impairment losses of CHF 2.2 billion were partially offset by a good underwriting performance. Earnings per share for the quarter were CHF –5.34.

The following discussion reflects changes in Swiss Re's financial reporting segmentation due to the realignment of the Group's Asset Management activities. Further, the methodology for the allocation of the investment return to underwriting activities changed. Property & Casualty and Life & Health segments received a benchmark investment return based on their reinsurance reserves and risk-free rates. The changes are reflected in both years presented.

In 2008, premiums earned decreased 19% to CHF 25.5 billion. Property & Casualty premiums declined 24% to CHF 14.4 billion, reflecting the quota share arrangement with Berkshire Hathaway, disciplined underwriting and foreign currency effects. Financial Guarantee Reinsurance, which was formerly part of Property & Casualty, is now included in the newly created Legacy segment. In the Life & Health segment, premiums and fee income from policyholders decreased 13% to CHF 11.9 billion, mainly due to foreign currency movements. At constant foreign exchange rates, premiums and fees declined 2% mainly due to the sale of the new business operations of Tomorrow (formerly GE Life UK) to LV= in December 2007 and lower fee income in 2008.

The Group's net investment income and net realised gains include the investment result from assets backing unit-linked and 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.

Net investment income was CHF 6.9 billion, a 29% decrease from the previous year. This was mainly due to a decline in running yield following a shift in allocation from corporate bonds to government securities, generally lower interest rates, and losses on private equity and hedge fund participations, accounted for at equity.

**Changes in financial reporting segmentation**
In 2007, the Group realigned its Asset Management activities, integrating them into the Client Markets and Products Underwriting functions.

During the course of 2008, the Group created a new unit, Legacy, which encompasses non-core activities that have been discontinued. This unit is managed separately from Asset Management.

Actual returns from proprietary assets are included in the investment results of Asset Management and Legacy.

Property & Casualty and Life & Health receive a benchmark return based on net reinsurance reserves and risk-free rates. Securitisation-related income and insurance or reinsurance revenues are included in the relevant product line in Property & Casualty or Life & Health. Other activities related to life and health business, such as variable annuity solutions, are included in the results for the Life & Health segment.

Net realised investment losses for 2008 were CHF 4.7 billion, mainly driven by mark-to-market losses as well as impairments and realised losses on the sale of the equity portfolio. In addition, the 2007 result benefited from the one-off gain of CHF 268 million from the sale of Swiss Re's London office building.

Other revenues were CHF 270 million, a decrease of 10.6% compared to the prior year.

Claims and claim adjustment expenses decreased 17% to CHF 10.0 billion, or 11% at constant foreign exchange rates, despite higher natural catastrophe losses in 2008. The decrease is mainly the result of the Berkshire Hathaway quota share arrangement and strict underwriting.

Life and health benefits decreased 18% to CHF 9.1 billion, or 9% at constant foreign exchange rates, reflecting more favourable morbidity experience in the health segment, partially offset by higher benefit reserves driven by a decline in policyholder account values in the current market environment.

Return credited to policyholders reflects the investment performance on the underlying assets, which is passed through to contract holders. In 2008, the return credited to policyholders decreased CHF 4.9 billion to CHF 2.8 billion, reflecting realised losses on the unit-linked and with-profit assets during 2008.

# Group results

Acquisition costs decreased 17% to CHF 5.4 billion. The acquisition cost ratio was 21.0% in 2008 compared to 20.5% in 2007.

Other expenses were CHF 3.2 billion in 2008, a decrease of 21% from 2007, mainly driven by lower variable compensation.

Interest expense was CHF 1.5 billion, a decrease of 17.3% from the prior year period. The decrease reflected reduced borrowings as well as lower funding costs related to variable interest debt denominated in USD.

For 2008, we report a tax benefit of CHF 486 million. This represents an effective tax rate of 36%, compared to a tax expense of 19.8% in the prior year. The increase in the tax rate in 2008 was primarily due to the reassessment of tax exposures based on the status of current tax audits, including effectively settled issues.

Shareholders' equity decreased 36% to CHF 20.5 billion. This was mainly due to credit spread widening resulting in net unrealised losses of CHF 5.5 billion; foreign currency movements of CHF –2.3 billion; share buy-backs of CHF 2.0 billion; and dividends of CHF 1.3 billion paid to shareholders during the year. This decrease was partially offset by the conversion of a mandatory convertible bond in December 2008 improving shareholders' equity by CHF 1.0 billion.

Return on equity decreased to –3.4% from 13.5% in 2007, resulting from lower earnings compared to the strong results in 2007.

**Income reconciliation**

| CHF millions | 2007 | 2008 | Change in % |
|---|---|---|---|
| **Operating income** | | | |
| Property & Casualty | 4 471 | 2 746 | –39 |
| Life & Health | 1 320 | 697 | –47 |
| Asset Management | 8 447 | 5 912 | –30 |
| Legacy | –1 505 | –5 890 | – |
| Allocation | –5 474 | –4 670 | –15 |
| **Total operating income/loss** | 7 259 | **–1 205** | – |
| | | | |
| Corporate Centre expenses | –377 | –295 | –22 |
| Items excluded from the segments: | | | – |
| Net investment income | 469 | 575 | 23 |
| Net realised investment gains/losses | 300 | 459 | – |
| Foreign exchange gains/losses | –476 | 743 | – |
| Financing costs | –1 814 | –1 501 | –17 |
| Other income/expenses | –174 | –126 | –28 |
| **Net income/loss before tax** | 5 187 | **–1 350** | – |

**Income reconciliation**
The table above reconciles the income from Swiss Re's segments and the operations of the company's Corporate Centre with the Group's consolidated net income/loss before tax. Net realised gains or losses on certain financial instruments, certain currency 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.

For 2007, the foreign exchange remeasurement for investment is included in the foreign exchange gains/losses line item. The presentation is consistent with 2008.

# Summary of financial statements

### Income statement

| CHF millions | 2007 | **2008** | Change in % |
|---|---|---|---|
| **Revenues** | | | |
| Premiums earned | 31 664 | **25 501** | –19 |
| Fee income from policyholders | 955 | **808** | –15 |
| Net investment income[1] | 10 692 | **7 881** | –26 |
| Net realised investment gains/losses[2] | –739 | **–9 482** | – |
| Other revenues | 302 | **270** | –11 |
| **Total revenues** | 42 874 | **24 978** | –42 |
| | | | |
| **Expenses** | | | |
| Claims and claim adjustment expenses | –12 065 | **–10 007** | –17 |
| Life and health benefits | –11 112 | **–9 065** | –18 |
| Return credited to policyholders | –2 120 | **2 822** | – |
| Acquisition costs | –6 499 | **–5 366** | –17 |
| Other expenses | –4 077 | **–3 211** | –21 |
| Interest expenses | –1 814 | **–1 501** | –17 |
| **Total expenses** | –37 687 | **–26 328** | –30 |
| | | | |
| **Income/loss before income tax expense/benefit** | 5 187 | **–1 350** | – |
| Income tax expense/benefit | –1 025 | **486** | – |
| **Net income/loss** | 4 162 | **–864** | – |

[1] Including unit-linked and with-profit business of CHF 1 016 million for 2008 and CHF 1 060 million for 2007
[2] Including unit-linked and with-profit business of CHF –4 793 million for 2008 and CHF 445 million for 2007

### Changes in shareholders' equity

| CHF millions | 2007 | **2008** | Change in % |
|---|---|---|---|
| Balance as of 1 January | 30 884 | **31 867** | 3 |
| Net income/loss | 4 162 | **–864** | – |
| Change in unrealised gains/losses on securities, net | 889 | **–5 493** | – |
| Change in foreign currency translation | –2 349 | **–2 300** | –2 |
| Dividends | –1 162 | **–1 331** | 15 |
| Purchase/sale of treasury shares and shares issued under employee plans | –1 268 | **–533** | –58 |
| Other changes in equity | 711 | **–893** | – |
| **Balance as of 31 December** | 31 867 | **20 453** | –36 |

### Summary balance sheet

| CHF millions | 2007 | **2008** | Change in % |
|---|---|---|---|
| **Assets** | | | |
| **Investments** | | | |
| Fixed income securities | 159 603 | **117 399** | –26 |
| Equity securities | 32 862 | **16 188** | –51 |
| Policy loans, mortgages and other loans | 7 414 | **6 611** | –11 |
| Investment real estate | 2 682 | **2 143** | –20 |
| Short-term investments, at amortised cost which approximates fair value | 8 786 | **5 802** | –34 |
| Other invested assets | 16 465 | **15 822** | –4 |
| **Total investments** | 227 812 | **163 965** | –28 |
| Cash and cash equivalents | 11 531 | **17 268** | 50 |
| Reinsurance assets | 42 778 | **35 610** | –17 |
| Deferred acquisition costs and other intangible assets | 11 921 | **10 450** | –12 |
| Goodwill | 4 897 | **4 265** | –13 |
| Other assets | 8 348 | **8 319** | 0 |
| **Total assets** | 307 287 | **239 877** | –22 |
| | | | |
| **Liabilities** | | | |
| Unpaid claims and claim adjustment expenses | 88 528 | **75 510** | –15 |
| Liabilities for life and health policy benefits | 50 026 | **39 911** | –20 |
| Policyholder account balances | 41 340 | **34 518** | –17 |
| Unearned premiums | 7 722 | **7 802** | 1 |
| Funds held under reinsurance treaties | 8 377 | **5 872** | –30 |
| Reinsurance balances payable | 5 384 | **5 493** | 2 |
| Income taxes payable | 679 | **769** | 13 |
| Deferred and other non-current taxes | 3 817 | **1 329** | –65 |
| Short-term debt | 12 658 | **6 522** | –48 |
| Accrued expenses and other liabilities | 33 552 | **21 245** | –37 |
| Long-term debt | 23 337 | **20 453** | –12 |
| **Total liabilities** | 275 420 | **219 424** | –20 |
| **Total shareholders' equity** | 31 867 | **20 453** | –36 |
| **Total liabilities and shareholders' equity** | 307 287 | **239 877** | –22 |

### Summary of cash flow statement

| CHF millions | 2007 | **2008** | Change in % |
|---|---|---|---|
| Cash flow from operating activities | –3 330 | **–6 089** | 83 |
| Cash flow from investing activities | –1 302 | **18 819** | – |
| Cash flow from financing activities | 2 972 | **–6 910** | – |
| Effect of foreign currency translation | –415 | **–83** | –80 |
| **Change in cash and cash equivalents** | –2 075 | **5 737** | – |
| Cash and cash equivalents as of 1 January | 13 606 | **11 531** | –15 |
| Cash and cash equivalents as of 31 December | 11 531 | **17 268** | 50 |

# Property & Casualty

**Business developments**
Higher claims activity and a difficult market environment in 2008 combined to reduce operating income for the Property & Casualty segment. Our strict underwriting discipline, active cycle management and careful risk selection led to a decline in premiums earned.

On 1 January 2008, Swiss Re entered into a proportional reinsurance contract with Berkshire Hathaway. Under this quota share arrangement, Berkshire Hathaway assumes a 20% share of all Swiss Re's new or renewed property and casualty business (excluding credit reinsurance business) for five years.

Natural catastrophe claims strongly influenced results in the property and specialty lines of business; these events included a snowstorm in China, floods in Queensland, Australia, and hurricanes Gustav and Ike. We continued to hedge our natural catastrophe exposure, which reduced earnings volatility. Using Vega, a new natural catastrophe protection programme, we transferred USD 150 million of catastrophe risk to the capital markets. The notes issued under the programme provide us with protection for low-layer earnings volatility for our peak natural catastrophe perils over multiple events.

During the first three quarters of 2008, downward price pressure continued in most markets and business segments. The turmoil in the financial markets, however, created market opportunities in the fourth quarter of 2008 as capacity for peak catastrophe exposures reduced significantly. This allowed us to write certain catastrophe excess of loss covers as private placements at very attractive terms.

In late-2008, most property and casualty lines reached a turning point in the business cycle. Rates had been relatively flat or slightly lower with stable terms and conditions during the first half of the year. Global economic pressures have since produced an increase in demand and a flight to solid capital, however, prompting a market upturn. We expect that our disciplined underwriting approach and nimble cycle management will allow us to deploy the Group's capital where economic value is the most attractive.

Our Property & Casualty underwriters remain dedicated to delivering sustainable returns to shareholders by actively managing the insurance cycle. We seek to achieve this goal by separating selling from underwriting and by emphasising accurate and unbiased cost calculation. We continuously monitor and seek to maintain the profitability of our book of business through integrated pricing tools. We have strengthened our business origination, allowing our client managers to provide clients with a full spectrum of products and services. Our pipeline of product innovations is bearing fruit and has allowed us to enter profitable niche markets.

### Business results

Operating income decreased 38.6% to CHF 2.7 billion in 2008 from CHF 4.5 billion in 2007. The main drivers for this decline were lower investment returns, higher natural catastrophe losses and a deterioration in credit reinsurance experience.

The impact of natural catastrophe claims, particularly from hurricane Ike, gross of retrocession recovery, was higher in 2008 compared to 2007. Including recovery, claims from natural catastrophes exceeding CHF 20 million amounted to CHF 0.9 billion, or 6.0% of premiums, compared to CHF 0.5 billion or 2.6% of premiums in 2007. As a result of our continued insistence on tight terms and conditions, underlying portfolio profitability remained strong. Claims development from prior years was moderately positive during 2008.

The net investment result fell 15.2% to CHF 2.5 billion, reflecting market conditions and the development of reserves.

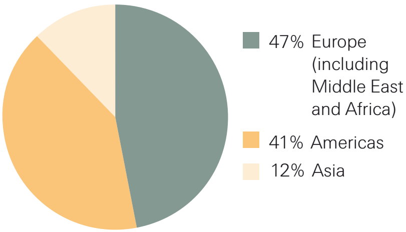
Financial Guarantee Reinsurance is now reported in the Legacy segment. 2007 has been restated accordingly.

**Property & Casualty results**

| CHF millions | 2007 | **2008** | Change in % |
|---|---|---|---|
| **Revenues** | | | |
| Premiums earned | 18 977 | 14 379 | –24 |
| Net investment income | 3 188 | 2 607 | –18 |
| Net realised investment gains/losses | –283 | –145 | –49 |
| Other revenues | 97 | 54 | –44 |
| **Total revenues** | 21 979 | **16 895** | –23 |
| | | | |
| **Expenses** | | | |
| Claims and claim adjustment expenses | –12 049 | –9 857 | –18 |
| Acquisition costs | –3 826 | –2 730 | –29 |
| Other expenses | –1 633 | –1 562 | –4 |
| **Total expenses** | –17 508 | **–14 149** | –19 |
| | | | |
| **Operating income** | 4 471 | **2 746** | –39 |
| | | | |
| Claims ratio in %, including unwind of discount | 61.9 | 68.9 | |
| Expense ratio in % | 28.2 | 29.0 | |
| Combined ratio in %, including unwind of discount | 90.1 | 97.9 | |
| Combined ratio in %, excluding unwind of discount | 88.8 | 96.1 | |

# Property & Casualty

**2008 net premiums earned by region**
Total CHF 14.4 billion




## Net premiums earned

Net premiums earned declined 24.2%, reflecting the quota share arrangement with Berkshire Hathaway and Swiss Re's continued commitment to strict underwriting discipline. At constant exchange rates, premiums decreased 18.4% in 2008 compared to 2007.

Premiums earned for non-traditional business were stable at CHF 0.5 billion.

The balance between proportional and non-proportional business was stable in 2008 compared to 2007. The share of non-proportional business in the overall book was 43%.

The premiums earned by regions in 2008 were similar to 2007, Asia increased by 1% which was offset in the Americas.

## Combined ratio

The combined ratio for traditional business increased to 97.9% in 2008 from 90.1% in 2007, mainly due to higher natural catastrophe claims and deterioration in the credit reinsurance business. The Casualty combined ratio increased slightly, although net prior year claims experience was lower than in 2007.

The discount of Property & Casualty reserves applied following the acquisition of GE Insurance Solutions in 2006 was further amortised in 2008. The amortisation increased the combined ratio by 1.8 percentage points in 2008. The discount, net of capital cost, unwinds over the estimated average duration of the reserves. Excluding this unwind, the combined ratio of traditional business was 96.1%.

## Lines of business

Active cycle management and a diversified business mix contributed to strong underwriting results in 2008.

### *Property*

Net premiums earned decreased 24.4% in 2008, reflecting the quota share arrangement with Berkshire Hathaway and continued strict underwriting discipline.

The combined ratio increased to 76.6% in 2008 from 68.9% in 2007, reflecting the impact of natural catastrophes and favourable loss experience, although at a lower level than in 2007.

### *Casualty*

Net premiums earned decreased 30.3% in 2008, reflecting both the quota share arrangement with Berkshire Hathaway and the effect of strict underwriting in a softening market.

The liability combined ratio was 126.9% in 2008 compared to 123.9% in 2007. The 2008 combined ratio was impacted by large losses especially in the energy and pharmaceutical sectors, which affected prior years.

The motor combined ratio decreased to 92.0% in 2008 from 94.4% in 2007, mainly due to more favourable claims development.

The accident combined ratio increased to 161.8% in 2008 from 141.1% in 2007. Prior year development on workers' compensation business continued to impact the combined ratio negatively.

**Property & Casualty results by line of business**

| 2007<br>CHF millions | Property traditional | Liability traditional | Motor traditional | Accident traditional | Credit | Other Lines traditional | Total traditional | Non-traditional | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | | |
| Premiums earned | 6 464 | 4 266 | 2 120 | 1 060 | 1 034 | 3 667 | 18 611 | 366 | 18 977 |
| Net investment income | 496 | 1 293 | 413 | 230 | 49 | 428 | 2 909 | 279 | 3 188 |
| Net realised investment gains/losses | –300 | | | | | | –300 | 17 | –283 |
| Other revenues | –7 | | | | 57 | 55 | 105 | –8 | 97 |
| **Total revenues** | 6 653 | 5 559 | 2 533 | 1 290 | 1 140 | 4 150 | 21 325 | 654 | 21 979 |
| **Expenses** | | | | | | | | | |
| Claims and claim adjustment expenses | –2 800 | –4 059 | –1 418 | –1 157 | –244 | –1 833 | –11 511 | –538 | –12 049 |
| Acquisition costs | –1 143 | –756 | –434 | –227 | –370 | –753 | –3 683 | –143 | –3 826 |
| Other expenses | –510 | –470 | –150 | –112 | –57 | –269 | –1 568 | –65 | –1 633 |
| **Total expenses** | –4 453 | –5 285 | –2 002 | –1 496 | –671 | –2 855 | –16 762 | –746 | –17 508 |
| **Operating income/loss** | 2 200 | 274 | 531 | –206 | 469 | 1 295 | 4 563 | –92 | 4 471 |
| Claims ratio in % | 43.3 | 95.2 | 66.9 | 109.1 | 23.6 | 50.0 | 61.9 | | |
| Expense ratio in % | 25.6 | 28.7 | 27.5 | 32.0 | 41.3 | 27.9 | 28.2 | | |
| Combined ratio in % | 68.9 | 123.9 | 94.4 | 141.1 | 64.9 | 77.9 | 90.1 | | |

| **2008**<br>CHF millions | Property traditional | Liability traditional | Motor traditional | Accident traditional | Credit | Other Lines traditional | Total traditional | Non-traditional | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | | |
| Premiums earned | 4 884 | 2 828 | 1 663 | 696 | 1 206 | 2 609 | 13 886 | 493 | 14 379 |
| Net investment income | 345 | 1 027 | 348 | 283 | 50 | 384 | 2 437 | 170 | 2 607 |
| Net realised investment gains/losses | –153 | | | 15 | 22 | | –116 | –29 | –145 |
| Other revenues | | | | | | 15 | 15 | 39 | 54 |
| **Total revenues** | **5 076** | **3 855** | **2 011** | **994** | **1 278** | **3 008** | **16 222** | **673** | **16 895** |
| **Expenses** | | | | | | | | | |
| Claims and claim adjustment expenses | –2 654 | –2 510 | –1 148 | –887 | –872 | –1 495 | –9 566 | –291 | –9 857 |
| Acquisition costs | –623 | –609 | –265 | –136 | –484 | –488 | –2 605 | –125 | –2 730 |
| Other expenses | –463 | –471 | –117 | –103 | –87 | –187 | –1 428 | –134 | –1 562 |
| **Total expenses** | **–3 740** | **–3 590** | **–1 530** | **–1 126** | **–1 443** | **–2 170** | **–13 599** | **–550** | **–14 149** |
| **Operating income/loss** | **1 336** | **265** | **481** | **–132** | **–165** | **838** | **2 623** | **123** | **2 746** |
| Claims ratio in % | 54.4 | 88.7 | 69.0 | 127.4 | 72.4 | 57.3 | 68.9 | | |
| Expense ratio in % | 22.2 | 38.2 | 23.0 | 34.4 | 47.3 | 25.9 | 29.0 | | |
| Combined ratio in % | 76.6 | 126.9 | 92.0 | 161.8 | 119.7 | 83.2 | 97.9 | | |

# Property & Casualty

*Specialty lines*

Net premiums earned for the specialty lines of business decreased 18.8% to CHF 3.8 billion, due to the quota share arrangement with Berkshire Hathaway and strict underwriting.

The combined ratio for specialty business increased to 94.7% in 2008 from 75.0% in 2007.

The credit reinsurance business was negatively impacted by deteriorating economic conditions, especially in Spain. The combined ratio increased to 119.7% in 2008 from 64.9% in 2007.

The other specialty combined ratio, which includes Marine, Aviation, Engineering, Agriculture and Nuclear business, increased to 83.2% in 2008 from 77.9% in 2007. Partially offset by the positive experience in Aviation, this increase was mainly due to the impact of natural catastrophe claims on Marine business.

*Non-traditional business*

The increase in non-traditional operating income to CHF 123 million in 2008 from a loss of CHF 92 million in 2007 reflected improved loss experience, including commutation effects, compared to 2007.

# Life & Health

**Business developments**

New Life & Health business volumes remained stable in the US and Canada. US cession rates continued to decline, albeit more slowly than in recent years; this was largely due to cedents choosing to take up excess of retention reinsurance and using insurance-linked securities for capital funding. Swiss Re's market share grew as a result of an increase in requests for mortality knowledge-based services.

New business volumes in the UK declined due to lower sales of life and critical illness protection policies linked to mortgages in the primary insurance market. Sales did not fall as low as new mortgage approvals, however, which suggests that financial advisers and insurance companies have been successful in increasing sales of policies not linked to mortgages.

New business volumes in continental Europe rose in 2008 – primarily in France, Italy and the Nordic countries. Cession rates remained stable and profitability satisfactory.

Having started Swiss Re Healthcare Services Pvt. Ltd. in India in 2007, we continued to expand into Asian medical insurance by establishing a third-party administrator in China. Traditional life reinsurance maintained strong premium growth in Asia. Our life and health business in Australia continued to expand, with a strong contribution from enhanced insured benefits provided within superannuation funds, and with the completion of our first longevity reinsurance transaction in the region.

Clients around the world are increasingly seeking to release the capital committed to their in-force portfolios through structured reinsurance solutions. We completed several significant transactions during the year, primarily in Europe and Asia.

We also concluded several new variable annuity reinsurance transactions in the US and Asia. Prices have risen to reflect the increased cost of hedging the financial market risks embedded in these products.

We completed the GBP 762 million acquisition of Barclays Life Assurance Company Ltd on 31 October 2008. The transaction provides further scale and infrastructure for our Admin Re® business in the UK and confirms our role as a leading player in the origination, transfer and trading of insurable risks.

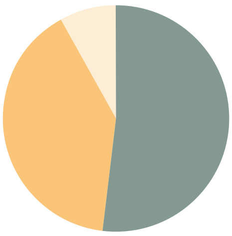
**Business results**[1]

Life & Health operating income fell 47.2% to CHF 697 million in 2008 from CHF 1.3 billion in 2007. Strong performance from traditional mortality and morbidity products was offset by adverse results arising from products that were directly affected by the volatile financial markets.

[1] The figures for 2008 and 2007 are presented consistently with the organisational structure adopted in 2007, and include part of the insurance-linked securities (ILS) business as well as the variable annuity business. The allocation of the investment return to the segments was modified in 2008 and is now based on a benchmark applied to the technical reserves and other information including duration of the underlying liabilities.

# Life & Health

**2008 premiums earned and fee income by region**
Total CHF 11.9 billion




### Premiums earned and fee income

Premiums and fees fell 12.6% to CHF 11.9 billion from CHF 13.6 billion in 2007. Excluding currency exchange effects, premiums and fees decreased 2.4%. This decline was primarily attributable to Admin Re® due to the sale of new business operations of Tomorrow to LV= in December 2007, and lower fee income, partially offset by premium from the Barclays Life transaction in 2008.

Traditional life premiums and fees were CHF 7.8 billion, compared to CHF 8.4 billion in 2007. Excluding currency exchange effects, premiums and fees rose 3.5%, reflecting new business written in all regions. Traditional health premiums fell to CHF 2.4 billion from CHF 3.0 billion in 2007, largely due to currency exchange effects, changes in cedents' reporting dates and commutations. Admin Re® premiums and fees declined to 1.6 billion from CHF 2.3 billion in 2007. Excluding currency exchange effects, premiums and fees fell 19.2%, primarily due to the sale of new business operations of Tomorrow to LV= in December 2007, and lower fee income from unit-linked business as a result of turbulent market conditions.

The geographical distribution of premiums and fees earned remained stable during 2008.

Net investment income for 2008 was CHF 3.6 billion, down 11.2% from 2007. Excluding currency exchange effects, net investment income was unchanged year on year. Unit-linked contracts do not affect the operating result, since their investment returns are passed straight through to contract holders as return credited to policyholders.

Acquisition costs declined to CHF 2.6 billion from CHF 2.7 billion in 2007. Excluding currency exchange effects, acquisition costs rose 9.8%, driven by new business in the traditional life segment and amortisation of the present value of future profits (PVFP) recognised for the acquired policies in the Admin Re® segment.

### Benefit and expense ratios

The overall Life & Health benefit ratio declined 1.5 percentage points to 85.5%, reflecting more favourable morbidity experience and the net positive effect of commutations of certain personal accident treaties in our health business. The benefit ratio of 85.5% includes approximately 3.8 percentage points of negative experience due to higher benefit reserves underlying the guaranteed minimum death benefit (GMDB) products, driven by a decline in policyholder account values in the current market environment.

Our management expense ratio declined to 6.6%, including lower one-off integration costs for Admin Re® transactions, of which we completed 2 in 2008 compared with 7 in 2007. Integration costs depend critically on the timing and stage of completion for each acquisition, but are generally within expectations. In addition, refinements were made to the attribution factors used to allocate expense between business segments, resulting in a slightly lower allocation of total expenses to the Life & Health segment in 2008 compared to 2007.

### Lines of business

A diversified geographical business mix and continued disciplined pricing contributed to a strong fundamental business result, offset by the impact of a volatile market on products that are directly affected by credit spreads and equity returns.

*Traditional life*

Operating income for traditional life business dropped to CHF 136 million from income of CHF 793 million year on year, primarily due to financial market driven factors. This decline was primarily attributable to unfavourable returns from the new variable annuity business

**Life & Health results**

| CHF millions | 2007 | 2008 | Change in % |
|---|---|---|---|
| **Revenues** | | | |
| Premiums earned | 12665 | 11090 | –12 |
| Fee income from policyholders | 955 | 808 | –15 |
| Net investment income | 4106 | 3648 | –11 |
| Net realised investment gains/losses | 799 | –5022 | – |
| Other revenues | 5 | | – |
| **Total revenues** | 18530 | **10524** | –43 |
| | | | |
| **Expenses** | | | |
| Claims and claim adjustment expenses; life and health benefits | –11112 | –9065 | –18 |
| Return credited to policyholders | –2120 | 2822 | – |
| Acquisition costs | –2665 | –2626 | –1 |
| Other expenses | –1313 | –958 | –27 |
| **Total expenses** | –17210 | **–9827** | –43 |
| | | | |
| **Operating income/loss** | 1320 | **697** | –47 |
| | | | |
| **Operating result, excluding non-participating net realised investment gains/losses** | 966 | **926** | –4 |
| | | | |
| Net investment income – unit-linked | 749 | 767 | 2 |
| Net investment income – with-profit business | 311 | 249 | –20 |
| Net investment income – non-participating | 3046 | 2632 | –14 |
| Net realised investment gains/losses – unit-linked | 512 | –4052 | – |
| Net realised investment gains/losses – with-profit business | –67 | –741 | – |
| Net realised investment gains/losses – non-participating | 354 | –229 | – |
| | | | |
| **Operating revenues[1]** | 16671 | **14530** | –13 |
| | | | |
| Management expense ratio in % | 7.9 | 6.6 | |
| Benefit ratio[2] in % | 87.0 | 85.5 | |

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

(CHF 208 million) compared to a gain in 2007, the pre-2000 GMDB contracts (CHF 163 million) and from a decline in the fair value of embedded derivatives associated with treaties structured on a modified coinsurance and funds withheld basis (CHF 297 million). Our hedging for expected variable annuity cash flows performed within expected parameters given market circumstances, but certain non-economic risk margins required under GAAP are not hedged – and these margins increased as market conditions deteriorated. The change in the fair value of the embedded derivatives represents a non-cash, unrealised loss and arose due to widening credit spreads on the investment portfolios underlying certain funds withheld life reinsurance treaties. Overall, mortality experience remained steady year on year and in line with expectations. Less favourable mortality experience in the US and Canada in 2008 was offset by strong results in Europe.

# Life & Health

*Traditional health*

Operating income from the traditional health business fell CHF 55 million, or 15.8%, to CHF 293 million. This was mainly due to unrealised losses from a decline in the fair value of embedded derivatives associated with certain funds withheld health treaties CHF 243 million, driven by widening credit spreads on the underlying cedent investment portfolios. This was partially offset by gains arising from the commutation of certain personal accident treaties, better-than-expected morbidity levels and improved termination rates. Our 2007 result included a one-off boost from our change in UK claims assumptions.

*Admin Re®*

Admin Re® operating income rose CHF 89 million to a gain of CHF 268 million. This was mainly due to unrealised gains associated with an increase in the fair value of embedded derivatives associated with certain treaties that are ceded by Swiss Re on a funds withheld basis CHF 182 million which resulted mainly from widening credit spreads on the underlying investment portfolios. In addition, the 2008 results include the full-year contributions from various acquisitions closed in 2007, the fourth-quarter impact from the closing of the Barclays Life transaction and lower one-off integration costs, offset by lower investment returns and fees. Higher realised investment losses, declining fees from unit-linked business, and generally lower investment spreads all reflected difficult conditions in the financial markets. US mortality was also slightly less favourable in 2008 than in 2007.

**Life & Health results by line of business**

| 2007<br>CHF millions | Life traditional | Health traditional | Admin Re® | Total |
|---|---|---|---|---|
| Operating revenues[1] | 9 216 | 3 407 | 4 048 | 16 671 |
| Operating income/loss | 793 | 348 | 179 | 1 320 |
| Operating result, excluding non-participating net realised investment gains/losses | 554 | 413 | –1 | 966 |
| Benefit ratio[2] in % | | | | 87.0 |

| **2008**<br>**CHF millions** | Life traditional | Health traditional | Admin Re® | Total |
|---|---|---|---|---|
| Operating revenues[1] | 8 662 | 2 846 | 3 022 | **14 530** |
| Operating income/loss | 136 | 293 | 268 | **697** |
| Operating result, excluding non-participating net realised investment gains/losses | 335 | 543 | 48 | **926** |
| Benefit ratio[2] in % | | | | **85.5** |

[1] Operating revenues exclude net investment income and net realised investment gains/losses from unit-linked and with-profit business as these are passed through to contract holders and therefore do not have an impact on the operating result. Operating revenues also exclude net realised investment gains/losses from non-participating business.

[2] The benefit ratio is calculated as claims divided by premiums earned, both of which exclude unit-linked and with-profit business.

# Asset Management

### Strategic alignment

We have completed a review of our Financial Markets unit and defined two strategic mandates: to manage the assets generated through (re)insurance activities and to develop solutions with the Client Markets and Products Underwriting teams for our clients. As a result, we renamed the unit Asset Management to reflect the focus on these two strategic mandates.

The focus of the Asset Management mandate is centred on core-asset-liability-matching techniques. The primary goal is to match Swiss Re's investment portfolio to the benchmark set by our insurance liabilities. Second, Asset Management is expected to seek absolute returns to generate additional economic value while rigorously adhering to the risk limits set by Swiss Re.

As part of this alignment, we decided to identify and allocate non-core activities within Asset Management to the Legacy portfolio, which includes certain activities formerly reported in the Credit & Rates, and Equity & Alternative Investments classifications.

For comparative purposes, the corresponding Asset Management segment values have been broken out and shown separately below from the Legacy segment as of the end of December 2007.

### Asset Management results

| 2007<br>CHF millions | Credit & Rates | Equity & Alternative Investments | Total |
|---|---|---|---|
| Net investment income | 7 390 | 505 | 7 895 |
| Net realised investment gains/losses | –1 045 | 1 472 | 427 |
| Fees, commissions and other revenues | 125 | 0 | 125 |
| Total revenues | 6 470 | 1 977 | 8 447 |
| | | | |
| Expenses | 0 | 0 | 0 |
| Total operating income/loss | 6 470 | 1 977 | 8 447 |
| Return on investments in % | | | 5.3 |

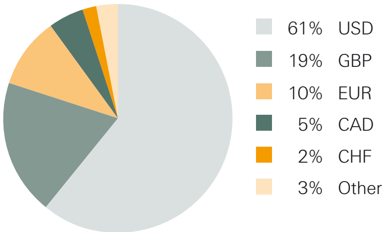
| **2008**<br>CHF millions | Credit & Rates | Equity & Alternative Investments | Total |
|---|---|---|---|
| Net investment income | 6 297 | –937 | **5 360** |
| Net realised investment gains/losses | 807 | –327 | **480** |
| Fees, commissions and other revenues | 80 | –8 | **72** |
| **Total revenues** | **7 184** | **–1 272** | **5 912** |
| | | | |
| Expenses | 0 | 0 | **0** |
| **Total operating income/loss** | **7 184** | **–1 272** | **5 912** |
| Return on investments in %[1] | | | **4.7** |

[1] The return on investments includes currency exchange rate remeasurements and designated trading portfolios. The designated trading portfolios comprise trading fixed income securities denominated in foreign currencies, which back certain liabilities denominated in foreign currencies. The overall impact of the currency exchange remeasurements was CHF 7 million in 2007 and CHF 1 338 million in 2008.

# Asset Management

**Investments by currency as of 31 December 2008**

Total CHF 124.6 billion




**Investment result**

Overall, the return on investments, excluding Legacy, was 4.7% compared to 5.3% in the prior year.

Total invested assets were CHF 124.6 billion at the end of December 2008, compared to CHF 159.9 billion at the end of December 2007. The decrease was mainly due to net sales and maturities in the fixed income portfolios, liquidation of the global equity portfolio, declines in market values and the impact of changes in foreign currency valuation. We also increased our allocation to cash and cash equivalents. At the end of 2008, Swiss Re's overall gross asset allocation was 31% in credit, 61% in rates, and 8% in equities and alternative investments.

**Credit & Rates**

Swiss Re's Credit & Rates portfolio decreased to CHF 114.7 billion in 2008 from CHF 138.7 billion in 2007 as a result of net sales and maturities in the portfolios, declines in market values and the impact of foreign currency movements. Net investment income, declined 15% to CHF 6.3 billion. The decrease was mainly due to the running yield declining to 4.9% from 5.2% as a result of reducing the risk profile through increased allocation from corporate to government securities and a general decline in interest rates. The net realised gain on credit and rates investments was CHF 807 million in 2008, compared to a net loss of CHF 1.0 billion in 2007. The net realised gain in 2008 related mainly to gains on government bonds, offset by a decrease in the market value of the overall credit portfolio and impairments. Expenses which are included in net investment income decreased CHF 217 million, representing cost reductions in variable expenses.

Net unrealised loss in shareholders' equity was CHF 2.4 billion at the end of 2008, compared to a net unrealised gain of CHF 1.8 billion at the end of 2007. The decrease was mainly due to credit spread widening and reclassification of assets from trading to available-for-sale.

Third-party assets under management decreased to CHF 76.8 billion at the end of 2008 from CHF 92.8 billion at the end of 2007 as a result of a sale in the third-party asset management business.

**Equity & Alternative Investments**

We reduced Swiss Re's gross exposure to CHF 9.9 billion at the end of 2008 from CHF 21.2 billion at the end of 2007, mainly due to the liquidation of the global equity portfolio as we continued to reduce the Group's risk exposure to the equity markets.

Net investment loss and a net realised loss was CHF 1.3 billion in 2008 compared to net investment income and a net realised gain of CHF 2.0 billion in 2007, resulting from a decline in market values of the underlying assets in private equity and hedge funds, and realised losses on the sale of the global equity portfolio.

Expenses which are included in net investment income increased CHF 108 million, mainly due to an increase in variable expenses.

# Legacy

### Strategic alignment

We have formed a new unit, Legacy, to manage specified products that Swiss Re no longer offers and which are separately reported. The activities of the Legacy unit were formerly reported in the Financial Markets or Property & Casualty segments.

The Legacy portfolio consists of Structured CDS, Portfolio CDS, Financial Guarantee Re and former trading activities, including credit correlation, collateralised fund obligations, bonds trading, swaps in trust, total return swaps relating to insurance-linked securities, natural gas and other non-core activities.

### Legacy segments

For comparative purposes, the corresponding Legacy segment values have been broken out and shown separately below from the Asset Management segment as of the end of December 2007.

#### Structured and Portfolio CDS

In 2008, net realised investment losses for Structured CDS increased to CHF 2.0 billion from losses of CHF 1.3 billion in 2007. Net realised investment losses for Portfolio CDS were CHF 563 million in 2008, compared to a gain of CHF 25 million in 2007. These declines were mainly due to the mark-to-market impact on the Structured CDS and credit spread widening affecting the valuation of the Portfolio CDS.

#### Financial Guarantee Re (FG Re)

FG Re was formerly included in Property & Casualty as part of the Credit segment in Specialty. FG Re reported an operating loss of CHF 128 million in 2008 compared to an operating loss of CHF 2 million in 2007, due to an increase in reported and expected claims of CHF 134 million. FG Re has been in run-off since the beginning of 2008 and no new business was written in the year. As a result, the combined ratio was 500.0% for 2008 compared to 109.1% for 2007.

#### Trading

The Legacy trading activities result increased to a CHF 3.3 billion loss in 2008 from a CHF 185 million loss in 2007. This was mainly driven by the Total Return Swap (TRS) portfolios relating to insurance-linked securities activities and a decrease in the market value of positions resulting from illiquidity in the capital markets.

Net unrealised loss in shareholders' equity increased to CHF 433 million at the end of 2008, compared to CHF nil at the end of 2007. The decrease was mainly due to credit spread widening and reclassification of assets from trading to available-for-sale.

### Expenses

Expenses of CHF 78 million in 2008 are included in net investment income and mainly represent investment expenses and variable compensation.

### Total invested assets

Total net assets were CHF 3.8 billion at the end of December 2008, compared to CHF 6.2 billion at the end of December 2007. The decrease was mainly due to net sales and maturities, the decline in market values and the impact of changes in foreign currency valuation.

# Business outlook

**Property & Casualty**
The January 2009 renewals showed the first signs of a hardening market. We expect this hardening to intensify through the year, due primarily to the crisis in the financial markets. Both increased cost of capital and reduced capacity in the retrocession markets should generate higher reinsurance rates. At the same time, the surplus of many of our clients has been reduced, increasing their need to seek capital relief by buying reinsurance.

Property and specialty renewals show the beginning of an upward price trend for some business segments, most notably for catastrophe cover in the US. We expect this to continue and extend to other products and markets. We are prepared for rapid growth in segments where the market hardens; we also remain fully committed to capturing value through active and disciplined cycle management. We will continue to focus on the areas in which we have a competitive advantage, including writing large individual lines.

We have an underweight exposure to directors' and officers' liability and to professional indemnity business, which we have reduced since 2004, particularly in regard to financial institutions. We are managing any remaining subprime, liquidity or credit crisis risks through terms, conditions and pricing. This allows us the flexibility to capitalise on other liability opportunities that offer more attractive returns. Lower interest rate yields reinforce the need for increased technical underwriting margins, particularly in long-tail lines of business. Thanks to Swiss Re's strong business position and established underwriting discipline, we believe we are well positioned to benefit from a hardening market.

**Life & Health**
The slowdown in the global economy is likely to reduce demand for life and health insurance into 2010, since sales of protection products are often linked to those of mortgages or investment products.

In the US, 2008 ended with indicators that declining cession rates are reversing; quote activity increased late in the year as demand for reinsurance grew along with higher capital costs and lower yields. These same forces made it necessary for us to increase our prices. We anticipate continued demand for reinsurance in 2009, with large transactions likely as cedents leverage reinsurance for capital relief until stability returns to the financial markets.

In the UK, the sharp reduction in the mortgage market will present challenges for life insurers as a large proportion of life and critical illness sales are linked to mortgages. Recent data, however, indicates that, overall, sales of protection policies could be more resilient than sales of mortgages and savings products – possibly because financial advisers are turning their attention to protection products in the absence of sales opportunities in mortgages and savings products.

We also expect a slowdown in primary insurance sales in the mature markets of Western and Northern Europe, but growth should continue in developing markets in Eastern Europe, the Middle East, and Latin America. Cession rates are likely to remain stable or even increase, because many primary insurers will have less capital available for risk retention.

Asia will see continued new business growth, particularly in health and wealth accumulation products. Funding of healthcare costs will continue to be a priority for individuals, creating increased demand among insurers for support in providing sustainable long-term solutions.

Life companies around the world face significant challenges; their capital bases have been depleted by investment losses and the difficult capital markets environment has made it increasingly difficult to raise funds. We therefore expect an increasing need among clients to release capital from their in-force portfolios through Admin Re® or other structured reinsurance solutions.

We expect increased demand for reinsurance of variable annuity products, both from existing markets in the US and Japan, and new markets in Europe and Asia. The current cost of hedging financial market risk, however, makes certain guarantees prohibitively expensive in retail products. We are working actively with clients to make products more affordable through redesigning guarantee structures. We are also seeing increased interest in transferring longevity risk among life companies and pension funds.

**Asset Management**

We expect 2009 to be marked as a year of transition. The economic outlook remains challenging with the fall-out from the global credit crisis taking its toll on the real economy. In January 2009, this challenging outlook prompted the International Monetary Fund to revise their global GDP projections sharply from 2.2% to 0.5%. With the advanced economies facing what is possibly their deepest recession in the post-war period, the financial market outlook is likely to lack certainty for some time. In this environment, investors may well remain averse to taking risk.

A cautious investment approach is appropriate while global markets continue to suffer the effects of unwinding leveraged positions. The markets' flight for safety is unlikely to slow down until the macro economic picture starts to brighten, particularly in the US housing market, and until financial market stress begins to ease. Global policy efforts, in particular future actions by the US Treasury and the Federal Reserve, could also be instrumental in driving the markets towards the start of a recovery, perhaps as soon as in the second half of 2009.

# Share performance

**Swiss Re's shares declined 37.6% in 2008, in line with the Swiss blue chip index (SMI). In contrast, the index of European insurers fell 52.6%.**

### Swiss Re shares

Swiss Re had a market capitalisation of CHF 18.3 billion on 31 December 2008, with 363.5 million shares outstanding. Swiss Re shares are listed on the main board of the SIX Swiss Exchange (SIX) and are traded on SWX Europe in its EU regulated segment under the ticker symbol RUKN. Swiss Re shares are also traded over-the-counter in the form of an American Depositary Receipt (ADR) level I programme (OTC symbol SWCEY).

### General information on Swiss Re shares

| Identification numbers | Share | ADR level I[1] |
|---|---|---|
| Swiss Security Number (Valorennummer) | 1233237 | – |
| ISIN (International Securities Identification Number) | CH0012332372 | US8708872051 |

| Ticker symbols | Bloomberg | Telekurs | Reuters |
|---|---|---|---|
| Share | RUKN VX | RUKN | RUKN.VX |
| ADR level I[1] | SWCEY US | SWCEY | SWCEY.US |

[1] Swiss Re's ADR are not listed but traded over-the-counter; one ADR corresponds to one Swiss Re share.

### Share price performance

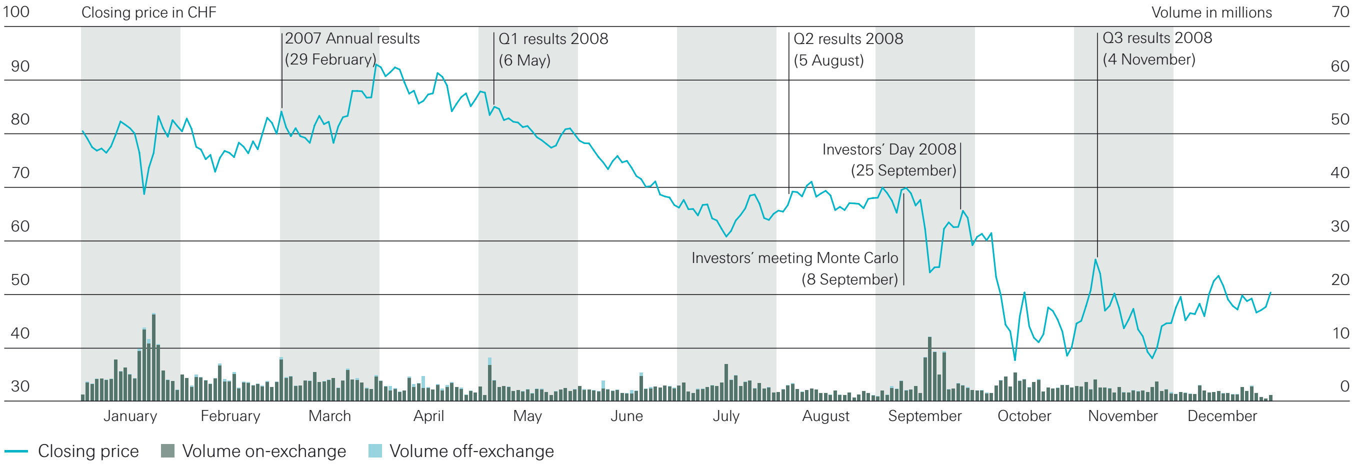
Capital markets continued in 2008 where they left off in 2007, with downward pressure on most share prices, especially in the financial sector. Swiss Re shares started the year at CHF 80.45; following the publication of strong 2007 results, they climbed to the year's intraday high of CHF 93.95 on 2 April 2008. Our shares outperformed those of most of our peers as well as the relevant indices during the first six months of 2008.

The second half of the year saw worries about subprime defaults expand into larger concerns about asset valuations and then fear of worldwide recession as the credit crisis cut across all industries. A number of banks and insurance companies sought state support and flagging investor confidence drove down all major stock markets, with financial sector share prices particularly affected. Swiss Re shares suffered significantly increased volatility during this period, reaching an intraday low for the year of CHF 35.38 on 10 October 2008 before recovering to CHF 50.30 at the year's end. The 37.5% drop in Swiss Re's share price over the year was in line with the 34.8% fall in the Swiss blue chip index (SMI). Swiss Re outperformed our benchmark, the Dow Jones STOXX 600 Insurance index, which fell 52.6%.

### Share trading

The average daily trading volume for 2008 was 3.1 million shares on-exchange and 0.1 million shares off-exchange. Trading volume peaked at 16 million shares on 23 January 2008 after the announcement that Berkshire Hathaway had bought a 3% stake in Swiss Re. The week of 15 September 2008 also saw a significant volume of shares change hands as Wall Street had its worst trading day since 11 September 2001, due to the Lehman Brothers bankruptcy filing and the federal support provided to AIG, the largest US insurance company. Daily volumes in the second half of the year were lower than in the first half as investors assumed a wait-and-see position.

**Swiss Re share price and trading volume in 2008**




### Share buy-back programme

Swiss Re initially announced a share buy-back programme of up to CHF 6 billion on 1 March 2007 and on that date repurchased CHF 16.7 million of its shares from General Electric Company (GE) that GE held as a result of Swiss Re's acquisition of GE Insurance Solutions. Swiss Re set up a second trading line on 10 August 2007 to enable a tax efficient buy-back.

On 23 January 2008, following the announcement of the quota share reinsurance contract with Berkshire Hathaway, the share buy-back programme was extended. This reinsurance contract brought additional capital relief to the Group allowing the extension of the buy-back programme by CHF 1.75 billion to CHF 7.75 billion. The buy-back continued until 4 November 2008 when we decided to suspend it due to the unprecedented capital market conditions. By this date, CHF 4 billion worth of shares had been repurchased, representing 51.2% of the total buy-back programme. Authorisation for the second line buy-back remains until April 2010.

### Dividends

The Board of Directors will propose a dividend of CHF 0.10 per share for 2008. Swiss Re pays its dividend annually, three working days after the Annual General Meeting; as of that day, the share price is ex-dividend.

### Share custody

Swiss Re offers its shareholders the opportunity to deposit shares in their own names with the Share Register in Zurich. Share custody is free of charge. Shareholders can download the application form from Swiss Re's website.

# Share performance

### Information for investors

More information on Swiss Re's shares is available in the Investor Relations section on Swiss Re's website.

### Shareholder structure

| As of 31 December 2008 | in % | Holdings (CHF millions) | in % of free float |
|---|---|---|---|
| **Institutional investors** | | | |
| Switzerland | 25.0 | 54.4 | 15.0 |
| Europe (excluding Switzerland) | 30.6 | 66.6 | 18.3 |
| North America | 41.5 | 90.3 | 24.8 |
| Rest of world | 2.9 | 6.3 | 1.7 |
| **Total institutional investors** | **100** | **217.6** | **59.8** |
| | | | |
| Additional shares held in nominee form (within Share Register) | | 20.6 | 5.7 |
| Private shareholders registered (total) | | 62.3 | 17.1 |
| Unassigned shares (including retail investors and trading positions) | | 35.1 | 9.7 |
| Shares reserved | | 27.9 | 7.7 |
| **Total amount of shares outstanding** | | **363.5** | **100** |

### Index representation

In addition to its relevant industry indices, Swiss Re is also represented in various global, European and Swiss indices – including the SMI, FTSEurofirst 300 Insurance and the Dow Jones STOXX 600 Insurance. The composition of these indices is usually based on free-float market capitalisation. Swiss Re is also a member of various sustainability indices, including the Dow Jones Sustainability and FTSE4Good index families.

### Weighting in indices

| As of 31 December 2008 | Index weight (in %) |
|---|---|
| **Swiss/blue chip indices** | |
| SMI | 2.68 |
| SPI | 2.29 |
| | |
| **Insurance indices** | |
| Dow Jones STOXX 600 Insurance | 4.68 |
| Bloomberg Europe 500 Insurance | 4.86 |
| FTSEurofirst 300 Insurance | 5.26 |
| | |
| **Sustainability indices** | |
| Dow Jones Sustainability World | 0.26 |
| Dow Jones Stoxx Sustainability | 0.58 |
| FTSE4Good Global | 0.19 |
| KLD Global Climate 100 | 1.03 |

### Key share statistics 2004 – 2008

| As of 31 December | 2004 | 2005 | 2006 | 2007 | **2008** |
|---|---|---|---|---|---|
| Shares outstanding[1] | 322 066 174 | 322 092 742 | 374 440 378 | 370 386 755 | **363 516 036** |
| of which reserved to underlie convertible bonds and corporate purposes | 11 678 802 | 11 678 802 | 16 184 149 | 17 715 789 | **17 715 789** |
| of which repurchased via second trading line (subject to cancellation) | | | | 6 005 000 | **8 881 000** |
| Shares entitled to dividend | 310 387 372 | 310 413 940 | 358 256 229 | 346 665 966 | **335 665 775** |

| CHF, unless otherwise stated | 2004 | 2005 | 2006 | 2007 | **2008** |
|---|---|---|---|---|---|
| Dividend paid per share | 1.10 | 1.60 | 2.50 | 3.40 | **4.00** |
| Dividend yield[2] (in %) | 1.4 | 1.7 | 2.4 | 4.2 | **8.0** |
| Earnings per share[3,4] | 8.00 | 4.68 | 13.49 | 11.95 | **–2.61** |
| Book value per share[3,4] | 61.78 | 73.87 | 86.21 | 92.00 | **60.96** |
| Price per share, year-end | 81.10 | 96.20 | 103.60 | 80.45 | **50.30** |
| Price per share, year high (intraday) | 97.05 | 103.40 | 108.50 | 119.40 | **93.95** |
| Price per share, year low (intraday) | 66.35 | 75.10 | 79.60 | 78.70 | **35.38** |
| Daily trading volume (in CHF millions) | 104 | 126 | 153 | 253 | **214** |
| Market capitalisation[3] (in CHF millions) | 26 120 | 30 985 | 38 792 | 27 798 | **18 285** |
| ADR price at year-end (in USD) | 71.80 | 73.25 | 85.25 | 71.00 | **47.80** |

[1] Nominal value of CHF 0.10 per share
[2] Dividend divided by year-end share price of corresponding year
[3] Based on outstanding shares
[4] Figures for 2004 represent the previously applied accounting policy, Swiss GAAP FER; those for 2005 – 2008 are based on US GAAP.

# Risk and capital management



**Key developments in 2008**

- Internal capital adequacy of 207% remains slightly above our target range, despite significant capital depletion due to unprecedented turbulence in global financial markets.
- Group capital requirement measured by 99% Tail VaR decreased 10% to CHF 14.9 billion, as higher financial market and credit risk was more than offset by lower insurance risk.
- Enhanced our limit framework to strengthen the alignment of business capacity to our Group Risk Policy.
- Strengthened our liquidity management framework and proactively managed the Group's liquidity position in a difficult market environment.
- Completed major step in European restructuring with the transfer of our Denmark, France, Ireland, Italy, Netherlands, Spain, and UK business into branches of our Luxembourg entities.

The financial crisis has demonstrated the importance of a strong and independent risk management function, as well as the need for an integrated approach to assessing and controlling risks. To this end, we further enhanced our risk management by establishing a more robust governance process, intensifying our risk oversight and strengthening our liquidity management.

# Risk governance

**Swiss Re's risk and capital management aims to ensure controlled risk taking as well as adequate liquidity and capitalisation, in order to maintain the financial flexibility to benefit from attractive business opportunities.**

Controlled risk taking requires a strong and independent risk management organisation and comprehensive risk management processes to identify, assess and control the Group's risk exposures.

Our risk management is based on four guiding principles that we strive to apply consistently across all risk categories throughout the Group:

- Controlled risk taking: Financial strength and sustainable value creation are central to Swiss Re's value proposition. As a result, we operate within a clearly defined risk policy and risk control framework.
- Clear accountability: Our operations are based on the principle of delegated and clearly defined authority. Individuals are accountable for the risks they take on, and their incentives are aligned with Swiss Re's overall business objectives.
- Independent risk controlling: To avoid conflicts of interest, dedicated specialised units monitor our risk-taking activities.
- Open risk culture: Risk transparency and responsiveness to change are integral to our risk control process. Swiss Re has institutionalised knowledge-sharing processes at all levels.

**Risk management view of the financial crisis**
The unprecedented turbulence in the global financial markets has provided important lessons on risk management for the financial services industry. First and foremost, recent events have confirmed once again the importance of a strong and independent risk management function, as well as the need for an integrated, company-wide approach to assessing and controlling risks. In addition, risk management must be practised as a dynamic process, in which scenarios, models and their parameters are continually adapted to changes in the environment. This means that the results of quantitative controls should be supported by a sound qualitative assessment of the underlying risks and assumptions.

We have learnt from the recent crisis and enhanced our risk management in several key areas:

- More robust governance processes for risk taking: In response to market developments, we have implemented a single Group-wide approval process, with greater accountability and increased Risk Management involvement in reviewing and approving transactions.
- Increased oversight: Risk Management has intensified its interaction with management and the Board, including more detailed and frequent reporting on modelling results, limit status and risk issues.
- Enhanced liquidity management: We responded to the tightening funding environment by strengthening spot liquidity, optimising funding across regulated carriers and increasing stress testing for projected liquidity intervals (see pages 79 – 80).

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

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

The Executive Committee is responsible for implementing the risk management framework through two further committees:

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

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

The global Risk Management function is organised by risk categories, with dedicated departments for property and casualty risk, life and health risk, and credit and financial market risk. Each of these units is entrusted with Group-wide responsibility for identifying, assessing and controlling their allocated risks, including operational risks which arise in their area of control. They also work closely with other risk management units on transaction reviews and issues which affect multiple risk categories. These units are supported by the Operational Risk & Control Management department, which is responsible for maintaining our operational risk framework, developing appropriate tools and training, and driving internal and external dialogue on operational risk issues. In addition, the Business Risk Review department conducts independent quality assessments of underwriting and pricing quality on a transactional level, and also reviews authority processes and contract wordings.

**Key risk management bodies and functions**

**Board of Directors**

- Finance and Risk Committee
- Audit Committee

**Group Internal Audit**

**Executive Committee**

- Group Risk and Capital Committee
- Group Products and Limits Committee

**Chief Risk Officer**

- P&C Risk & Actuarial Management
- Business Risk Review
- L&H Risk & Actuarial Management
- Group Risks & Analytics
- Financial Risk Management
- Sustainability & Emerging Risk Management
- Operational Risk & Control Management
- Group Regulatory Affairs

# Risk governance

In 2008, the insurance risk units were realigned to include both risk management and actuarial functions. This combined expertise will strengthen independent review of large transactions, new products, business plans, pricing accuracy and portfolio quality.

The Group Risks & Analytics department has global responsibility for risk reporting, risk models, the validation of valuation models and risk infrastructure. In addition, it is responsible for capital adequacy and liquidity risk management, as well as for the overall risk governance framework. Sustainability & Emerging Risk Management manages environmental, social, and political risks as well as the systematic detection, assessment and business application of emerging and existing, but potentially underestimated, risks. Finally, the Group Regulatory Affairs department steers our regulatory activities and positions, and leads the implementation of major regulatory developments.

None of the Risk Management departments executes business. They oversee risk-taking activities, and set the risk management guidelines and best practice standards that the business units implement.

Group Internal Audit is an independent, objective assurance function that assesses the adequacy and effectiveness of our internal control systems. It monitors the execution of processes within Swiss Re, including those in risk management.

**Swiss Re's risk landscape**

Risk management is essential to our strategic planning and is embedded in our management discipline. Our risk landscape comprises core risks as well as operational and other risks that arise as a result of doing business.

**Categorisation of Swiss Re's risk landscape**

| Core risks | Operational risks | Other risks |
|---|---|---|
| **Insurance** | **People** | **Liquidity** |
| Property and casualty<br>Life and health | **Processes** | **Reputational** |
| **Financial market** | **Systems** | |
| Equity market<br>Interest rate<br>Foreign exchange<br>Credit spread<br>Real estate | **External** | |
| **Credit** | | |
| Credit migration<br>Credit default | | |

Core risks are split into three broad categories:

- Insurance risk is the risk of incurring a financial loss as a result of a property, casualty, life or health insurance event.
- Financial market risk is the risk that assets or liabilities may be negatively affected by movements in financial market prices or rates, such as equity prices, interest rates, credit spreads, foreign exchange rates or real estate prices.
- Credit risk is the risk of incurring a financial loss due to diminished creditworthiness (eroding credit ratings and, ultimately, default) among counterparties of Swiss Re or of third parties.

Further risks that arise as a result of doing business include operational, reputational and liquidity risk:

- Operational risk, defined according to the Basel II recommendations, includes potential losses or reputational damage arising from inadequate or failed internal processes, people and systems, or from external events. This includes, for example, potential non-compliance with regulation which might result in regulatory penalties.
- Reputational risk is the risk that a particular event or behaviour damages stakeholders' perception of Swiss Re, thus impairing our ability to operate effectively.
- Liquidity risk is the risk that Swiss Re, though solvent, either does not have sufficient resources available to meet its obligations when they fall due, or can secure them only at excessive cost.

In addition to the assessment of known risks, we have a systematic framework to capture, evaluate and mitigate emerging threats and opportunities across Swiss Re's risk landscape, including potential surprise factors that might affect known loss potentials. The framework also comprises the Rapid Risk Research process, which provides a fast and flexible way to investigate emerging issues and establish an initial estimate of their impact on Swiss Re (see page 21).

**Integrated risk modelling**

We use a proprietary integrated risk model to determine the capital required to support the risks on our books, as well as to allocate risk-taking capacity to the different lines of business. This internal model is based on two important principles. First, it applies an asset-liability management (ALM) approach, which measures the net impact of risk on the economic value of both assets and liabilities. Second, it adopts an integrated perspective, recognising that a single risk factor can affect different sub-portfolios and that different risk factors can have mutual dependencies.

The model generates a probability distribution for the Group's annual economic profit and loss, specifying the likelihood that the profit or loss will fall within any given range. From this distribution, we derive a base capital requirement that captures the potential for severe, but rare, aggregate losses over a one-year time horizon. We monitor our capital adequacy by comparing the ratio of available capital to required capital with the target ratio set by the Board of Directors.

Our risk model assesses the potential economic loss at a specific confidence level. There is thus a possibility that actual losses may exceed the selected threshold. In addition, the reliability of the model may be limited when future conditions are difficult to predict, for example in an extremely volatile market environment. For this reason, we continuously review and update the model and its parameters to reflect changes in the risk environment as well as current best practice.

# Risk governance

Since the onset of the financial crisis, we have implemented various model enhancements to better reflect changes in the market environment. In particular, we have significantly improved the modelling of asset-backed securities by increasing its granularity: the respective risk factors are now more frequently updated to capture increased market volatility. In 2008, we also enhanced our internal model to reflect Swiss Re's legal entity structure and related Group effects, such as intra-Group transactions and consequential effects from potential distress situations. As part of the Swiss Solvency Test (SST), the new model is in the process of being validated by the Swiss regulator. In addition, the property and casualty risk models were improved by introducing enhanced event-set-based methods for assessing windstorm and aviation risks.

We are confident that our model provides an important tool for managing our business as well as a meaningful assessment of the risks to which Swiss Re is exposed. At the same time, market developments have confirmed that risk models must be supported by a clear understanding of the risks to which the business is exposed – and complemented by robust internal controls.

**Swiss Solvency Test**

In July 2008, Swiss Re submitted its first solvency report for the Swiss Solvency Test (SST). The new SST introduces an economic, principles-based approach to Swiss insurance regulation and is thus a forerunner of the European Solvency II regime. While the SST is based on projected figures, it uses a similar approach to our internal capital adequacy assessment (see page 81), and the results of our first SST report have affirmed the fundamentals of our own capital adequacy methodology.

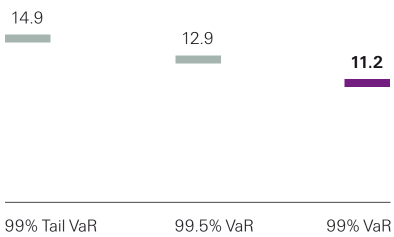
An important aspect of the SST is its recognition of the fundamental economic principle of diversification, taking legal structures and internal contracts into account. We worked closely with the Swiss regulator to extend the Group's internal model for new SST requirements, including the modelling of intra-group transactions and their impact on capital adequacy. This accelerated our existing efforts, helping us to further enhance our Group-wide capital management.

The SST is an important step on the path towards a consistent, principles-based solvency regime. It fosters sound risk management and governance across the insurance industry – and thus helps to establish better risk and capital insight. We strongly support this direction and are actively participating in the development of Solvency II. Thanks to our experience in implementing the SST, we are well prepared for future changes in European and global solvency regulation.

# Risk assessment

**Group capital requirement under different risk measures**

CHF billions, as of 31 December 2008




## Group capital requirement

Frequently used measures for summarising the risk distribution and defining the base capital requirement are 99% value at risk (VaR), 99.5% VaR and 99% Tail VaR (expected shortfall). 99% VaR measures the level of loss likely to be exceeded in only one year out of one hundred, while 99.5% VaR measures the loss likely to be exceeded in only one year out of two hundred. 99% Tail VaR estimates the average annual loss likely to occur with a frequency of less than once in one hundred years.

According to the Group's internal risk model, Swiss Re's overall risk exposure based on 99% VaR was CHF 11.2 billion compared to CHF 12.9 billion for 99.5% VaR. This represents a decrease of 3% and 6% respectively since the end of 2007. Over the same period, 99% Tail VaR decreased 10% to CHF 14.9 billion at the end of 2008. Swiss Re uses the more conservative 99% Tail VaR measure for assessing the Group's capital requirements internally, as well as for liquidity stress testing (see pages 79 – 80).

The table below shows the standalone 99% Tail VaR for Swiss Re's core risk categories. The Group's 99% Tail VaR was stable as higher financial market and credit risk was largely offset by lower property and casualty risk. More information on developments within the risk categories is provided later in this chapter.

**Base capital requirement using one-year 99% Tail VaR**

| CHF billions, as of 31 December | 2007 | 2008 | Change in % |
|---|---|---|---|
| Property & casualty | 8.6 | **7.9** | –9 |
| Life & health | 5.9 | **5.2** | –12 |
| Financial market | 7.7 | **8.0** | 3 |
| Credit | 2.8 | **3.0** | 6 |
| **Simple sum** | 25.1 | **24.0** | –4 |
| Diversification effect | –8.5 | **–9.1** | – |
| **Swiss Re Group** | 16.6 | **14.9** | –10 |

Our internal model considers the level of correlation and diversification between individual risks. The benefits of diversification can be seen in the table above, where the base capital requirement for the Group's overall portfolio is lower than the sum of the base capital requirements for individual sub-portfolios. We strive to diversify the risks to which we are exposed, not only to limit the impact of any single source of risk, but also to ensure that positive developments in some businesses balance out potential negative developments in others.

Stress scenario analyses complement the integrated risk model by providing information on the potential economic impact of certain adverse situations. Some of these stress tests are reported in the following sections.

Our risk tolerance represents the amount of risk we are willing to accept within the constraints imposed by our capital resources, strategy and risk appetite, as well as the regulatory and rating agency environment within which we operate. Risk tolerance and appetite at Group level are defined by a set of limits approved by the Executive Committee and the Board of Directors. In 2008, we further enhanced our limit framework to consistently break down our Group Risk Policy to all risk categories. The framework applies an iterative process to test our annual business plan, and thus aims to ensure that the resulting limits and business capacity reflect our Group-wide policies on capital adequacy and risk accumulation.

# Risk assessment

### Property and casualty insurance risk

Property and casualty risk arises predominantly from our property and casualty business, as well as from specialty lines, such as engineering, aviation and marine. The Group Property & Casualty Risk Guideline, in conjunction with the Group Risk Management Guideline, establishes the relevant risk governance framework. P & C Risk & Actuarial Management is responsible for independent oversight of property and casualty risk taking.

Limits to prevent excessive exposure to any individual policy, or to the same underlying risk factor, are monitored on a Group-wide basis. In addition, each underwriter is assigned an underwriting authority per treaty programme and single risk. We have a well-defined escalation process at various levels up to the Group Products and Limits Committee. Large individual transactions that could materially impact Swiss Re Group must be independently reviewed by Risk Management before they can be authorised.

The global Products Underwriting function plays a major role in managing property and casualty risks by proposing the annual renewal strategy and closely monitoring renewal business. Underwriting systems across the Group provide timely reporting on risks assumed and capacity committed. Where appropriate, we also use insurance-linked securities, industry loss warranties, retrocession and risk swaps to optimise Swiss Re's risk and return profile.

In 2008, the Group's property and casualty risk measured by 99% Tail VaR decreased 9% to CHF 7.9 billion. The reduction in risk was mainly driven by the 20% quota share arrangement with Berkshire Hathaway for new property and casualty business, which lowered net exposure and thus decreased capital requirements across all lines. This effect was partly offset by reductions in other protection instruments in order to optimise Swiss Re's property and casualty hedging portfolio. We also reduced our risk from directors' and officers' liability (D & O) and auditors' professional indemnity insurance through more selective underwriting and a significant reduction in business written. Strict underwriting discipline led to a moderate overall reduction in general liability business, especially in pharmaceutical product liability.

**Natural catastrophe stress tests**

| Estimated economic impact of each single loss event in CHF billions as of 31 December | 2007 | **2008** |
|---|---|---|
| Atlantic hurricane (200-year return period) | –3.7 | **–3.5** |
| European windstorm (200-year return period) | –2.2 | **–2.1** |
| California earthquake (200-year return period) | –2.8 | **–3.9** |
| Japanese earthquake (200-year return period) | –2.0 | **–1.7** |

The table above shows the results of our stress scenario analysis: Swiss Re's expected pre-tax claims for major natural catastrophe events, net of insurance-linked securities, industry loss warranties, retrocession and risk swaps. The scenarios take account of the fact that an event can trigger claims in various lines of business. For example, the European windstorm scenario includes, among others, claims from motor business, while the California earthquake scenario also reflects – but is not limited to – additional claims arising from workers' compensation and general liability.

The estimated impact for Swiss Re of the largest natural catastrophe loss events has generally decreased since the end of 2007. This mainly reflects the impact of the Berkshire Hathaway quota share arrangement, which is partly offset by the adjustment of other hedging instruments mentioned above, as well as an increase in incoming business written. The rise in California earthquake risk is due to significant business growth in the fourth quarter of 2008.

**Life and health insurance risk**

Swiss Re takes on life and health risk in the form of mortality (death), longevity (survivorship) and morbidity (illness and disability) covers as well as through the acquisition of run-off business (Admin Re®). The Group Life & Health Risk Standards and Group Risk Management Guideline establish the governance framework for life and health risk taking by our business units. These guidelines include detailed guidance on referral procedures and approval bodies. L&H Risk & Actuarial Management is responsible for independent oversight of life and health risk taking.

Our new limit framework introduces an aggregate Group limit governing the acceptance of all life and health risks. Within this limit, our specific limit for mortality risk still applies. Local business units can write reinsurance within their capital plans and within clearly defined boundaries, such as per life retention limits for individual business. In addition, maximum market exposure limits are in place for life and health catastrophe business. We pay particular attention to accumulation risk in areas of high population density and apply limits based upon expected maximum loss for exposures in individual buildings. Group limits are also in force to control and monitor business with exposure to long-tailed longevity risk. Any transaction that falls outside our specified limits requires individual approval under our risk governance framework. All large and complex transactions are subject to independent review by the central Products Underwriting team as well as by Risk Management.

In addition, we use insurance-linked securities as a means of reducing peak exposures. The Vita index-linked security transactions, for example, were arranged to provide protection against extreme mortality events. This is now a well-established programme.

Since the end of 2007, we have implemented a new longevity risk model which incorporates our previously established longevity capital calculation and allocation methodologies, and captures – among other sources of uncertainty – the impact of changes in mortality trends. The model is calibrated by underlying cause of death, including the possibility of an extreme reduction in deaths from cardiovascular disease and cancer.

In 2008, the Group's life and health risk measured by 99% Tail VaR decreased 12% to CHF 5.2 billion. This was mainly due to lower mortality and morbidity risk following the strengthening of the Swiss franc against the currencies in which our exposures are mainly denominated. In particular, the substantial weakening of the British pound had a significant impact on life and health risk. These currency effects more than offset the impact of introducing longevity risk into the Group risk model.

**Life insurance stress test**

| Estimated economic impact of a single loss event in CHF billions as of 31 December | 2007 | **2008** |
|---|---|---|
| Lethal pandemic (200-year return period) | –4.0 | **–3.5** |

The table above shows Swiss Re's expected pre-tax mortality claims for a major lethal pandemic loss event based on our proprietary pandemic model. The scenario assumes that excess mortality will vary with age, but is conservative in that it does not allow for the typically lower mortality experienced among insured populations. The decrease is due to the depreciation of major currencies against the Swiss franc, which more than offset modest overall growth in underlying business volumes.

# Risk assessment

**Financial market risk**

Swiss Re's financial market risk originates from two main sources: our investment activities and the financial market sensitivity of the economic value of liabilities. The Group Credit & Financial Market Risk Guideline defines minimum standards for managing financial market risk; these are supplemented by the Group Derivative Guidelines, the Swiss Re Financial Markets Policy and other, business-specific guidelines. Financial Risk Management is responsible for Group-wide monitoring and reporting of financial market risks.

Our Group-wide risk limits are defined by the Group Risk and Capital Committee, based on a proposal by Risk Management. In 2008, we enhanced our limit framework to reflect the changed market environment: all activities involving financial market risk are subject to a first limit set by risk factor and a second limit set by business group. Individual limits are expressed in terms of 10-day VaR, stress testing and sensitivity analysis. Asset Management determines a more detailed set of risk limits for its businesses, including stop-loss triggers.

Risks are captured using a classification of risk factors that is maintained and updated by Financial Risk Management. In addition, we continuously review business activities to detect any emerging risks. Our business units are responsible for measuring the financial market risk arising from their activities according to the guidelines provided by Risk Management; the results are captured in the Market Risk Aggregation & Reporting System, which is also used for risk modelling and risk reporting.

We have increased the frequency of our risk reporting in response to the high market volatility. Risks at Group level and limits for investment activities are now monitored and reported on a weekly basis, while capital markets trading relies on a combination of daily and weekly reporting. These reports are the primary tools for tracking exposures and documenting limit usage, which is independently monitored by Financial Risk Management. The limits are reported to the heads of the business unit, who seek to optimise their respective portfolios within their limits, including the use of cash and derivative instruments.

In 2008, financial market risk measured by 99% Tail VaR increased 3% to CHF 8.0 billion, mainly due to higher credit spread market volatility, which led to a substantial increase in credit spread risk. This was mostly offset by a significant decrease in equity risk, as we reduced our equity positions and increased our hedging in response to the market turmoil.

**Market scenarios**

| Estimated economic impact of each single loss event in CHF billions as of 31 December | 2007 | **2008** |
|---|---|---|
| 30% fall in global equity markets | –3.8 | **–2.5** |
| 100 basis point parallel increase in global yield curves | 0.2 | **0.1** |
| 15% fall in global real estate markets | –0.6 | **–0.6** |

The table above shows the pre-tax impact of Swiss Re's market scenarios on available economic capital. The decline in major equity markets – all of which lost over 30% throughout 2008 – and the sharp corrections in many real estate markets have confirmed that these scenarios provide a realistic prediction of exceptional conditions. Since the end of 2007, the potential loss from a 30% fall in global equity markets has decreased by a third to CHF 2.5 billion, as a result of a significant reduction in our equity portfolio as well as increased hedging. The equity scenario includes traded equities, equity derivatives, alternative investments, guaranteed minimum death benefit products (including variable annuities) and funding obligations arising from equity holdings in Swiss Re pension funds. As our assets are closely matched to our liabilities, shifts in interest rates only have a minor impact.

**Credit risk**

Credit risk arises directly from our investment activities as well as from liabilities underwritten by our business units. We distinguish between three types of credit exposure: the risk of issuer default from instruments in which Swiss Re invests or trades, such as through corporate bonds; counterparty exposure in a direct contractual relationship, such as retrocession or over-the-counter (OTC) derivatives; and risk assumed by Swiss Re through reinsurance contracts, such as trade credit and surety reinsurance business. All contribute to an overall credit risk portfolio governed by the Group Credit & Financial Market Risk Guideline that is approved by the Group Risk and Capital Committee. Financial Risk Management is responsible for Group-wide monitoring and reporting of credit risks.

The guideline requires the assignment of aggregate credit limits by business unit, limits for corporate counterparties and limits by country. These limits are based on a variety of factors, including the prevailing economic environment, the nature of the underlying credit exposures and, in the case of corporate counterparties, a detailed assessment of the counterparty's financial strength, industry position and qualitative factors. The counterparty assessment generates an internal counterparty-specific rating in one of 20 categories. We regularly monitor counterparty credit quality and exposures, and compile watch lists of cases that merit close attention.

Credit exposure and limits are monitored and reported on a weekly basis. The reporting process is supported by a Group-wide credit exposure information system that contains all relevant data, including counterparty details, ratings, credit risk exposures, credit limits and watch lists. All key credit practitioners in the Group have access to this system, thus providing the transparency required for the successful implementation of active exposure management strategies for specific counterparties, industry sectors and geographic regions.

In 2008, credit risk measured by 99% Tail VaR rose 6% to CHF 3.0 billion, mainly due to deterioration in credit quality. This was partly offset by a reduction in credit exposure from trading activities as well as by our efforts initiated in early September to hedge our corporate bond portfolio.

**Credit stress test**

| Estimated economic impact in CHF billions as of 31 December | 2007 | **2008** |
|---|---|---|
| Credit default stress test | –2.9 | **–3.0** |

The table above shows the pre-tax impact of our credit default stress test on available economic capital. This scenario indicates estimated unexpected losses due to the adverse development of defaults. It is based on historical corporate default data from Moody's and combines the worst default frequencies observed over 12 months for each of the individual rating categories. Since the end of 2007, the impact of the credit default stress test has risen slightly due to a deterioration in credit quality, which was largely offset by increased hedging.

# Risk assessment

**Operational risk**
Swiss Re's operational risk management (ORM) framework provides consistency of approach and a comprehensive overview of potentially serious event scenarios, ensuring that appropriate controls and contingency planning are in place. Our ORM is designed to reduce the Group's exposures to an acceptable level, taking into account the cost-benefit considerations of risk mitigation, as well as to enhance operational excellence.

In 2008, we took two important steps to refine our approach to ORM:
- We further integrated the management of key operational risks into the overall risk management framework. ORM experts are now based within the risk management units with responsibility for core business activities. This ensures even greater focus on maintaining the excellence of core processes such as pricing, accumulation control, claims settlement, asset management and project management.
- We achieved significant risk control synergies by combining our Sarbanes Oxley and ORM responsibilities, as well as by establishing a shared process for audit and management assurance planning.

**Reputational risk**
Maintaining our reputation with clients, investors, employees and other stakeholders is vital to continued business success. Environmental, social and ethical reputation risks may arise from specific business transactions. In addition, Swiss Re's reputation may be damaged by operational failures.

We have a long-standing commitment to sustainable business practices, responsible corporate citizenship and good governance. This is reflected in our participation in several international initiatives and conventions. In March 2008, Swiss Re signed the Global Compact, a United Nations initiative for businesses that are committed to human and labour rights, as well as to environmental responsibility and anti-corruption.

We mitigate potential reputational risk through clear corporate values, robust internal controls and active dialogue with external stakeholders. All employees are required to commit to and comply with the values and rules of behaviour defined in the Group's Code of Conduct. These values are supported by processes that enable early identification of potential problems. Transactions that could potentially compromise our values or impair Swiss Re's reputation are submitted to the Sensitive Business Risks process (for more information, see page 31). In 2008, this process became part of a wider reputational risk framework comprising industry policies and specific country exclusions. In addition, potential reputational impact is a key factor in assessing and controlling operational issues within our ORM framework.

# Liquidity risk management

Our liquidity risk management aims to ensure that Swiss Re is able to meet its financial obligations efficiently when they fall due.

As a reinsurance company, our core business generates liquidity largely through premium income. Swiss Re's exposure to liquidity risk stems mainly from regulatory constraints that limit the flow of funds within the Group as well as from the funding of the Legacy portfolio (described on page 59). To manage this risk, we have a range of liquidity policies and measures in place. In particular, we aim to ensure that:

- sufficient excess liquidity, mainly in the form of unencumbered liquid assets, is held centrally to meet Group liquidity requirements resulting from a range of potential stress events;
- funding is charged at an appropriate market rate through our internal transfer pricing;
- diversified sources are used to meet Swiss Re's residual funding needs;
- Swiss Re's long-term liquidity needs are taken into account as part of our asset-liability management approach used to control financial market risk (as described on page 76).

**Liquidity management actions**

In response to the extreme market conditions in 2008 and in anticipation of extended market disruption, we enhanced our monitoring of liquidity risk and implemented a range of measures to support Swiss Re's excess liquidity position.

We put into run-off all financial market activities that did not directly support Swiss Re's core reinsurance or insurance business. Our Treasury unit enlarged the portfolio of liquid assets that are earmarked for liquidity purposes. This included increasing the amount of cash held centrally, while ensuring that these cash holdings were diversified across a group of core issuers and types of cash instruments.

During 2008, we entered into a USD 1.5 billion long-term letter of credit facility with JP Morgan to meet US regulatory collateral requirements on existing life reinsurance business. Our acquisition of Barclays Life on 31 October 2008 was partly financed by external funding at attractive rates.

**Liquidity position of Swiss Reinsurance Company Ltd**

We monitor Swiss Re's liquidity position based on liquidity stress tests, as well as expected funding gaps over intervals of three months to one year. Our core liquidity policy is to pre-fund the potential funding requirements arising from various stress events. This is achieved by maintaining excess liquidity in the form of unencumbered liquid assets and cash within a central pool of entities, namely the "SRZ liquidity pool". This pool comprises the Group's parent company – Swiss Reinsurance Company Ltd – as well as subsidiaries whose funds are freely transferable to the parent company. This excess liquidity, referred to in the following discussion as "spot liquidity", is intended to allow Swiss Re to meet its funding obligations in a liquidity crisis without having to rely on other asset sales or unsecured external funding – and assuming a reduction in funding from new reinsurance business.

# Liquidity risk management

The amount of spot liquidity held is largely based on internal liquidity stress tests, which estimate the potential short-term cash and collateral requirements stemming from an extreme insurance event or a financial market crisis. These cash and collateral requirements under stress include:

- cash and collateral outflows, as well as potential capital and funding support required by subsidiaries as a result of the assumed insurance or financial market event.
- repayment or loss of all maturing unsecured debt and credit facilities. In the event of a financial market crisis, it is assumed that secured funding is only available on government and agency bonds.
- additional collateral requirements associated with a potential ratings downgrade of Swiss Re Group. In the case of a financial market crisis, a one-notch downgrade is assumed.
- further contingent funding requirements related to asset downgrades and existing commitments to extend credit or funding, based on a probabilistic assessment.
- other large committed payments, such as expenses, commissions, and tax.

**Composition of spot liquidity in the SRZ liquidity pool as of 31 December 2008**
Total CHF 17.3 billion

- 36% Cash and bank deposits
- 31% G7 and Swiss government bonds
- 22% Agency and municipal bonds
- 11% Other developed market government and supranational bonds

Swiss Re's liquidity stress tests are reviewed on a regular basis and their main assumptions are approved by the Group Risk and Capital Committee.

The market value of spot liquidity within the SRZ liquidity pool was CHF 17.3 billion and CHF 9.6 billion as of 31 December 2008 and 2007, respectively. In response to the deterioration in financial market conditions, we substantially increased spot liquidity in September 2008 by earmarking additional assets for liquidity purposes. As of 31 December 2008, we estimate Swiss Re held surplus spot liquidity based on our internal liquidity stress tests.

In addition to spot liquidity, a sizeable portfolio of other unencumbered assets are held within the SRZ liquidity pool. We target holding total unencumbered assets, including spot liquidity, that would provide sufficient funds if pledged or sold to meet the liquidity requirements stemming from an aggregate extreme loss event corresponding to 99% Tail VaR (see page 73). In addition to the cash and collateral requirements resulting from such a loss, we assume a two-notch ratings downgrade within 90 days and a four-notch downgrade within one year. We also assume that funding from assets is subject to conservative haircuts (discounts); that intra-Group funding is not available if it is subject to regulatory approval; that no new unsecured funding is available; and that funding from new reinsurance business is reduced. The estimated total liquidity sources available over a one-year horizon within the SRZ liquidity pool amounted to CHF 25.6 billion and CHF 37.5 billion as of 31 December 2008 and 2007, respectively. This decrease was mainly due to the significant reduction in assets funded by repurchase agreements, which improved net liquidity, as well as the transfer of the European branches from Swiss Reinsurance Company Ltd to Swiss Re Europe S.A. There is a risk that Swiss Re's liquidity position could be impaired if the Group were unable to access the capital markets over a one-year time horizon following the occurrence of such an extreme loss event.

Swiss Re also maintains a variety of other committed facilities not reflected in the above liquidity stress tests. As of 31 December 2008, Swiss Re had a total of CHF 2.1 billion of unutilised credit facilities and a further CHF 1.9 billion of unutilised committed repurchase agreement facilities.

# Capital management

Our capital management aims to ensure the Group and all its subsidiaries are adequately capitalised at all times. The level of capitalisation and capital structure are determined by regulatory capital requirements (both for the Group and individual legal entities), requirements for our target rating, as well as the management's view of risks and opportunities arising from our business operations.

**Capital adequacy**
We are actively working towards closing the gaps between regulatory, rating and internal views on capital adequacy. We have had an active dialogue with Standard & Poor's (S & P), providing feedback on their new Insurance Capital Model, and will continue to participate fully in the development of Solvency II.

**Swiss Re's external capital adequacy**
*Regulatory capital requirements*
On 1 January 2009, the former Federal Office of Private Insurance (FOPI), the Swiss Federal Banking Commission (SFBC) and the Anti-Money Laundering Control Authority were merged to form the Swiss Financial Market Supervisory Authority, FINMA. FINMA exercises integrated supervision of banks, insurance companies, reinsurers, other financial institutions and intermediaries in Switzerland.

Swiss Re is supervised by FINMA both at Group level and with regard to its legal entities domiciled in Switzerland. The supervision comprises minimum solvency capital, a wide range of qualitative assessments and risk governance requirements.

With the introduction of the SST, Switzerland became one of the first countries in Europe to implement an economic, principles-based approach similar to the planned Solvency II regime. Swiss Re implemented the SST in 2008, when all Swiss-based reinsurers were required to submit a first SST calculation. The SST target capital, however, only becomes a binding measure for regulatory solvency from 2011 onwards.

Many of our subsidiaries are regulated by their respective home regulators and subject to their respective capital requirements.

*Rating agency capital requirements*
Rating agencies assign credit ratings to the obligations of Swiss Reinsurance Company Ltd and its rated subsidiaries. The agencies evaluate Swiss Re based on a set of criteria, which include an assessment of our capital adequacy. Each rating agency uses a different methodology for this assessment; for example, Standard & Poor's and A.M. Best base their evaluation on their own proprietary capital models.

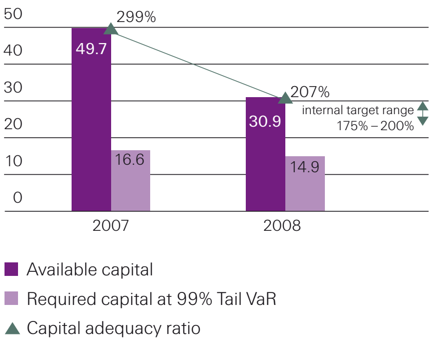
**Swiss Re's internal capital adequacy based on 99% Tail VaR**
Our internal capital adequacy view aims to maintain Swiss Re's ability to continue operations following an extremely adverse year of losses from insurance or financial market events. Our target is to have an economic capital adequacy ratio (available capital divided by required capital) in the 175% – 200% range at least.

At the end of 2008, our internal capital adequacy ratio was 207%. Despite the significant financial markets event of 2008, which resulted in the substantial decline of invested assets, our internal ratio remains in excess of our target range.

# Capital management

**Available and required capital at 99% Tail VaR**

CHF billions, as of 31 December 2008




Swiss Re determines the amount of available capital based on Economic Value Management (EVM) economic net worth, adjusted for additional risk-bearing items in line with the SST requirements. Required capital is based on 99% Tail VaR, as discussed on page 73.

**Capital management actions**

On 4 November 2008, with the publication of our third-quarter results, we announced the suspension of the share buy-back programme as a consequence of the high volatility in the financial markets and a significant increase in client demand for reinsurance. As of this date, the Group had completed 51.2% of the total buy-back programme.

Major legal entity simplification projects continue in Europe, the US, Canada and Asia, with an expected combined statutory capital relief of around CHF 2.5 billion.

In Europe, our simplification of the legal entity structure is well advanced. The project benefits from recent regulatory and legal developments that have allowed us to simplify our entity structure in the EU (excluding Admin Re®) into two companies: a reinsurance and a direct insurance carrier based in Luxembourg with branch operations in other EU countries. During 2008, business from a number of entities and branches in the UK, Ireland, Denmark, Netherlands, Spain, Italy and France was successfully integrated into the new Luxembourg carriers. At the same time, we consistently maintained our high level of service in all our European markets. Further, our product offerings and financial strength have remained unchanged. Local branches continue to be responsible for client management.

**EVM economic net worth**

EVM economic net worth (ENW) is the difference between the market value of assets and the market value of liabilities.

For liquidly traded assets and liabilities, the market value is obtained from current market prices. For insurance contracts and other assets and liabilities where no reliable market value is available, market-consistent valuation techniques are applied. This means that best estimates of future expected cash flows are replicated using liquidly traded financial market instruments. The market value of this replicating portfolio therefore corresponds to the economic value of future expected cash flows, such as premiums, claims commissions, expenses, taxes and estimated frictional capital costs. Frictional capital costs are required by the shareholder as a compensation for risk and regulatory capital costs.

The ENW is based on a "closed book" approach which implies that no value is recognised for future expected new business. As a result, no credit is taken for intangible items such as goodwill. For more information on EVM and the economic valuation of insurance contracts, please refer to Swiss Re's EVM Report, published in May 2008.

**Credit ratings**
Standard & Poor's (S & P), Moody's and A.M. Best rate Swiss Re's financial strength based upon interactive relationships.

Swiss Re's very strong business position, financial flexibility, as well as our outstanding franchise, and prudent risk management are reflected in superior insurance financial strength ratings.

**Swiss Re's financial strength ratings**

| As of 18 February 2009 | S & P | Moody's | A.M. Best |
|---|---|---|---|
| Rating | A+ | Aa3 | A+ |
| Outlook | Stable | Under review for possible downgrade | Under review with negative implications |

On 18 February 2009, S&P lowered Swiss Re's financial strength ratings from AA– to A+. The outlook on the ratings is stable.

On 5 February 2009, S&P had placed Swiss Re's financial strength ratings (AA–) on CreditWatch with negative implications. On the same day, A.M. Best placed Swiss Re's financial strength ratings (A+) under review with negative implications. On 6 February 2009, Moody's lowered Swiss Re's financial strength ratings from Aa2 to Aa3 and placed the ratings under review for possible downgrade. These rating actions followed Swiss Re's announcement on 5 February 2009 that it expected to report a net loss of approximately CHF 1 billion for 2008 and a reduction in shareholders' equity of approximately CHF 4 – 5 billion in the fourth quarter of 2008.

On 19 December 2008, A.M. Best affirmed Swiss Re's financial strength ratings (A+, Superior) and revised the outlook from stable to negative.

On 5 November 2008, Moody's affirmed Swiss Re's financial strength ratings (Aa2) and revised the outlook from stable to negative.

# Corporate governance and compensation report



**Key developments in 2008**

- In addition to the existing four committees, the Board of Directors established the new Investment Committee to ensure a stronger contribution to and closer supervision of investment and asset management.
- The charters of the Board committees have been refined to optimise interaction and efficiency between and among them.

Corporate governance is about more than just fine words. It is about transparency and integrity in everything we do.

# Corporate governance

**Corporate governance is the framework comprising a company's organisation, structure, management and assurance functions.**

**Checks and balances**
Good corporate governance implies an effective system of mutual checks and balances among the top corporate bodies. Swiss Re maintains a dual board structure. It thus distinguishes clearly between the members of the Board of Directors as the supervisory body and those of management. From 1 January 2009, the Board of Directors consists entirely of non-executive and independent members. It increasingly performs its supervisory function through its committees, thus ensuring competence and effectiveness. The newly established Investment Committee, for example, allows more focused monitoring of the Group's investment and asset management operation. Joint sessions among the Board committees enhance interaction and foster interdisciplinary exchange. In general, the Board of Directors has taken a greater role in the supervision of decision-making, not least because of the effects of financial market turbulence on the Group's business.

**Transparency**
Transparency is an important component of the governance framework designed to protect the interests of shareholders and create value for all stakeholders. Last year Swiss Re continued to provide Economic Value Management (EVM) reporting to analysts and investors. Unlike other calculation models, EVM includes capital costs and allows a comparison of the Group's different business operations. This increases the transparency of Swiss Re's business. In 2008, particular weight was placed on informing stakeholder groups about the repercussions of the financial crisis on Swiss Re.

**Overall context of corporate governance**
Corporate governance is increasingly linked to corporate sustainability and corporate citizenship. The integration of sustainability principles in core business activities strengthens a company's ability to protect its assets and create value. The expertise of private sector companies is becoming more important in society's efforts to tackle sustainability and other key issues. Assuming an active role in society reinforces the effectiveness of internal responses and creates goodwill among various stakeholders. Corporate sustainability and corporate citizenship are therefore important drivers of continued business success, and are firmly embedded in Swiss Re's corporate responsibility framework, along with corporate governance (for more information, see "Delivering sustainable value", pages 28 – 33).

**Legal requirements and best practice**
Swiss Reinsurance Company Ltd, the parent company of Swiss Re Group, is listed in Switzerland, so its corporate governance is assessed primarily in terms of the Swiss Code of Best Practice for Corporate Governance, issued by economiesuisse in July 2002, as well as its 2007 Appendix. Swiss Re is also subject to the Directive on Information relating to Corporate Governance (including its Annex), issued by SIX Swiss Exchange, effective since 1 July 2002 and amended on 1 January 2007 (also referred to as the "SIX Directive"). Moreover, Swiss Re meets the requirements of the Provisions on Corporate Governance, Risk Management and the Internal Control System, issued by the Federal Office of Private Insurance (FOPI) and enacted on 1 January 2007. FOPI became part of the Swiss Financial Market Supervisory Authority FINMA on 1 January 2009. Last but not least, the Group complies with the applicable local rules and regulations of all the countries in which it does business.

The information provided in this chapter of the Annual Report follows the structure of the SIX Directive.

# 1 Group structure and shareholders

### 1.1 Group structure

#### Operational Group structure

**Board of Directors**
Chairman
Vice Chairman
Members of the Board of Directors

**Executive Board**
Chief Executive Officer
Members of the Executive Committee
Members of the Executive Board

**Associated Units & Special Projects**

**Communications & Human Resources**

**Global Functions**

**Client Markets**
- Europe
- Americas
- Asia
- Insurance & Specialty
- Global Admin Re®

**Products Underwriting**
- Property & Specialty
- Casualty
- Life & Health

**Asset Management**
- Capital Markets Insurance Solutions
- Conning Asset Management

**Finance**

**Risk Management**

**Operations**
- Global IT
- Group Legal
- Claims & Liability Management
- Global Technical Accounting & Services
- Group Logistics

#### Listed Group companies
Swiss Reinsurance Company Ltd, the Group's parent company, is a joint stock company, listed on the SIX Swiss Exchange, domiciled at Mythenquai 50/60 in 8022 Zurich and organised in accordance with Swiss laws. For detailed share information, see the "Share performance" section on pages 62 – 65. For the other listed Group companies, see the Group financial statements, note 18 on "Subsidiaries, equity investees and variable interest entities", on pages 208 – 217.

#### Non-listed Group companies
Please refer to the Group financial statements, note 18 on "Subsidiaries, equity investees and variable interest entities", pages 208 – 217.

**1.2 Significant shareholders**

As of 31 December 2008, there were four shareholders with participation exceeding the 3% threshold of Swiss Re's share capital.

a. Swiss Reinsurance Company Ltd, Mythenquai 50/60, P. O. Box, 8022 Zurich, Switzerland, held a total of 28 521 789 Swiss Re shares or 7.85% of the share capital. Of these shares, 6 036 987 shares were fully paid-in shares held for general corporate purposes, 11 678 802 shares were paid in only at nominal value and reserved for general corporate purposes, 8 881 000 shares were acquired under the share buy-back programme and subject to cancellation, and 1 925 000 were acquired under the first trading line of the share buy-back programme.

b. Dodge & Cox, 555 California Street, 40th Floor, San Francisco, CA 94104, USA, announced on 31 October 2008 that they held, on behalf of the Dodge & Cox International Stock Fund, through an acquisition, 10 766 995 registered shares of Swiss Re. Dodge & Cox thus has a voting right of 3.05% in Swiss Re which can be exercised autonomously of the beneficial owners.

c. Berkshire Hathaway Inc., 3555 Farnam Street, Omaha, NE 68131, USA, notified Swiss Re on 22 January 2008 that, as of the same day, it held through its subsidiary Columbia Insurance Company, 3024 Harney Street, Omaha, NE 68131, USA, 11 250 000 registered shares or 3.03% of the voting rights of Swiss Re.

d. Franklin Resources, Inc., 500 E. Broward Blvd., Ft. Lauderdale, FL 33394, USA, known as Franklin Templeton Investments, notified Swiss Re on 6 December 2008 that it holds as of 4 December 2008, through an acquisition by a number of its Group companies, in the capacity of investment manager for mutual funds and clients, 10 970 364 registered shares of Swiss Re. Franklin Templeton Investments now holds 3.11% of the voting rights.

**1.3 Cross-shareholdings**

Swiss Re does not hold 5% or more of the shares or voting rights of any company which, in turn, also owns 5% or more of Swiss Re's shares or voting rights.

# 2 Capital structure

In accordance with the SIX Directive, the following information about Swiss Re's capital structure is provided for the listed parent company, Swiss Reinsurance Company Ltd.

### 2.1 Capital

Please refer to the statement of earnings per share on page 176 of the Group financial statements.

### 2.2 Authorised and conditional capital

With regard to the conditional capital created for bonds or similar financial instruments with a conversion right, shareholders' pre-emptive rights may be restricted or excluded by decision of the Board of Directors, in order to finance or refinance the acquisition of companies, parts of companies, holdings, or new investments planned by the Group, or to issue convertible bonds and warrants. If pre-emptive rights are excluded, then (1) the bonds are to be placed at market conditions, (2) the exercise period is not to exceed ten years from the date of issue for options and twenty years for conversion rights, and (3) the conversion or the exercise price for the new shares is to be set at least in line with the market conditions prevailing at the date on which the bonds are issued.

With regard to the conditional capital for employee participation purposes, shareholders' subscription rights are excluded. Such shares may be issued at a price below the current market price. The Board of Directors shall specify the precise conditions of issue.

At the Annual General Meeting in 2001, the creation of conditional capital was approved as follows: a maximum nominal amount of CHF 900 000 for conversion rights and warrants granted in connection with convertible bonds or similar financial instruments issued by the Group and CHF 700 000 for employee participation purposes.

No additional conditional capital and no authorised capital was created in 2002 and 2003.

At the Annual General Meeting in 2004, an increase in conditional capital from CHF 900 000 to CHF 2 000 000 was approved, representing a maximum of 20 million registered shares, payable in full, each with a nominal value of CHF 0.10, for the exercise of conversion rights and warrants granted in connection with bonds or similar instruments issued by the Group.

No additional conditional capital and no authorised capital was created in 2005.

At an Extraordinary General Meeting held on 27 February 2006, shareholders approved the creation of CHF 9 000 000 of authorised capital as well as an increase in conditional capital of CHF 2 000 000, relating to the acquisition of GE Insurance Solutions Corporation and for general corporate purposes.

The Annual General Meeting in 2007 approved a reduction of the conditional capital as per art. 3a of the Articles of Association reserved for bonds or similar instruments in the maximum nominal amount of CHF 3 100 000 by a nominal amount of CHF 496 072.50, corresponding to 4 960 725 registered shares, each with a nominal value of CHF 0.10, to CHF 2 603 927.50. Furthermore, the 2007 Annual General Meeting approved the cancellation of the conditional capital as per art. 3c of the Articles of Association created in favour of General Electric Company in the maximum nominal amount of CHF 900 000, which corresponds to 9 000 000 registered shares, each with a nominal value of CHF 0.10.

No additional conditional capital and no authorised capital was created in 2008.

| in CHF | Authorised capital | Conditional capital for bonds or instruments with a conversion right | Conditional capital for employee participation purposes |
|---|---|---|---|
| 31.12.2001 | | 900 000 | 682 027 |
| 31.12.2002 | | 900 000 | 663 052 |
| 31.12.2003 | | 900 000 | 663 052 |
| 31.12.2004 | | 2 000 000 | 662 222 |
| 31.12.2005 | | 2 000 000 | 659 565 |
| 31.12.2006 | 1 105 337 | 4 000 000 | 649 560 |
| 31.12.2007 | 1 105 337 | 2 603 928 | 604 388 |
| **31.12.2008** | **[1]** | **1 557 920** | **602 567** |

[1] The authorised capital created in February 2006 has expired

## 2.3 Changes in share capital

In 2005, the company's share capital remained at CHF 32 million. Total reserves increased CHF 952 million to CHF 11.7 billion. The lower profit for the 2005 financial year of CHF 1.1 billion (compared to CHF 1.4 billion in 2004) led to a decrease in disposable profit from CHF 1.5 billion to CHF 1.1 billion. Total shareholders' equity before allocation of profit increased from CHF 12.2 billion to CHF 12.8 billion. At the Annual General Meeting, shareholders approved a dividend payment of CHF 776 million, compared to CHF 497 million in the previous year. In 2005, the company issued 26 568 shares from conditional capital for employee participation purposes.

In 2006, the company's share capital increased from CHF 32 million to CHF 37 million, mainly due to shares issued to General Electric (GE) and to capital markets as a result of the acquisition of GE Insurance Solutions. Total reserves increased CHF 4.5 billion to CHF 16.2 billion. The higher profit for the 2006 financial year of CHF 2.1 billion (compared to CHF 1.1 billion in 2005) led to an increase in disposable profit from CHF 1.1 billion to CHF 2.2 billion. Total shareholders' equity before allocation of profit increased from CHF 12.8 billion to CHF 18.4 billion. At the Annual General Meeting, shareholders approved a dividend payment of CHF 1.2 billion, compared to CHF 776 million paid in the previous year. In 2006, the company issued 100 047 shares from conditional capital for employee participation purposes.

In 2007, the company's fully paid-in share capital remained roughly unchanged at CHF 37 million. Total reserves increased CHF 1.0 billion to CHF 17.2 billion. The profit for the 2007 financial year of CHF 1.7 billion (compared to CHF 2.1 billion in 2006) led to a decrease in disposable profit from CHF 2.2 billion to CHF 1.8 billion. Total shareholders' equity before allocation of profit increased from CHF 18.4 billion to CHF 19.0 billion. At the Annual General Meeting, shareholders approved a dividend payment of CHF 1.4 billion, compared to CHF 1.2 billion paid in the previous year. The company issued 451 724 shares from conditional capital for employee participation purposes, bringing the total of shares issued for employee participation purposes to 956 123, from a total of 7 000 000 shares available.

In addition, the 2007 Annual General Meeting authorised the Board of Directors to buy back the company's own shares up to a total value of CHF 4.2 billion within a three-year period by way of a second trading line. Any shares repurchased via the second trading line are intended to be cancelled. As of 31 December 2007, the company had repurchased a total of 6 005 000 shares since inception of the second trading line in August 2007.

In 2008, the company's fully paid-in share capital decreased from CHF 37 million to CHF 36 million. This change was due to the cancellation of CHF 1 734 900 of share capital consisting of 17 349 000 shares repurchased via the second trading line, as approved by shareholders at Swiss Re's 2008 Annual General Meeting, and the creation of 10 460 076

# 2 Capital structure

shares from conditional capital in connection with the conversion of the mandatory convertible bond (MCS) as described below. Total reserves decreased CHF 0.2 billion to CHF 17.0 billion. The profit for the financial year 2008 of CHF 15 million, compared to CHF 1.7 billion in 2007, led to a decrease in disposable profit to CHF 0.1 billion from CHF 1.8 billion. Total shareholders' equity before allocation of profit decreased to CHF 17.1 billion in 2008 from CHF 19.0 billion in 2007. The company issued 18 205 shares from conditional capital for employee participation purposes, bringing the total of shares issued for employee participation purposes to 974 328, from a total of 7 000 000 shares available. In connection with the conversion of the CHF 1 billion MCS in December 2008 issued by Swiss Re Treasury Luxembourg S.A., the company issued 10 460 076 shares from conditional capital for bonds or instruments with a conversion right, from a total of 26 039 275 shares available. At the Annual General Meeting of 13 March 2009, shareholders will vote on a proposed dividend payment of CHF 33.6 million, compared to CHF 1.3 billion distributed in the previous year.

In January 2008, Swiss Re announced, in connection with its entry into a retrocession agreement with Berkshire Hathaway, that the company intended, in addition to the previously announced share buy-back programme through a second trading line, to acquire its own shares by way of its first trading line for general treasury purposes up to a total value of CHF 1.75 billion. On 4 November 2008 the company announced its intention to suspend both buy-back programmes due to prevailing market conditions.

**2.4 Shares**

As of 31 December 2008, the share capital of Swiss Reinsurance Company Ltd, including 11 678 802 shares reserved for corporate purposes, amounted to CHF 36 351 604 or 363 516 036 fully paid-in registered shares (each with a nominal value of CHF 0.10), of which 335 665 775 are entitled to a dividend payment. Other than the shares reserved for corporate purposes, which have no voting power and are not entitled to a dividend payment, there are no additional types of shares with a higher or limited voting power, privileged dividend entitlement or any other preferential rights; nor are there any other securities representing a part of the company's share capital. Swiss Re's capital structure ensures equal treatment of all shareholders in accordance with the principle of "one share, one vote".

**2.5 Profit-sharing certificates**

According to the SIX Directive, profit-sharing certificates are particular types of non-voting securities that substitute or complement shares. Such certificates do not exist at Swiss Reinsurance Company Ltd.

**2.6 Limitations on transferability and nominee registrations**

**Free transferability**
Swiss Reinsurance Company Ltd's shares are freely transferable, without any limitations, provided that the buyers declare that they are the beneficial owners of the shares and comply with the disclosure requirements of the Swiss Federal Act on Stock Exchanges and Securities Trading ("Stock Exchange Act") of 24 March 1995.

**Admissibility of nominee registrations**
Trustees or nominees who act as fiduciaries of shareholders are entered without further inquiry in Swiss Reinsurance Company Ltd's share register as shareholders with voting rights up to a maximum of 2% of the outstanding share capital available at the time. Additional shares held by such nominees, which exceed the limit of 2% of the outstanding share capital, are entered in the share register with voting rights only if such nominees disclose the names, addresses and shareholdings of the beneficial owners of the holdings amounting to or exceeding 0.5% of the outstanding share capital. In addition, such nominees must comply with the disclosure requirements of the Stock Exchange Act.

### Procedure and conditions for cancelling statutory privileges and limitations on transferability

This point is not applicable, as no statutory privileges or limitations on transferability exist.

## 2.7 Convertible bonds and options

### Convertible bonds

As stated in note 7 on "Debt" on pages 168 – 170 of the Group financial statements, the following convertible bonds are outstanding:

| Tenor | Instrument | Currency | Nominal (millions) | Terms of conversion |
|---|---|---|---|---|
| 2001 – 2021 | Convertible bond | USD | 1 150 | i |
| 2006 – 2009 | Mandatory convertible bond | CHF | 610 | ii |

(i) Holders may convert the bonds, due in 2021 and issued in denominations of USD 10 000 principal amount and integral multiples thereof, into registered shares of Swiss Reinsurance Company Ltd at any time on and after 22 November 2001, and prior to the close of business on 21 November 2011, at a conversion price of CHF 207.19 per share and a fixed exchange rate of USD 1 = CHF 1.6641. The exercise of this convertible bond will not affect Swiss Re's conditional capital, as Swiss Reinsurance Company Ltd purchased a call option to hedge the underlying shares. If bond holders convert the bond, Swiss Re will exercise the hedge option to obtain the necessary shares without accessing Swiss Re's conditional capital.

(ii) Upon closing the acquisition of GE Insurance Solutions, Swiss Re issued CHF 610 million of three-year MCS to General Electric. The MCS issued as a private offering, may, at the option of each holder, be converted into registered shares of Swiss Reinsurance Company Ltd at any time from 18 July 2006 until 4.00 pm CET on the business day before the 20th trading day prior to the maturity date on 8 June 2009. Holders exercising such early conversion right will be entitled initially to receive 1 024.2 shares, subject to adjustment, for each MCS of CHF 100 000 nominal value. Unless previously converted, each MCS will be mandatorily converted on the maturity date into the number of registered shares of Swiss Reinsurance Company Ltd that equals the maturity conversion ratio. The maturity conversion ratio equals the arithmetic average of the 15 conversion ratios calculated on the basis of the closing prices of Swiss Reinsurance Company Ltd's shares on each of the 15 consecutive trading days ending on the third trading day prior to the maturity date. For the purposes of calculating such arithmetic average, the conversion ratio for a given trading day is determined as follows: (a) if the closing price is less than or equal to the minimum conversion price of CHF 84.90610, the conversion ratio shall be equal to the maximum conversion ratio of initially 1 177.8 shares per MCS of CHF 100 000 nominal value; (b) if the closing price is greater than or equal to the maximum conversion price of CHF 97.64202, the conversion ratio shall be equal to the minimum conversion ratio of initially 1 024.2 shares per MCS of CHF 100 000 nominal value; and (c) if the closing price is greater than the minimum conversion price, but less than the maximum conversion price, the conversion ratio shall be equal to CHF 100 000 divided by the closing price. Based on the closing price, Swiss Re will be required to deliver between 6.2 million and 7.2 million shares created from conditional capital, shares reserved for corporate purposes or other existing shares.

### Options

For details on stock options granted to Swiss Re employees, see note 14 on "Share-based payments" on pages 186 – 188 of the Group financial statements.

# 3 Board of Directors

From left:
**Jakob Baer**
**Hans Ulrich Maerki**
**Raymond K. F. Ch'ien**
**John R. Coomber**
**Rajna Gibson Brandon**
**Kaspar Villiger**
**Walter B. Kielholz**
**Mathis Cabiallavetta**
**Peter Forstmoser**
**Thomas W. Bechtler**
**Bénédict G. F. Hentsch**
**Robert A. Scott**
**Raymund Breu**

## 3.1 Members of the Board of Directors as of 31 December 2008

| Name | Nationality | Age | Additional function | Initial election | Current term ends |
|---|---|---|---|---|---|
| Peter Forstmoser | Swiss | 65 | Chairman of the Board<br>Chairman of the GC | 1990 | 2010 |
| Walter B. Kielholz | Swiss | 57 | Vice Chairman of the Board<br>Member of the FRC and GC | 1998 | 2010 |
| Jakob Baer | Swiss | 64 | Chairman of the AC<br>Member of the FRC | 2005 | 2009 |
| Thomas W. Bechtler | Swiss | 59 | Member of the AC, CC and IC | 1993 | 2009 |
| Raymund Breu | Swiss | 63 | Member of the AC and IC | 2003 | 2011 |
| Mathis Cabiallavetta | Swiss | 63 | Chairman of the IC<br>Member of the CC | 2008 | 2011 |
| Raymond K. F. Ch'ien | Chinese | 56 | Member of the CC and IC | 2008 | 2011 |
| John R. Coomber | British | 59 | Chairman of the FRC<br>Member of the GC | 2006 | 2009 |
| Rajna Gibson Brandon | Swiss | 46 | Member of the FRC and IC | 2000 | 2011 |
| Bénédict G. F. Hentsch | Swiss | 60 | Member of the AC and IC | 1993 | 2009 |
| Hans Ulrich Maerki | Swiss | 62 | Member of the CC and FRC | 2007 | 2011 |
| Robert A. Scott | British/<br>Australian | 66 | Chairman of the CC<br>Member of the AC and FRC | 2002 | 2010 |
| Kaspar Villiger | Swiss | 67 | Member of the FRC and GC | 2004 | 2011 |

AC = Audit Committee
CC = Compensation Committee
FRC = Finance and Risk Committee
GC = Governance Committee
IC = Investment Committee

### Independence

Swiss Re requires a majority of the Board of Directors to be independent. To be considered independent, a director may not be, and may not have been in the past three years, employed as an executive officer of the Group. In addition, he or she must not have a material relationship with any part of the Group – directly or as a partner, director or shareholder of an organisation that has a material relationship with the Group. Based on Swiss Re's independence criteria, in 2008 twelve of Swiss Re's thirteen directors qualified as independent.

Since John R. Coomber was Chief Executive Officer until 31 December 2005, he may not be considered to have been independent in 2008 under the applicable criteria, although he no longer has an executive status.

**Information about managerial positions and significant business connections of non-executive directors**

All members of the Board of Directors are non-executive. John R. Coomber was a member of Swiss Re's executive management and Chief Executive Officer until 31 December 2005. Walter B. Kielholz, former Executive Vice Chairman and non-executive Vice Chairman since 2007, was Swiss Re's Chief Executive Officer from 1 January 1997 to 31 December 2002. Of the other eleven non-executive directors, none has ever held a management position in the Group.

No director has any significant business connection with Swiss Re or any of its Group companies.

**Skills, experience and expertise**

The Board aims to attain the requisite balance of skills, knowledge, and tenure for today's business needs among its members. Potential new candidates are assessed against Board approved selection criteria including integrity, skill, qualifications, experience, communication capabilities and community standing. In addition to their managerial skills and expertise, Swiss Re's Board members have a sound knowledge of today's key areas, such as accounting, legislation, insurance/reinsurance, finance and risk, and capital markets, thus providing a solid foundation for decision making. It is ensured that every newly elected Board member receives an adequate general introduction. In the course of the year, the Board and its committees also receive educational sessions from business experts on emerging business trends and risks.

**Peter Forstmoser**
Chairman, non-executive and independent

Peter Forstmoser, a Swiss citizen born in 1943, received a doctorate in law from the University of Zurich in 1970, became an attorney-at-law in 1971 and earned a master's degree in law from Harvard Law School in 1972.

Peter Forstmoser was a law professor at the University of Zurich from 1974 to 2008 and has been a partner of Niederer Kraft & Frey, Attorneys, in Zurich, since 1975. Peter Forstmoser was elected to Swiss Re's Board of Directors in 1990. His mandate was renewed by the Annual General Meeting of shareholders in 1994, 1998, 2002 and 2006 each time for a further four years. The Board of Directors elected him Chairman on 30 June 2000. He was re-elected as Chairman in 2002 and 2006 for a further four-year term.

Peter Forstmoser is also Chairman of the Board of Directors of Hesta AG and Hesta Tex AG, a member of the Boards of Mikron Holding AG, Ernst Basler AG, Remer Holding AG and Hyos Invest Holding AG, as well as Vice Chairman of Gebert Rüf Stiftung.

Peter Forstmoser is the author of numerous publications on a variety of law disciplines, such as business, company, capital markets and data protection law. In the context of corporate and investment fund legislation, he has been engaged in numerous expert committees, some of which he presided over as Chairman.

**Walter B. Kielholz**
Vice Chairman, non-executive and independent

Walter B. Kielholz, a Swiss citizen born in 1951, studied business administration at the University of St. Gallen and graduated in 1976 with a master's degree in business finance and accounting.

# 3 Board of Directors

Walter B. Kielholz's career began at the General Reinsurance Corporation, Zurich. After working in the US, the UK and Italy, he assumed responsibility for the company's European marketing. In 1986, he joined Credit Suisse, Zurich, where he was responsible for client relations with large insurance groups in the multinational services department.

At the beginning of 1989, Walter B. Kielholz joined Swiss Re, Zurich. He became a member of the Executive Board in January 1993 and was Swiss Re's Chief Executive Officer from 1 January 1997 to 31 December 2002. In June 1998, he was elected to Swiss Re's Board of Directors, which at the same time appointed him Executive Director. Walter B. Kielholz was appointed Executive Vice Chairman with effect from 1 January 2003 and Vice Chairman in 2007. His mandate was renewed in 2002 and 2006 for a further four-year term.

Walter B. Kielholz was elected to the Board of Directors of Credit Suisse Group in 1999. Since 1 January 2003 he has been Chairman of that company's Board of Directors.

In addition, Walter B. Kielholz is a member of the European Financial Roundtable (EFR), a member of the Board (president in 2006/2007) of the International Monetary Conference and a member of the Institute of International Finance (IIF). Walter B. Kielholz is also Chairman of the Supervisory Board of Avenir Suisse and a member of the Board and the committee of the Swiss Business Federation (economiesuisse). In 2005, he was elected to the Insurance Hall of Fame, which honours individuals who have exercised substantial influence on the insurance industry for the benefit of society.

Furthermore, Walter B. Kielholz is Chairman of the Zurich Art Society.

**Jakob Baer**
Non-executive and independent director

Jakob Baer, a Swiss citizen born in 1944, became an attorney-at-law in 1971 and graduated from the University of Bern in 1973 with a doctorate in law.

Jakob Baer began his career in the legal department of the Federal Finance Administration. In 1975, he joined Fides Trust Company. Following the successful planning and execution of a management buyout of Fides' advisory business, he became a member of the Management Board of KPMG Switzerland in 1992. He was appointed Chief Executive Officer of KPMG Switzerland in 1994 and a member of KPMG's European and international Management Boards. He retired from KPMG in September 2004, having reached the statutory retirement age.

Jakob Baer was elected to Swiss Re's Board of Directors in May 2005. He also serves on the Boards of Directors of Adecco S.A., Rieter Holding AG, Allreal Holding AG, Stäubli Holding AG and two small-sized companies.

**Thomas W. Bechtler**
Non-executive and independent director

Thomas W. Bechtler, a Swiss citizen born in 1949, received a doctorate in law from the University of Zurich in 1973 and a master's degree in law from Harvard Law School in 1975.

Thomas W. Bechtler has been Chief Executive Officer of Hesta AG as well as Hesta Tex AG, Zug, since 1982.

Thomas W. Bechtler joined Swiss Re's Board of Directors in November 1993. His mandate was renewed in 1997, 2001 and 2005, each time for a further four-year term. Thomas W. Bechtler also serves on the Boards of Directors of Credit Suisse Group, Bucher Industries, Sika AG and Conzzeta Holding AG. From 1987 to 1999, he served as Chairman of "Swisscontact", a large Swiss development foundation, and from 1987 to 2002 as Chairman of the Zurich Art Museum (Kunsthaus). Since 2005 he has been chairman of the Zurich committee of Human Rights Watch.

**Raymund Breu**
Non-executive and independent director

Raymund Breu, a Swiss citizen born in 1945, graduated from the Swiss Federal Institute of Technology (ETH) in Zurich with a doctorate in mathematics.

Raymund Breu is Chief Financial Officer of the Novartis Group and a member of that company's Executive Committee, positions he assumed when Novartis was created in December 1996. He joined the group treasury of Sandoz, a predecessor company of Novartis, in 1975. Ten years later, he was appointed Chief Financial Officer of Sandoz Corporation in New York. In 1990, he became Group Treasurer of Sandoz Ltd and, in 1993, Head of Group Finance and a member of the Sandoz Executive Board.

Raymund Breu was elected to Swiss Re's Board of Directors in 2003. He was re-elected in 2007 for a further four-year term. In addition, Raymund Breu serves on the Swiss Takeover Board.

**Mathis Cabiallavetta**
Non-executive and independent director

Mathis Cabiallavetta, a Swiss citizen born in 1945, graduated from the University of Montreal with a bachelor's degree in economics and from the Queen's University, Kingston, Ontario with a master's degree in economics.

Mathis Cabiallavetta is a member of the Board of Philip Morris International and BlackRock, Inc. He serves as Chairman of Marsh & McLennan Companies, Inc. (MMC) International Advisory Board and is also a member of the Executive Advisory Board of General Atlantic Partners (GAP) in New York.

He was Vice Chairman of MMC from May 1999 to August 2008. Prior to joining MMC in 1999, Mathis Cabiallavetta was Chairman of the Board of Directors of UBS AG, having held several senior positions in the company since 1971. He became President of the Group Executive Board in 1996 and was elected Chairman of UBS AG in 1998.

He is a former member of the Bank Council of the Swiss National Bank and a past Vice Chairman of the Board of Directors of the Swiss Bankers Association. He was also a member of the Committee of the Board of Directors of the Swiss Stock Exchange and the International Capital Markets Advisory Committee of the Federal Reserve Bank of New York.

Mathis Cabiallavetta was elected to Swiss Re's Board of Directors at the Annual General Meeting of 18 April 2008, with effect from 1 September 2008, for a three-year term of office.

**Raymond K. F. Ch'ien**
Non-executive and independent director

Raymond K. F. Ch'ien, a Chinese citizen born in 1952, graduated from the University of Pennsylvania with a PhD in economics in 1978. He became a Trustee of the University of Pennsylvania in 2006.

Raymond K. F. Ch'ien has been Chairman of CDC Corporation since 1999. He served as Chief Executive Officer of the company in 2005 and as acting Chief Executive Officer in 2004. From 1984 to 1997, he was Group Managing Director of Lam Soon Hong Kong Group.

Raymond K. F. Ch'ien also serves as Chairman of the Boards of Directors of MTR Corporation Limited, Hang Seng Bank Limited and HSBC Private Equity (Asia) Limited. He is also a member of the Board of Directors of Inchcape plc, the Hong Kong and Shanghai Banking Corporation Limited, Convenience Retail Asia Limited and The Wharf (Holdings) Limited. In

# 3 Board of Directors

addition, Raymond K. F. Ch'ien holds positions in several public service institutions. He is Chairman of the Hong Kong/European Union Business Cooperation Committee, a member of the APEC Business Advisory Council, Hong Kong, and honorary President of the Federation of Hong Kong Industries and a member of the Standing Committee of the Tianjin Municipal Committee of the Chinese People's Political Consultative Conference.

Raymond K. F. Ch'ien was elected to Swiss Re's Board of Directors at the Annual General Meeting of 18 April 2008 for a three-year term of office.

**John R. Coomber**
Non-executive director

John R. Coomber, a British citizen born in 1949, graduated in theoretical mechanics from Nottingham University in 1970.

John R. Coomber started his career with the Phoenix Insurance Company. He joined Swiss Re in 1973. Having qualified as an actuary in 1974, he first specialised in the company's life reinsurance area. He was Swiss Re UK's appointed actuary from 1983 to 1990. In 1987, he assumed responsibility for the Life division and, in 1993, was made Head of the company's UK operations. John R. Coomber was appointed as a member of the Executive Board in April 1995, responsible for the Group's Life & Health division. In June 2000, he became a member of the Executive Committee. He was Swiss Re's Chief Executive Officer from 1 January 2003 until 31 December 2005, when he retired after 33 years of employment with Swiss Re.

John R. Coomber was elected to Swiss Re's Board of Directors at the Extraordinary General Meeting of 27 February 2006 for a term ending at the Annual General Meeting of 2009. John R. Coomber also serves as a member of the supervisory board of Euler Hermes, as a director of Pension Insurance Company Ltd, MH (GB) Limited, Parhelion Capital Ltd, telent Ltd, and Qatar Insurance Services. He is also a trustee of The Climate Group, and a member of the Deutsche Bank Climate Advisory Panel. John R. Coomber is an Honorary Fellow of the Chartered Insurance Institute.

**Rajna Gibson Brandon**
Non-executive and independent director

Rajna Gibson Brandon, a Swiss citizen born in 1962, studied business and economics at the University of Geneva, graduating with a BA in 1982 and a PhD in economics and social sciences in 1987.

Rajna Gibson Brandon is currently professor of finance at the University of Geneva. She was a professor of financial economics at the University of Zurich from March 2000 until July 2008 and was previously a professor of finance at the University of Lausanne.

She is also a Director of the National Centre of Competence in Research (NCCR) "Financial Valuation and Risk Management" research network, Director of Research of the Swiss Finance Institute (SFI) and an advisor to scientific councils of various educational institutions. She was a member of the Swiss Federal Banking Commission until the end of 2004. Rajna Gibson Brandon was elected to Swiss Re's Board of Directors in June 2000. Her mandate was renewed in 2004 and again in 2008 for a three-year term.

**Bénédict G. F. Hentsch**
Non-executive and independent director

Bénédict G.F. Hentsch, a Swiss citizen born in 1948, studied business administration at the University of St. Gallen, Switzerland, graduating in 1972 with a master's degree in business finance and accounting.

Bénédict G.F. Hentsch was a general partner of Darier Hentsch & Cie, Private Bankers, Geneva from 1985 until 2001. He chaired the Swiss Private Bankers Association from 1998 to 2001. In 2004, he founded Banque Bénédict Hentsch & Cie S. A., a private bank dedicated to global wealth management.

Bénédict G. F. Hentsch was elected to Swiss Re's Board of Directors in 1993. His mandate was renewed in 1997, 2001 and 2005, each time for a further four-year term. He is also a member of the Board of the ISC Foundation and the MLE Foundation, both at the University of St. Gallen.

**Hans Ulrich Maerki**
Non-executive and independent director

Hans Ulrich Maerki, a Swiss citizen born in 1946, graduated with a master's degree in business administration from the University of Basel in 1972.

Hans Ulrich Maerki joined IBM Switzerland in 1973. After some years in the sales area, he was promoted to a number of managerial positions in IBM's Paris European Headquarters as well as in IBM Switzerland. From 1993 to 1995, he led IBM's business in Switzerland as General Manager, before moving to IBM Europe in Paris to build the largest IT services business in the market. In August 2001, he was appointed Chairman of the Board of Directors of IBM Europe, Middle East and Africa (EMEA). From 2003 to 2005 he was also Chief Executive Officer of IBM EMEA. He retired from IBM after 35 years of service in April 2008.

Hans Ulrich Maerki was elected to Swiss Re's Board of Directors at the Annual General Meeting of 20 April 2007 for a four-year term of office. He is also a member of the Boards of ABB Ltd, Mettler-Toledo International and the Menuhin Festival AG Gstaad. He serves on the Foundation Board of Schulthess-Klinik in Zurich, on the Board of Trustees of the Hermitage Museum in St. Petersburg as well as on the international advisory boards of the Ecole des Hautes Etudes Commerciales (HEC) Paris, the IESE Business School University of Navarra (IESE), the IMD Business School in Lausanne and Bocconi University in Milan.

**Robert A. Scott**
Non-executive and independent director

Robert A. Scott, a British and Australian citizen born in 1942, was educated at Scots College, Wellington, New Zealand. He has been a Senior Associate of the Australian and New Zealand Institute of Insurance and Finance (ANZIIF) since 1965 and was made a Commander of the British Empire (CBE) in 2002.

Robert A. Scott is a retired Group Chief Executive of CGNU plc, now Aviva. In the 1990s, he was Group Chief Executive of General Accident and, following the merger with Commercial Union in 1998, was appointed Group Chief Executive of CGU plc. Following the merger in 2000 with Norwich Union, Robert A. Scott became Group Chief Executive of CGNU plc, retiring in May 2001. Robert A. Scott was also Chairman of the Association of British Insurers from 2000 to 2001, and a Board member in the previous four years.

Robert A. Scott joined Swiss Re's Board of Directors in 2002 for a four-year term. He was re-elected for a further four-year term in 2006. Robert A. Scott is also Chairman of the Board of Directors of Yell Group plc and a non-executive Director of the Royal Bank of Scotland Group plc. In addition, he is an adviser to Duke Street Capital and Pension Insurance Corporation Holdings LLP.

**Kaspar Villiger**
Non-executive and independent director

Kaspar Villiger, a Swiss citizen born in 1941, graduated from the Swiss Federal Institute of Technology (ETH) in Zurich with a degree in mechanical engineering in 1966.

As an entrepreneur, Kaspar Villiger co-owned and managed two businesses from 1966 until 1989. Simultaneously, Kaspar Villiger had several political positions, first in the parliament of the canton of Lucerne and, from 1982, in the Swiss Federal Parliament. He became a Federal Councillor in 1989. He initially served as Defence Minister, with responsibility for the Federal Military Department. He then became Finance Minister in 1995 as Head of the Federal Department of Finance until the end of 2003. Kaspar Villiger was President of the Swiss Confederation in 1995 and 2002.

# 3 Board of Directors

Kaspar Villiger joined Swiss Re's Board of Directors in 2004 for a four-year term. His mandate was renewed in 2008 for a further three-year term. He also serves as non-executive Director on the Boards of Nestlé SA, and the newspaper "Neue Zürcher Zeitung".

**Changes in the course of the 2008 business year**

John F. Smith, Jr. retired from the Board of Directors at the Annual General Meeting of 18 April 2008. At the same time, the shareholders re-elected Rajna Gibson Brandon and Kaspar Villiger members of the Board of Directors for a three-year term. Additionally, Mathis Cabiallavetta and Raymond K. F. Ch'ien were elected new members of the Board of Directors.

**Nominations for the election at the Annual General Meeting of 13 March 2009**

The Board of Directors has decided to nominate the following candidates for re-election to the Board for a further term:

- Jakob Baer
- John R. Coomber

**3.2 Other activities and functions**

Please refer to the information provided in each director's biography on pages 95 – 100.

**3.3 Cross-involvement**

Please refer to the information provided in each director's biography on pages 95 – 100.

**3.4 Elections and term of office**

**Election procedure**

The members of the Board of Directors are elected at a General Meeting of shareholders.

The Governance Committee evaluates candidates for Board membership and makes recommendations to the Board with regard to their nomination for election or re-election. The Board submits nominations for new directors for election at the General Meeting that ensure an adequate size and a well-balanced composition of the Board and comply with the requirement that a majority of the Board is independent. At the General Meeting, each proposed election or re-election is presented by the Chairman and voted upon separately. The Chairman and Vice Chairman of the Board, as well as the chairpersons and members of the Board committees are elected by the Board of Directors.

**Term**

The regular term of office of a directorship has been reduced from four to three years, based on the decision taken at the Annual General Meeting of 18 April 2008. It usually begins with the date of election by a General Meeting of shareholders and ends on the third subsequent Annual General Meeting. Members whose term has expired are immediately eligible for re-election. The age limit is 70. Members who reach the age of 70 during a regular term of office shall tender their resignation at the Annual General Meeting following the attainment of that age. The term of office of a committee member is one year, beginning with the Board meeting following the Annual General Meeting and ending with the Board meeting following the subsequent Annual General Meeting.

**First election and remaining term of each director**

Please refer to the table provided on page 94.

**3.5 Organisational structure of the Board of Directors**

The organisation of the Board of Directors is laid down in the Corporate Bylaws, which define the responsibilities of the Board of Directors, its committees and the executive management, as well as the reporting procedures. The Corporate Bylaws are reviewed periodically by both the Governance Committee and the full Board with regard to expediency as well as to compliance with domestic and applicable international laws, regulations and best practice standards.

### 3.5.1 Allocation of tasks within the Board of Directors

**Chairman of the Board of Directors**
The Chairman of the Board of Directors exercises ultimate supervision of the executive management on behalf of the Board. He usually attends the meetings of the Executive Committee and Executive Board and receives the documentation and minutes of all the meetings. He ensures adequate reporting to the Board by the Board committees, Executive Committee and Executive Board. He is also responsible, with the Chairman of the Audit Committee, for Group Internal Audit. He appoints the Head of Group Internal Audit, subject to confirmation by the Audit Committee, and determines his or her compensation.

In addition, he convenes meetings of the Board and its committees, makes preparations for, and presides at Board meetings. He coordinates the activities of Board committees and ensures the Board is kept informed about their activities and findings. In cases of doubt, he makes decisions regarding the authority of the Board or its committees and about the application and interpretation of the Corporate Bylaws.

He receives comments from the directors as to the Board's performance, reports annually to the Board with an assessment of its performance and ensures that newly elected Board members receive a suitable introduction to their role.

He presides at General Meetings and represents the Group to shareholders.

If the Chairman of the Board is prevented from performing his duties, they are performed by the Vice Chairman or another member of the Board.

**Vice Chairman**
The Vice Chairman liaises between the Board and executive management in matters not reserved to the Chairman, supervises management's preparation and execution of Board resolutions in operational matters as well as management's development of Group strategies, and oversees management development for the Group's senior executives.

**Committees of the Board of Directors**
The Board has delegated certain responsibilities, including the preparation and execution of its resolutions, to five committees: Audit Committee, Compensation Committee, Finance and Risk Committee, Governance Committee and Investment Committee. The Investment Committee was established in 2008 and held its first meeting in December 2008.

Each committee is headed by a chairperson. He or she prepares and presides over the committee meetings. Any such committee must keep the Board apprised on a timely basis of actions and determinations.

The committees may conduct or authorise special investigations, at any time and at their full discretion, into any matters within their respective scope of responsibilities, as laid down in their respective charters of duties, thereby taking into consideration relevant peer group practice and general best practice. They are empowered to retain independent counsel, accountants or other experts if deemed necessary, including for purposes of benchmarking best practice, and shall receive appropriate funding for payment of compensation to such outside advisers.

The Board has an assessment process in place, giving the members the opportunity to assess the effectiveness of the Board and its committees on an annual basis.

# 3 Board of Directors

### 3.5.2 Committees of the Board of Directors: responsibilities and members

**Audit Committee**

*Responsibilities of the Audit Committee*

The central task of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities as they relate to the integrity of the Group financial statements, the Group's compliance with legal and regulatory requirements, the external auditor's qualifications and independence, and the performance of the Group's internal audit function and its external auditor.

The Audit Committee serves as an independent and objective monitor of the Group's financial reporting process and system of internal control, and facilitates ongoing communication between the external auditor, management, Group Internal Audit and the Board with regard to the Group's financial situation and course of business.

In fulfilling its responsibilities, the Audit Committee, among other things,

- reviews major changes to the Group's accounting principles and practices;
- reviews with the external auditor and the Head of Group Internal Audit the adequacy and efficacy of the financial reporting process as well as the Group's system of internal controls over financial reporting and quality control procedures;
- reviews, at least annually, the Group's policies regarding publication of earnings and the policies regarding communication of financial information provided to analysts and rating agencies;
- reviews and discusses with management the quarterly and annual financial accounts of the parent company and the Group, and approves quarterly accounts and reports of the Group;
- exercises supervision of compliance-related matters by reviewing management's reports on legal, regulatory and compliance risks, including management's identification of potential fraud risks and implemented anti-fraud controls;
- approves the appointment of the Head of Group Internal Audit, approves planned audit services by Group Internal Audit and reviews annually the performance of Group Internal Audit;
- evaluates external auditors and recommends a firm to the Board of Directors for election at the General Meeting, reviews annually the independence and the performance of the external auditor as well as its quality control procedures, and approves the compensation for external audit services;
- periodically meets with Group Internal Audit and the external auditor to discuss their findings and management's responses.

*Members of the Audit Committee*

Jakob Baer, Chair
Thomas W. Bechtler (as of 18 April 2008)
Raymund Breu
Rajna Gibson Brandon (until 18 April 2008)
Bénédict G. F. Hentsch (as of 18 April 2008)
Robert A. Scott
John F. Smith, Jr. (until 18 April 2008)

*Independence and other qualifications*

All members of the Audit Committee are non-executive and independent. In addition to the independence criteria applicable to Board members, members of the Audit Committee may not accept any consulting, advisory, or other compensatory fee from the company. All members must be financially literate. At least one member must have the attributes qualifying him/her as an Audit Committee Financial Expert (as defined in the Corporate Bylaws and determined by the Board). Furthermore, the Corporate Bylaws require that Audit Committee members should not serve on audit committees of more than two other listed companies. They shall advise the Chairman in advance of accepting any further invitation to serve on the audit committee of another listed company. No member of the Audit Committee held more than two additional audit committee mandates in 2008.

**Compensation Committee**

*Responsibilities of the Compensation Committee*

The Compensation Committee, among other things,

- ensures the development of a set of Group compensation principles, submits them to the Board for approval, monitors adherence to the principles and regularly discusses their appropriateness;
- keeps itself informed of industry and peer compensation practices;
- recommends to the Board the remuneration of the members of the Board, the compensation of the Chief Executive Officer and the total amount available for compensation of the other members of the Executive Board;
- determines the individual compensation amounts of the members of the Executive Board (other than the Chief Executive Officer), based on the Board's determination of the total amount available;
- determines the total amount for bonus payments and related share deferral plans, on the basis of achieved performance, and approves long-term incentive plans (subject to the approval of the Board of Directors for new option plans);
- reviews and approves the Group's compensation and pension plans;
- ensures compliance with any remuneration disclosure requirements;
- approves employment contracts with the Chairman, the Vice Chairman, the Chief Executive Officer and the members of the Executive Committee and the Executive Board.

*Members of the Compensation Committee*

Robert A. Scott, Chair
Thomas W. Bechtler
Raymund Breu (until 18 April 2008)
Mathis Cabiallavetta (as of 1 September 2008)
Raymond K. F. Ch'ien (as of 18 April 2008)
Hans Ulrich Maerki

*Independence*

All members of the Compensation Committee are non-executive and independent.

**Finance and Risk Committee**

*Responsibilities of the Finance and Risk Committee*

The Finance and Risk Committee, among other things,

- annually reviews and recommends for approval to the Board of Directors the Group Risk Policy, including Swiss Re's risk tolerance targets regarding capital adequacy, risk concentration, and earnings volatility;
- regularly monitors the usage of limits set out in the Group Risk Policy and decides on actions to be taken following breaches;
- discusses with the Chief Risk Officer the top risk issues for the Group and corresponding risk mitigation actions;
- reviews the most important risk exposures in all major risk categories – insurance (including reserve risk), financial market, credit, funding and liquidity, and operational – highlighting significant risk concentrations;

# 3 Board of Directors

- reviews new products or strategic expansions of the Group's areas of business, which would result in a substantial change to the Group's risk profile, and provides comments to the Board of Directors from a risk perspective;
- reviews the assurance activities of the Risk Management function;
- reviews critical principles used in internal risk measurement, valuation of assets and liabilities, capital adequacy assessment, and economic performance measurement, and reviews their implementation;
- reviews the Group's funding structure and capital adequacy;
- reviews the Group's treasury strategy, including cash and liquidity management;
- discusses external risk mitigation activities (including retrocession, insurance bonds, and investment hedging) and their impact on counterparty risk;
- reviews reports on the Group-wide use of derivative instruments.

*Members of the Finance and Risk Committee*
John R. Coomber, Chair
Jakob Baer
Rajna Gibson Brandon
Walter B. Kielholz
Hans Ulrich Maerki
Robert A. Scott
Kaspar Villiger

**Governance Committee**
*Responsibilities of the Governance Committee*
The Governance Committee, among other things,
- keeps itself informed on corporate governance developments, measures the Group's governance against relevant best practice standards and informs the Board of its findings and emerging trends;
- evaluates Board member candidates and makes recommendations to the Board with regard to their nomination for election or re-election at a General Meeting, while ensuring an adequate size and a well-balanced composition of the Board as well as the independence of the majority of the Board;
- evaluates proposals of the Chief Executive Officer for the appointment and removal of members of the Executive Committee and the Executive Board;
- ensures the effectiveness of executive succession and emergency planning processes;
- reviews compliance with corporate governance disclosure requirements;
- periodically reviews the company's Articles of Association and the Corporate Bylaws, and informs the Board of its findings and proposals;
- reviews the Group's communication policy;
- periodically reviews the Group's guiding principles, as well as corporate citizenship and corporate sustainability activities;
- monitors Investor Relations activities and the relationship with rating agencies;
- examines how public reports are perceived, especially with regard to whether they fulfil the needs and expectations of international investors;
- monitors the shareholder structure;
- has initial responsibility for assessing any merger and take-over proposals submitted to the Group;
- has initial responsibility for reviewing material transactions with any of the Group's significant shareholders.

*Members of the Governance Committee*
Peter Forstmoser, Chair
John R. Coomber (as of 18 April 2008)
Bénédict G. F. Hentsch (until 18 April 2008)
Walter B. Kielholz
John F. Smith, Jr. (until 18 April 2008)
Kaspar Villiger

**Investment Committee**
*Responsibilities of the Investment Committee*
The Investment Committee, among other things,
- reviews the quarterly performance of all financial assets of the Group;
- reviews the valuation methodology and the risk analysis methodology for each investment asset class;
- approves the strategic asset allocation and reviews the tactical asset allocation;
- ensures compliance of risk limits with approved limits;
- decides on investments for private equity, real estate, hedge funds or third-party fund manager allocation if in excess of any delegated authority, and reviews the strategic investment portfolio;
- conducts liquidity reviews relating to investment activities.

*Members of the Investment Committee*
Mathis Cabiallavetta, Chair
Thomas W. Bechtler
Raymund Breu
Raymond K. F. Ch'ien
Rajna Gibson Brandon
Bénédict G. F. Hentsch

### 3.5.3 Work methods of the Board of Directors and its committees

The Board and its committees meet at the invitation of the Chairman of the Board as often as business requires. The Board has six regular two-day meetings a year. The first day is usually reserved for the committees; on the second day, the full Board meets for as long as necessary, mostly the whole day.

The regular Board meetings are normally held in early and late February, April, May or June, early October and December. Each regular Board meeting has a special focus, which is basically related to Swiss Re's reporting schedule. These areas of focus consist of strategic issues, financial statements, analysis of internal results, the medium-term business plan and corporate governance.

a. General work methods of the Board of Directors and its committees
Extraordinary meetings are called at short notice if and when required. Board members can also join such meetings by video or telephone conference. A quorum is constituted when at least half the members of the Board or the Board committee are present in person or participate using some alternative means of communication.

In addition to the regular and extraordinary meetings, the Board and its committees can make decisions in writing. These resolutions by written agreement have equal validity to decisions made in regular or extraordinary meetings. Resolutions by written agreement of the Board of Directors may be adopted if no Board member calls for discussion of the motion. A quorum is

# 3 Board of Directors

constituted when at least half the members express their agreement or disagreement with the resolution. Written resolutions of Board committees may be adopted if all committee members express their agreement or disagreement with the resolution.

The Chairman of the Board is responsible for defining the agendas for the meetings of the Board and its committees in close cooperation with the chairpersons of the committees and in consultation with the Chief Executive Officer. A number of recurring issues are discussed periodically at the regular meetings.

The members of the Board of Directors receive an invitation to Board and committee meetings with a list of the agenda items approximately two weeks before each meeting. They also receive written documentation on the items for discussion, so that they can prepare thoroughly. The first set of pre-reading material is usually sent out with the invitation two weeks prior to the meeting, followed by a second delivery one week later.

In the meeting, the agenda items are usually introduced by a presentation, followed by a discussion and, where necessary, a resolution on the item. The presentation is given by an expert from the Executive Committee or Executive Board or by other employees having the requisite specialist knowledge.

Specific subjects can be discussed in a closed session with a reduced number of participants. Depending on the item being discussed, these closed sessions consist solely of Board members (private session) or Board members and the Chief Executive Officer (executive session). Minutes are kept of the discussions and the resolutions of each meeting and are usually approved at the next Board or Board committee meeting.

### b. Specific work methods of the Board of Directors

The Board meetings are attended by members of the Board and, in an advisory capacity, by the members of the Executive Committee as well as the company secretary.

In 2008, there were eight regular and three extraordinary Board meetings, and the Board made three decisions in writing. The Board meetings lasted 6.5 hours on average. Between one and 14 agenda items were discussed per meeting, with an average of eight items per meeting. The average attendance rate was 97.9% at the regular meetings throughout the year. Average attendance including extraordinary meetings, which were often called at short notice, was 96.4%. Whenever possible, Board members who are unable to attend an extraordinary meeting give their views on the agenda items to the Chairman before the meeting.

### c. Specific work methods of the Audit Committee

The Audit Committee normally meets eight times a year. The first two meetings of the year mainly deal with the annual closing. In the subsequent meetings, the committee focuses on topics such as embedded value, the internal control system, or legal, regulatory and compliance issues. The committee receives a status report from Group Internal Audit about four times a year. The meetings at the beginning of May, August and November are mainly dedicated to the discussion and approval of the quarterly results.

Besides the committee members and the company secretary, selected individuals are invited to attend Audit Committee meetings in an advisory capacity. In 2008, the following people exercised an advisory role on the committee:

- Peter Forstmoser, Chairman of the Board of Directors
- Walter B. Kielholz, Vice Chairman
- Jacques Aigrain, Chief Executive Officer
- George Quinn, Chief Financial Officer
- Clare Bousfield, Head of Group Internal Audit

The two lead auditors representing the external auditor are also invited to Audit Committee meetings. The Head of Group Internal Audit and the two lead auditors of the external auditor are normally present in executive sessions of the committee.

In 2008, there were eight Audit Committee meetings and no extraordinary meetings. No resolutions were taken by written agreement. On average, the meetings lasted three hours. Between four and ten agenda items were discussed per meeting, with an average of seven items. Average attendance was 92.5% at the meetings throughout the year.

### d. Specific work methods of the Compensation Committee

The Compensation Committee normally holds four regular meetings per year. The main purpose of the January and February meetings is to set the total amount for bonus payments in the organisation, including bonuses for Executive Board members, as well as to allocate benefits from the long-term incentive plans. The October meeting is to review the compensation principles and instruments. In December, the Committee undertakes an initial assessment of Executive Board members' performance for the pending bonus allocation and decides on any amendments to the compensation system for the following year.

Besides the committee members and minutes taker, selected individuals are invited to attend Compensation Committee meetings in an advisory capacity. In 2008, the following people exercised an advisory role on the Committee:

- Peter Forstmoser, Chairman of the Board of Directors
- Walter B. Kielholz, Vice Chairman
- Jacques Aigrain, Chief Executive Officer

The Compensation Committee enlisted the help of Mercer Human Resources Consulting to provide support and advice for compensation issues during the reporting year. Mercer supported the Committee in organising benchmark studies and reviewing and amending the compensation philosophy.

# 3 Board of Directors

In 2008, there were four regular meetings of the Compensation Committee. There were no extraordinary meetings and five resolutions by written agreement. The meetings lasted on average three hours. Between six and nine agenda items were discussed per meeting, with an average of eight items. Attendance was 100% during the reporting year.

e. Specific work methods of the Finance and Risk Committee
The Finance and Risk Committee normally holds six regular meetings per year. The topics discussed at committee meetings depend on current developments and corporate requirements. In the reporting year, the Committee focused mainly on the implications of the financial crisis for the Group's risk management. Amongst others, the Committee reviewed the Group's capital adequacy, capital management initiatives, financial market and credit risks, liquidity issues, longevity and variable annuities activities, life and health key risks, reserving policy for life and non-life business, the optimal approach to the insurance price cycle and treasury issues. The Committee also discusses the Chief Risk Officer's latest written report at almost every meeting. This report outlines the Group's position in terms of main risk issues as well as related risk management actions and recommendations.

Besides the committee members and the company secretary, selected individuals are invited to attend Finance and Risk Committee meetings in an advisory capacity. In 2008, the following people acted in an advisory role on the Committee:
- Peter Forstmoser, Chairman of the Board of Directors
- Jacques Aigrain, Chief Executive Officer
- David J. Blumer, Head of Asset Management (as of 1 May 2008)
- Brian Gray, Chief Underwriting Officer (as of 1 September 2008)
- George Quinn, Chief Financial Officer
- Stefan Lippe, Deputy Chief Executive Officer and Chief Operating Officer
- Raj Singh, Chief Risk Officer
- Roger W. Ferguson, Head of Financial Services Products (until 30 April 2008)
- Benjamin Meuli, Chief Investment Officer (until 13 August 2008)

In 2008, there were six regular meetings of the Finance and Risk Committee. There were no extraordinary meetings and no resolutions by written agreement. On average, the meetings lasted 2.5 hours. Seven or eight agenda items were discussed per meeting. Average attendance was 97.6% during the reporting year.

f. Specific work methods of the Governance Committee
The Governance Committee normally holds four regular meetings per year. The Committee usually spends its first meeting of the year discussing developments in corporate governance and reviewing the Articles of Association, Corporate Bylaws and the corporate governance section of the Annual Report. The Committee's other meetings address the media and investor response to the annual results, the Group's Guiding Principles, social commitment, approach to sustainability, the activities of Investor Relations and shareholder structure. In 2008, one meeting was dedicated to an initiative which aims at improving the search for and promotion of talent as well as internal collaboration.

Besides the committee members and the company secretary, selected individuals are invited to attend Governance Committee meetings in an advisory capacity. In 2008, the following people exercised an advisory role on the Committee:

- Jacques Aigrain, Chief Executive Officer
- George Quinn, Chief Financial Officer

In 2008, there were four regular and one extraordinary meetings of the Governance Committee. There were no resolutions by written agreement. On average, the meetings lasted 1.5 hours. Between two and six agenda items were discussed per meeting, with an average of five items. Attendance was 100% during the reporting year.

### g. Specific work methods of the Investment Committee

The Investment Committee was established in autumn 2008. It held its first and only meeting in December 2008. The meeting, which was attended by all six committee members, lasted 2.5 hours and covered 9 agenda items. Main focus was on strategy, asset management activities, investment performance, valuation methodologies and organisational matters. There were no resolutions by written agreement.

### h. Meeting schedule in 2008

| Dates | Board of Directors | Audit Committee | Compensation Committee | Finance and Risk Committee | Governance Committee | Investment Committee |
|---|---|---|---|---|---|---|
| 30 January | | | ■ | | | |
| 31 January | | ■ | | ■ | ■ | |
| 1 February | ■ | | | | | |
| 27 February | | ■ | ■ | ■ | | |
| 28 February | ■ | | | | | |
| 26 March | | ■ | | | | |
| 16 April | | ■ | | ■ | ■ | |
| 17 April | ■ | | | | | |
| 5 May | | ■ | | | | |
| 15 May | ■ | | | | | |
| 16 May | ■ | | | ■ | ■ | |
| 9 July | ■ | | | | | |
| 4 August | | ■ | | | | |
| 19 September | ■ | | | | | |
| 21 September | ■ | | | | | |
| 2 October | | ■ | ■ | ■ | ■ | |
| 3 October | ■ | | | | | |
| 3 November | | ■ | | | | |
| 4 December | | | ■ | ■ | ■ | ■ |
| 5 December | ■ | | | | | |
| 13 December | ■ | | | | | |

The Board meetings of 19 and 21 September, as well as 13 December and the meeting of the Governance Committee of 2 October were extraordinary.

# 3 Board of Directors

### 3.6 Definition of areas of responsibility of the Board of Directors and the Executive Committee

The Board of Directors exercises the ultimate authority of the Group. It has delegated the responsibility for managing the Group's operations to the Executive Committee (see section 4 below).

The Board of Directors, among other things,

- determines the risk tolerance level of the Group, monitors risk development and approves the business principles to be applied in reinsurance and asset management;
- defines the Group's Guiding Principles, adopts the strategy of the Group and keeps itself informed of the strategies of the business and corporate functions, as well as of the divisions;
- approves consolidated medium- and short-term Group business plans based on the Group's strategic goals and the business plans of the business and corporate functions;
- decides on high-level transactions in alternative investments, Admin Re®, debt issuances, credit facilities or similar instruments, and capital market transactions;
- reviews periodic core business status reports as well as reports on major business transactions and events;
- has overall responsibility for corporate governance matters;
- approves the compensation principles of the Group upon recommendation of the Compensation Committee;
- reviews the Group's adherence to legal, regulatory and compliance standards, as well as the status of significant legal, regulatory or compliance matters, in conjunction with the Audit Committee;
- determines the structure of the Group, defines its business and corporate functions and divisions, and decides on structural changes to the Group, as well as the business and corporate functions;
- appoints and removes members of the Executive Committee and the Executive Board upon recommendation of the Governance Committee;
- assesses, on an annual basis, the performance of the Chief Executive Officer as well as the members of the Executive Committee and the Executive Board;
- assesses, on an annual basis, the performance of the Board and its committees;
- determines the remuneration of the members of the Board, the compensation of the Chief Executive Officer and the total amount available for compensation of the other members of the Executive Board, upon recommendation of the Compensation Committee;
- elects the Chairman of the Board, the Vice Chairman and the chairpersons and members of the Board committees;
- nominates Board member candidates for election or re-election by the General Meeting upon recommendation of the Governance Committee;
- establishes the methods and applicable standards for accounting, budgetary control and financial planning;
- reviews and approves annual reports of the parent company and the Group, subject to the authority of the General Meeting;
- makes preparations for and convenes General Meetings of shareholders and executes the resolutions of General Meetings.

The Executive Committee has, in addition to its overall responsibility for the operational management of the Group, the following key responsibilities:

- submits proposals to the Board of Directors relating to all matters within the Board's responsibilities, for the Board's consideration, such as the Group strategy, the business plan, risk tolerances and accounting principles;
- approves the strategies, structures and business plans of the business and corporate functions and divisions;
- establishes principles on financing through capital markets, the financing of Group companies and the allocation of financial resources within the Group;
- decides on transactions in alternative investments, Admin Re®, debt issuances and credit facilities or similar instruments, while submitting proposals on high-limit transactions to the Board of Directors;
- establishes the performance targets for the Group, the business and corporate functions and the divisions, monitors performance and takes any necessary action;
- forms Group committees, delegates to them authorities and responsibilities, and issues binding Group guidelines;
- decides on the underwriting authority of the business functions and divisions, and on individual reinsurance transactions exceeding the underwriting authority limits;
- exercises oversight responsibilities in respect of the Group's internal control evaluation and certification process;
- oversees the implementation of Group compliance procedures, monitors remediation of identified regulatory and compliance deficiencies and ensures that appropriate risk management committees are constituted;
- assumes responsibility for personnel planning and management development of the Group, makes recommendations to the Chief Executive Officer on promotions for or removals of Managing Directors, and appoints the Responsible Actuary.

The Executive Committee holds, as a rule, two meetings per month. In 2008, the Executive Committee held 20 regular meetings plus numerous ad hoc telephone conferences.

The Executive Committee is supported by the larger Executive Board comprising 20 senior executive officers (including the eight members of the Executive Committee). All members of the Executive Board are appointed by the Board of Directors upon recommendation of the Chief Executive Officer and after consultation with the Governance Committee. The Executive Board supports the Executive Committee as a sounding forum. It held four regular meetings in 2008 and one extended meeting lasting several days and devoted to strategic issues. Several telephone conferences were held in addition at regular intervals.

### 3.7 Information and control instruments of the Board with respect to executive management

Swiss Re maintains effective and consistent control of executive management through the Board of Directors. The Board of Directors has a number of controlling and information-gathering mechanisms in place to monitor the handling of responsibilities it has delegated to the executive management.

a. Participation of Board members at executive management meetings

Both the Chairman of the Board and the Vice Chairman are invited to all meetings of the executive management and the Executive Board; effectively, the Board of Directors was represented at 18 of the 20 regular Executive Committee meetings and three of the four regular Executive Board meetings in 2008. The Chairman of the Board and the Vice Chairman always receive the meeting documentation and minutes.

# 3 Board of Directors

b. Involvement of executive management in meetings of the Board of Directors
As a matter of principle, all members of the Executive Committee are invited to all meetings of the Board of Directors. The entire Executive Committee was present at all regular Board meetings in 2008, with the exception of two Executive Committee members who were absent from one of the meetings each.

c. Involvement of executive management in Board committee meetings
At the meetings of the Board committees, executive management members participate in an advisory capacity. For a detailed listing of Executive Committee member participation in Board committee meetings, as well as the number of meetings and the meeting cycle, see the relevant sections in 3.5.3.

d. Periodic reporting by executive management
At each regular Board meeting, the "Executive Report" is a standard agenda item, comprising a comprehensive report on the business development, including major business transactions, claims, corporate development issues and key projects.

In addition, specific written reports focusing on issues such as risk exposure and risk management activities of the Group, economic results, investment operations, compliance, legal aspects and economic outlook are provided to the members of the Board of Directors on a regular basis.

e. Management Information System
Several times a year, Board members receive a printed "Business Update", which measures Swiss Re's performance against its strategic and financial objectives. The content of this report is extracted from Swiss Re's Management Information System (MIS), a web-based tool providing an in-depth quantitative and qualitative analysis of the current performance of the Group as well as detailed business information for all fields of activity. The MIS covers, besides performance figures, a wide variety of aspects, such as capital adequacy, business renewals, deal pipeline, investment results, claims development, costs, workforce, strategic initiatives, project portfolio, findings of Group Internal Audit, compliance, competitors and shareholding structure.

f. Risk management
Risk Management provides regular risk reports to the Board of Directors, which are discussed by the Finance and Risk Committee. These reports cover Swiss Re's compliance with the Group's risk tolerance criteria, major changes in risk and capital adequacy measures and a description of the Group's main risk issues, including related risk management actions and recommendations. In addition, the Board of Directors received the Assurance Report 2008, which provides a qualitative summary of assurance activities.

g. Duty to inform about extraordinary events
As soon as the Executive Committee hears about significant extraordinary business developments or events, it is obliged to inform the Board of Directors immediately, even if the Board is not in session.

h. Supervision of the Executive Committee by the Vice Chairman of the Board
The Vice Chairman supervises the preparation and execution of Board resolutions by the Executive Committee for all operational matters. In addition, he supervises the Executive Committee's development of Group strategy and oversees management development of the Group's senior executives.

### i. Right to obtain information

At Board meetings, any member of the Board of Directors can demand information on any aspect of the Group's business. Any member may, in such meetings, request that books and records be produced for timely inspection. Outside Board meetings, any member can direct a request for production of business records to the Chairman of the Board. In the event the request is denied, the Board decides whether such information shall be produced.

### j. Special investigations

Each Board committee is entitled to undertake or commission special investigations at its own discretion into any matters within its respective scope of responsibility. They may also enlist assistance from independent legal advisers, auditors or other experts if deemed necessary.

### k. Group Internal Audit

Group Internal Audit (GIA) is an independent, objective assurance function, performing activities designed to assess the adequacy and effectiveness of the Group's internal control systems. GIA helps the Group accomplish its objectives by applying a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

GIA staff govern themselves in accordance with the Code of Ethics established by the Institute of Internal Auditors (IIA). The IIA's "International Standards for the Professional Practice of Internal Auditing" constitute the operating guidance for the department.

Authority is granted for full, free and unrestricted access to any and all of the Group's property and personnel relevant to any function under review. All employees are required to assist GIA in fulfilling their duty. GIA has no direct operational responsibility or authority over any of the activities they review.

GIA applies a risk-based approach to auditing the Group's control systems, performing its own risk assessment and making use of risk assessments performed by the risk management and other assurance functions in the Group after reviewing the quality of the assurance work performed. The GIA Audit Plan is determined annually and updated on a quarterly basis. The results of the audits are reported to the Group's Executive Board and Audit Committee. Formal quarterly updates are provided to the Audit Committee on the findings, resources and skills within GIA and on the changes in tools and methodologies GIA uses.

GIA coordinates its activities with other assurance functions in the Group and the external auditor.

### l. External auditor

Please refer to pages 127 – 128.

# 4 Executive management

**4.1 Members of the Executive Committee**

Membership as of 31 December 2008

| Name | Nationality | Age | Function |
|---|---|---|---|
| Jacques Aigrain | Swiss and French | 54 | Chief Executive Officer |
| Stefan Lippe | German | 53 | Chief Operating Officer<br>Deputy Chief Executive Officer |
| Andreas Beerli | Swiss | 57 | Head of Associated Units<br>and Special Projects |
| David J. Blumer | Swiss | 40 | Head of Asset Management |
| Brian Gray | Canadian | 46 | Chief Underwriting Officer |
| Michel M. Liès | Luxembourg | 54 | Head of Client Markets |
| George Quinn | British | 42 | Chief Financial Officer |
| Raj Singh | US | 46 | Chief Risk Officer |

**Jacques Aigrain**
Chief Executive Officer

Jacques Aigrain, a Swiss and French citizen born in 1954, received a PhD in economics in 1981 from the Sorbonne in France and a master's degree in economics from Paris-Dauphine University.

He started his career with J. P. Morgan in 1981 and had various functions in investment banking in London, Paris and New York. Immediately prior to joining Swiss Re, he was a Managing Director and a member of J.P. Morgan's Investment Banking Management Committee, where he was Co-head of client coverage.

In June 2001, he joined Swiss Re as Head of the Financial Services business group and member of the Executive Committee. In August 2004, the Board of Directors appointed him Deputy Chief Executive Officer in addition to his Financial Services role, a task that included a number of coordination functions across the firm, in particular regulatory affairs. He was appointed Chief Executive Officer effective as of 1 January 2006.

Jacques Aigrain is a member of the Supervisory Board of Deutsche Lufthansa AG, a member of the Board of Directors of Swiss International Air Lines Ltd., Basle, and a member of various advisory committees of a regional or financial nature.

**Stefan Lippe**
Chief Operating Officer
Deputy Chief Executive Officer

Stefan Lippe, a German citizen born in 1955, graduated in mathematics with business administration from the University of Mannheim. He obtained his doctorate in 1982 while working as a scientific assistant to the chair of insurance business management, being awarded the Kurt Hamann foundation prize for his thesis.

In October 1983, he joined Bavarian Re as a team member of a business analysis project. From 1985, he was involved in the casualty department's operations in the German-speaking area. In 1986, he became Head of the non-proportional underwriting department.

He was appointed deputy member of the Board in 1988 and a full member of the Board in 1991, when he assumed general responsibility for the company's operations in the German-speaking area. In 1993, he became Chairman of the Board of Management of Bavarian Re. Since 2001, he has been Chairman of the Board of Directors of the renamed Swiss Re Germany Holding AG.

Stefan Lippe was appointed a member of Swiss Re's Executive Board in 1995, as Head of the Bavarian Re Group. In 2001, he was assigned as Head of the Property & Casualty Business Group and appointed a member of the Executive Committee. In September 2008, he took over as Chief Operating Officer and was also appointed Deputy Chief Executive Officer.

**Andreas Beerli**
Head of Associated Units and Special Projects

Andreas Beerli, a Swiss citizen born in 1951, graduated in law in 1976 and received a doctorate in law from the University of Basle in 1983. He joined Swiss Re in 1979, serving in various marketing functions until 1984. He then worked for Credit Suisse in private banking and for the Baloise Insurance Group, where he served in the company's foreign operations.

He rejoined Swiss Re in 1993 as Chief of Staff. Two years later, he assumed marketing responsibilities for Austria, Italy and Switzerland. In 1997, he was appointed Managing Director of Swiss Re Italia SpA in Rome, successfully restructuring and integrating the newly acquired Italian reinsurance company Uniorias. In 1998, he assumed an additional position as Head of the Global Clients unit.

Andreas Beerli served as Head of the Americas division from January 2000 to December 2005 and Chief Operating Officer from January 2006 to August 2008. Until his announced retirement in 2009, he will remain a member of the Executive Committee in charge of Associated Units and Special Projects.

**David J. Blumer**
Head of Asset Management

David J. Blumer, a Swiss citizen born in 1968, holds a degree in economics from the University of Zurich.

Before joining Swiss Re, he worked at Credit Suisse from 1993 to 2008 and held a number of positions in Zurich, London and New York. In private banking, he established an industry-leading alternative investment platform. He was appointed Head of Trading and Sales in 2004 and headed Asset Management at Credit Suisse from 1 January 2006. He held the position of Chief Executive Officer of Asset Management and was a member of the Executive Board of Credit Suisse.

He joined Swiss Re in 2008 and was appointed Head of Asset Management and member of the Executive Committee.

His commitments to organisations outside Swiss Re include his membership of the Forum of Young Global Leaders at the World Economic Forum (WEF).

# 4 Executive management

**Brian Gray**
Chief Underwriting Officer

Brian Gray, a Canadian citizen born in 1962, has a degree in economics from Wilfrid Laurier University and an MBA from the University of Toronto, and is a Fellow of the Insurance Institute of Canada.

He joined Swiss Re in 1985 and worked in a variety of underwriting and marketing roles in Toronto. In 1994, he moved to Zurich where he held positions in the former Asia-Pacific/Africa division, as well as corporate integrated risk management functions. In 1997, he returned to Canada where he assumed responsibility for Underwriting, Claims and Special Lines activities. He was appointed President and Chief Executive Officer of Swiss Re Canada in March 2001.

Brian Gray became a member of the Executive Board in September 2005 as Head of Property and Specialty. In September 2008, he was appointed to the Executive Committee as Chief Underwriting Officer.

**Michel M. Liès**
Head of Client Markets

Michel M. Liès, a citizen of Luxembourg born in 1954, gained a degree in mathematics from the Swiss Federal Institute of Technology (ETH) in Zurich in 1974.

In 1978, Michel M. Liès joined the Life department of Swiss Re in Zurich and was mainly active in the Latin American market. From 1983 to 1993, he was responsible for France and the Iberian peninsula and coordinated Swiss Re's life strategy across the European Community.

In 1994, he transferred to the non-life sector of the Southern Europe/Latin America department, where he was initially responsible for the Spanish market. He was appointed Head of the Southern Europe/Latin America department at the beginning of 1997.

Michel M. Liès became a member of the Executive Board in 1998 and was appointed Head of the Latin America division. In April 2000, he became Head of Europe division of the Property & Casualty Business Group. In September 2005, he assumed the position of Head of Client Markets.

**George Quinn**
Chief Financial Officer

George Quinn, a British citizen born in 1966, holds a degree in engineering from the University of Strathclyde and is a member of the Institute of Chartered Accountants in England and Wales.

He started his career at KPMG in London where he held a number of positions as adviser and consultant to insurance and reinsurance companies. He joined Swiss Re in 1999 as Chief Accounting Officer, based in Zurich. In 2003, he was appointed Chief Financial Officer for the Financial Services Business Group. He moved to New York in 2005 as Regional Chief Financial Officer for Swiss Re Americas. On 1 March 2007, George Quinn became Chief Financial Officer of Swiss Re Group.

He is also a Board member of IMD, a leading international business school.

**Raj Singh**
Chief Risk Officer

Raj Singh, a US citizen born in 1962, holds a Bachelor of Science degree from the Winona State University, Minnesota, and an MBA from the Thunderbird American School for International Management, Arizona.

He worked for Citigroup from 1989 to 2001, where he held a number of senior positions, mainly in the area of credit and structured finance. Last he was Managing Director Risk/Merger & Acquisitions for Citibank Northern Europe and with site responsibility for Citibank Belgium. He joined Allianz SE, where he held the position of Group Chief Risk Officer from 2002 to 2007. He joined Swiss Re as Chief Risk Officer in 2008.

Raj Singh is a member of the International Financial Risk Institute, founding Chairman of the Chief Risk Officers Forum and an associate of the American Banking Association.

**Changes in the course of the 2008 business year**
In April, it was announced that David J. Blumer would join Swiss Re as Head of Asset Management and member of the Executive Committee on 1 May 2008. He succeeded Roger Ferguson, who left Swiss Re to assume a senior position at a major financial institution.

In July, Andreas Beerli announced that he would retire in the course of 2009. The Board of Directors appointed Stefan Lippe to succeed him as Chief Operating Officer with effect from September 2008, conferring on him, in addition, the title of Deputy Chief Executive Officer. The Board of Directors also appointed Brian Gray as Chief Underwriting Officer and member of the Executive Committee, effective 1 September 2008.

**Changes in 2009**
On 11 February 2009, Jacques Aigrain resigned as Chief Executive Officer; the Board of Directors appointed Stefan Lippe as his successor, effective 12 February 2009.

### 4.2 Other activities and vested interests

To the extent that members of the Executive Committee are engaged in activities in governing and supervisory bodies, institutions and foundations, or perform permanent management and consultancy functions for important interest groups or accepted official functions and political posts, such information is included in the curricula vitae under 4.1 above.

### 4.3 Management contracts

Swiss Re has not entered into reportable management contracts with any third party.

# 5 Compensation, shareholdings and loans

This section provides an overview of Swiss Re's governance, compensation philosophy and guiding principles and descriptive elements of the compensation paid to the Board of Directors and Executive Committee, in order to give a comprehensive picture of performance and reward practices in Swiss Re.

## 5.1 Content and method of determining the compensation and shareholding programmes

### Governance

The Compensation Committee of the Board of Directors approves the total remuneration philosophy of the company as well as annual and long-term incentive plans for executives. It ensures the development of a set of Group-wide compensation principles and compliance with remuneration disclosure requirements. It determines the total amount for Annual Performance Incentive (API) payments and related deferral plans, and regularly reviews and approves the Group's compensation and pension plans. The Committee's work is governed by its charter, which is set forth in the Corporate Bylaws of Swiss Re.

Mercer is the external adviser to the Committee. In this role, they provide information on market competitive pay and remuneration trends, as well as timely advice on executive compensation issues. Mercer is engaged directly by the Compensation Committee. Mercer also conducts an annual review of the total compensation of the Executive Committee relative to an identified group of reference companies within the financial services industry to ensure that market competitiveness is maintained.

The Chairman, Vice Chairman, Chief Executive Officer and the Executive Board member responsible for Human Resources are normally invited to attend the meetings of the Compensation Committee, except when their own executive pay matters are being discussed and decided. Each meeting starts and ends with a private session, in which the committee members can raise and discuss questions among themselves. The Committee held four meetings during 2008 after which a summary of decisions was submitted to the full Board of Directors for approval. The Committee has a predetermined agenda to ensure that important reviews take place at the appropriate time throughout the year. Furthermore, the Compensation Committee has established a periodic self-review procedure which ensures that a high level of effectiveness is maintained over time.

### Approval process

The API pool for the Executive Committee is funded in light of financial performance and qualitative assessment. Financial performance is measured against the following key performance indicators: economic value measures, return on equity, GAAP net income and earnings per share growth.

| Decision on | Recommendation | Authority |
|---|---|---|
| Total amount for annual performance incentive payments | CEO | Compensation Committee |
| Total amount for Long-term Incentive plans | CEO | Compensation Committee |
| Remuneration of the members of the Board of Directors (incl. Chairman and Vice Chairman) | Compensation Committee | Board of Directors |
| Compensation of the Chief Executive Officer | Compensation Committee | Board of Directors |
| Individual compensation of the members of the Executive Board (excl. CEO) | CEO | Compensation Committee based on Board's determination of the total amount available |

Additional information on the Compensation Committee can be found in sections 3.5.2 (responsibilities, members) and 3.5.3 (work methods).

### Compensation philosophy and guiding principles

*Philosophy*

To attract, motivate and retain the qualified talent necessary for its success, Swiss Re, as a global company, aims to provide remuneration that is competitive in the labour markets in which it operates.

Swiss Re takes a holistic view of rewards, including both direct financial compensation, such as base salary, API and equity-related plans, as well as other tangible and intangible benefits, including health coverage, pension and development opportunities.

While the variable portion of the total compensation increases as an individual progresses in the organisation, virtually all employees have at least some of their compensation directly correlated with the company's success, to sharpen the focus on performance and reinforce teamwork and collaboration.

Swiss Re's incentive programmes are designed to reflect the long-term dynamics of its business and are applied across all hierarchical levels. A significant portion of higher management's compensation is tied to the organisation's long-term performance, ensuring that compensation is given for solid, sustainable achievement as opposed to short-term annual results. The Long-term Incentive plan (LTI) and in particular the Value Alignment Incentive plan (VAI), as described further, support this goal.

*Focus on performance*

Swiss Re is performance-oriented, and as such aligns the goals of each employee with the Group's strategic targets. Our performance management measures each employee's achievement and behaviour, and ensures that the compensation paid through base salary, annual incentives and other programmes is commensurate with the respective employee's performance.

# 5 Compensation, shareholdings and loans

To create and maintain this high performance culture, a globally consistent performance management process is in place to ensure that:

- individual goals with challenging performance benchmarks are aligned to the business strategy;
- transparent information is provided on an individual's contribution to the business success, using clear qualitative and quantitative performance measurement criteria.

Performance management in Swiss Re is multidimensional. An employee's individual performance is determined by:

- performance in the current position, based on a set of objectives, and assessed in terms of timeliness, quality and quantity of achievement;
- ability to build trust and confidence, as well as to coach and transfer knowledge to enable others to succeed in broader positions;
- demonstration of competencies in the areas of thought, results, people and personal leadership.

Swiss Re strives to offer exceptional performers total earning opportunities approaching the top tier in the industry. Each compensation element is designed to encourage individual performance, company achievement and shareholder alignment. To that end, annual and long-term incentives are balanced to reflect the performance on Group, business or corporate function and personal level.

**Total compensation**

The total reward offering comprises the following elements:

| | | |
|---|---|---|
| **Base salary and benefits** | | ■ Set in relation to market median |
| **Annual Performance Incentive** | **Cash component** | ■ Paid annually |
| | **Bonus shares** | ■ Employees can elect to receive blocked shares |
| | **Value Alignment Incentive component** | ■ Measured against prior-year development<br>■ Applies above a certain threshold<br>■ Paid after three years |
| **Long-term Incentive** | | ■ Shareholder value-aligned performance units<br>■ Three-year measurement period |

*Base salary*

Base salary is a compensation for the function and scope of the job performed. Swiss Re aims to position the total compensation, of which base salary is an element, around the market median for equivalent positions in comparable companies. It reviews pay against market benchmarks on a regular basis to ensure that competitive pay is maintained and undesired fluctuation minimised. Base salary is primarily driven by the markets where the company competes for talent, but factors such as individual expertise are also considered when making any salary-related decision.

*Annual Performance Incentive*

The API is a discretionary, variable component of Swiss Re's total cash compensation package for employees. The API, together with the base salary, provides an income around the market median for total cash compensation when performance targets are achieved. Where exceptional performance justifies it, the API provides an opportunity for additional income.

The cash API for a year's service is paid after the publication of the Group's result, in March of the following year.

When the variable compensation level for an employee exceeds a pre-defined amount, the variable pay is delivered through two components: a cash payment and a VAI.

*Bonus shares*

From 2008, employees have the opportunity to take some or all of their cash API in the form of Swiss Re shares. This bonus shares programme encourages employee ownership by allowing employees to use API funds to purchase shares of the company at a discount of 10% to the open market. At the end of a one-year blocking period, the employee assumes full ownership of the purchased shares.

*Value Alignment Incentive*

The objective of the VAI is to complement the Swiss Re incentive compensation structure by introducing a time component which supports the business model of the firm and by aligning the API with the long tail factor of the reinsurance business model, which is inherently volatile. Its aim is to promote accurate and commercially sound cash flow projections through all stages of the business acquisition, underwriting and valuation process.

The VAI has now been in place for three years and supports the company's aims by providing a "claw-back" mechanism.

| Target group | API in cash | Deferred VAI |
|---|---|---|
| Employees above threshold | 75% | 25% |
| Executive Board | 55% | 45% |
| Chief Executive Officer | 40% | 60% |

Each VAI cycle runs for three years, tracking the development of the business over that period. With the VAI, Swiss Re ensures that a significant portion of variable pay is tied to the longer-term financial results of the company. The final VAI payment can vary from 50% to 150% of the original value of the VAI with a mark-up of 25% on this value. In case of termination before date of payment, forfeiture rules apply.

*Long-term Incentive*

The LTI is a discretionary grant for all Executive Board and Executive Committee members and a select group of key executives at Managing Director level, over and above their annual cash remuneration. The intention is to:

- achieve competitive total compensation for top executive talent by offering the participant a long-term incentive opportunity;
- focus participants on growth and capital efficiency, both of which are critical to long-term shareholder value creation;
- assist with retention.

# 5 Compensation, shareholdings and loans

The LTI is based on a three-year rolling financial plan approved by the Board, and focuses on the achievement of three-year goals for return on equity and growth in earnings per share. A performance scale around a pre-defined target for both measures determines the level of reward earned at the end of each three-year performance cycle.

The LTI is offered each year and is denominated in units that are calculated as the grant amount divided by the share price at the grant date. The final payout will be the number of units multiplied by the share price at the end of the three-year period, as well as by a factor that can vary between 0% and 200% based on a matrix of average return on equity and compound earnings per share growth over the three-year period.

Our report for 2007 was based on value expectations for the outstanding LTI grants which have since proved unfounded. The line item "Change in fair value of plans vesting over several years" in the compensation tables on the following pages reflects the disappointing performance of the company during 2008 and as a result the LTI granted in 2006 will not yield any value when it vests in March 2009. Similarly, the LTI grants made in 2007 and 2008 will also suffer a significant adverse effect.

The Compensation Committee reviews the LTI on an annual basis to ensure that it remains competitive, and that the measures and performance targets are well aligned with the company's goals.

*Employee benefits*
Swiss Re aims to provide an appropriate package of employee benefits for each distinct operating environment. Employee benefits are one component in Swiss Re's total reward offering and should contribute to achieving competitive advantage, relative to general local market employment conditions, in order to recruit, motivate and retain talent. The primary purpose is to establish a level of security for the employee and their dependents in respect of major events in their lives in the areas of age, health, disability and death.

*Stock grants*
Swiss Re does not grant employee stock options or restricted stock units (RSUs) on a regular basis, but reserves the right to provide ad hoc grants based on events such as exceptional business cycles, significant acquisitions or the replacement of forfeited equity for new executive hires.

### Summary of compensation at Board level

The members of the Board of Directors receive a fixed honorarium of CHF 325 000 per annum. The Chairman and Vice Chairman of the Board, as well as the chairpersons of Committees, receive a higher compensation to reflect their increased responsibilities and engagements. Unlike the API for the Executive Committee, which is determined in arrears based on the results of the performance year, the honorarium is determined in advance at the start of the financial year. The honorarium is reviewed to ensure that it remains appropriate going forward. A minimum of 40% of the honorarium must be taken in Swiss Re shares with a four-year deferral period.

**Compensation, participations and loans of the members of the Board of Directors (extract from note 15 to the Financial statements)**

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

**Individual compensation of 14 members of the Board of Directors in 2008**

| CHF thousands | Total 2007 | Honorarium, pension and allowances | Honorarium shares | Total 2008 | Prospective total 2009 |
|---|---|---|---|---|---|
| Peter Forstmoser, Chairman | 3 267 | 1 980 | 1 320 | 3 300 | 1650 |
| Walter B. Kielholz, Vice Chairman | 2 893 | 1 469 | 1 244 | 2 713 | 1350 |

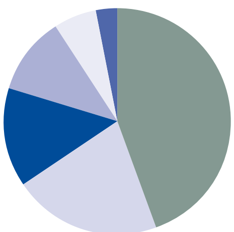
Honorariums are set at the beginning of each year and as such are not subject to the performance of the company. In recognition of the difficulties faced by the company in the current financial environment, the Chairman and the Vice Chairman have each elected to forego 50% of their 2008 honorarium in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

| CHF thousands | Total 2007 | Honorarium, pension and allowances | Honorarium shares | Total 2008 |
|---|---|---|---|---|
| Jakob Baer, Chairman of the Audit Committee | 785 | 480 | 320 | 800 |
| Thomas W. Bechtler, Member | 325 | 195 | 130 | 325 |
| Raymund Breu, Member | 325 | | 325 | 325 |
| Mathis Cabiallavetta, Chairman of the Investment Committee[1] | | 200 | 133 | 333 |
| Raymond K. F. Ch'ien, Member[2] | | 137 | 91 | 228 |
| John R. Coomber, Chairman of the Finance and Risk Committee | 587 | 395 | 260 | 655 |
| Rajna Gibson Brandon, Member | 325 | 195 | 130 | 325 |
| Bénédict G. F. Hentsch, Member | 325 | 195 | 130 | 325 |
| Hans Ulrich Maerki, Member | 227 | 195 | 130 | 325 |
| Robert A. Scott, Chairman of the Compensation Committee | 425 | 255 | 170 | 425 |
| John F. Smith, Jr., Former member[3] | 325 | 48 | 48 | 96 |
| Kaspar Villiger, Member | 325 | 195 | 130 | 325 |

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

**Compensation of EC members in 2008**

Total CHF 39 345 thousand



- 44% Long-term Incentive plan grant
- 21% Base salary and allowances
- 14% Cash variable pay for performance
- 11% Value Alignment Incentive
- 6% Shares
- 3% Funding of pension benefits

## Summary of compensation at Executive Committee level

The members of the Executive Committee are remunerated under the same scheme as all other Swiss Re employees. The members of the Executive Committee are paid a fixed base salary in cash. Furthermore, Executive Committee members receive a variable API, which totalled CHF 12.34 million for 2008 (compared to CHF 25.33 million in 2007). As explained above, a material part of the API is deferred through the VAI for three years, while the remaining API can be taken either in cash or in bonus shares. All Executive Committee members also participate in the LTI.

The Chief Executive Officer and all Executive Committee members have standard employment contracts without severance payment agreements. There are no specific "change in control" or retention agreements in place with members of the Executive Committee, other than those provisions applicable to all Swiss Re employees. Executives are covered by the standard defined contribution pension plan of the company. The Swiss legal salary cap on insurable salaries of CHF 795 600 applies and no additional provisions have been made.

# 5 Compensation, shareholdings and loans

All required financial information on compensation, shareholdings and loans of members of the Board of Directors, the Executive Committee and the highest paid member of the Executive Committee can be found in note 15 to the Financial statements, on pages 189 – 197.

**Compensation of members of the Executive Committee (extract from note 15 to the Financial statements)**

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

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

**Compensation of the Chief Executive Officer (extract from note 15 to the Financial statements)**

Jacques Aigrain, Chief Executive Officer

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

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

### 5.2 Transparency of compensations, shareholdings and loans pertaining to issuers domiciled abroad

This section is not applicable to Swiss Re, as Swiss Reinsurance Company Ltd, the parent company of the Group, is domiciled in Switzerland.

# 6 Shareholders' participation rights

**6.1 Voting right restrictions and representation**

**Voting right restrictions, statutory group clauses, exception rules**
There are no voting right restrictions, no statutory group clauses and thus no rules on making exceptions.

**Reasons for making exceptions in the year under review**
No exceptions were made.

**Procedure and conditions for cancelling statutory voting right restrictions**
As there are no voting right restrictions, there is neither a procedure nor a condition for their cancellation.

**Statutory rules on participating in the General Meeting of shareholders if differing from legal provisions**
In line with the legal provisions, any shareholder with voting rights may have his/her shares represented at any General Meeting by another person authorised in writing or by corporate bodies, independent proxies or proxies for deposited shares. Such representatives need not be shareholders.

**6.2 Statutory quorums**

The Articles of Association do not provide for any statutory quorums. Any General Meeting of shareholders passes resolutions irrespective of the number of shareholders present or shares represented by an absolute majority of the votes validly cast, subject to the compulsory exceptions provided by law. The Chairman of the General Meeting shall determine the voting procedure. As a rule, voting is usually carried out electronically. When this is not the case, votes shall be cast by ballot if more than 50 of the shareholders present so demand by a show of hands.

**6.3 Convocation of the General Meeting of shareholders**

The statutory rules on the convocation of the General Meeting of shareholders correspond with the legal provisions. Accordingly, the General Meeting of shareholders is summoned by the Board of Directors at least 20 days before the date of the meeting by notice published in the Swiss Official Gazette of Commerce.

Extraordinary General Meetings may be called by resolution of the General Meeting or the Board of Directors, or by shareholders with voting powers, provided they represent at least 10% of the share capital.

**6.4 Agenda**

The Board of Directors announces the agenda. Shareholders with voting powers whose combined holdings represent shares with a nominal value of at least CHF 100 000 may, no later than 45 days before the date of the meeting, demand that matters be included in the agenda. Such demands must be in writing and must specify the items and the proposals to be submitted.

**6.5 Registrations in the share register**

There is no statutory rule on the deadline for registering shareholders in connection with the attendance of the General Meeting. In recent years, Swiss Re acknowledged the voting rights of shares which were registered at least two working days before the General Meeting. In 2008, the qualifying date for the Annual General Meeting held on Friday, 18 April 2008 was Wednesday, 16 April 2008.

# 7 Changes of control and defence measures

**7.1 Duty to make an offer**

Swiss Re has not taken any defence measures against take-over attempts. The governing bodies are of the opinion that the best protection is a fair valuation of the shares. They believe in the efficiency of a free market rather than relying on defence measures that normally have a long-term negative effect on the share price development.

There are no statutory rules on "opting up" or "opting out". "Opting up" is a statutory rule based on which the triggering threshold would be lifted to a higher percentage than 33⅓% of all voting rights, while "opting out" is a statutory rule waiving the legal duty to submit an offer when reaching the threshold of 33⅓% of all voting rights. Should a shareholder reach the threshold of 33⅓% of all voting rights, then, under the Swiss Stock Exchange Act, the shareholder would be required to submit a general take-over offer.

**7.2 Clauses on change of control**

Unvested bonus shares, share options, and certain other employee benefit programmes would vest upon a change of control. Rights of members of the governing bodies are identical to those of employees.

# 8 Auditors

**8.1 Duration of the mandate and term of office of the lead auditors**

PricewaterhouseCoopers AG (PwC), formerly known as Revisuisse Price Waterhouse AG, were elected as Swiss Re's auditors at the Annual General Meeting of 25 November 1991 and, since then, have been re-elected annually. At the Annual General Meeting of shareholders on 18 April 2008, based on the proposal of the Audit Committee and recommended by the Board of Directors, PwC were re-elected as Swiss Re's statutory auditors and auditors of the consolidated financial statements for a term of one year.

Mr David J. A. Law and Ms Dawn M. Kink took up office as lead auditors responsible for the existing auditing mandate as of 1 January 2004 and 1 September 2006, respectively.

**8.2 Auditing honorarium**

The following summarises fees (including VAT) for professional services for the year ended 31 December 2008.

**Audit fees**
PricewaterhouseCoopers AG CHF 32.8 million

**Audit-related fees**
PricewaterhouseCoopers AG CHF 4.2 million

Audit-related fees comprise, among other things, amounts for letters of comfort, accounting advice, information systems reviews and reviews of internal controls.

**8.3 Additional honorarium**

In addition to the fees described above, aggregate fees of CHF 2.5 million were billed by PricewaterhouseCoopers AG during the year ended 31 December 2008, primarily for the following:
- Income tax compliance and related tax services CHF 0.4 million
- Other fees CHF 2.1 million
- Other fees include permitted advisory work related to a range of projects including due diligence.

**8.4 Supervisory and control instruments vis-à-vis the external auditor**

The Audit Committee evaluates the external auditor annually and recommends one audit firm to the Board of Directors for election at the following Annual General Meeting of shareholders. The external auditor is accountable to the Audit Committee, the Board of Directors and ultimately to the shareholders.

The external auditor, PricewaterhouseCoopers AG, is responsible for performing an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards. The Audit Committee liaises closely with the elected external auditor. In particular, it discusses with the auditor any significant risks, contingencies or other obligations of the company; it reviews and approves the planned audit services to be provided by Group Internal Audit and the external auditor and discusses the audits with them; it approves in advance non-audit services expected to be provided by the external auditor, and reviews and approves other non-audit services that have been pre-approved by the Chairman of the Audit Committee between committee meetings; it reviews major changes to the company's accounting principles and practices; it reviews the adequacy and efficacy of the financial reporting process, the system of internal controls and quality control procedures, as well as any significant findings and recommendations made by the external auditor.

# 8 Auditors

The Audit Committee meets at least annually with the external auditor to review any significant matters or disagreement between management and the auditor, if and when such disagreements arise. It discusses with the auditor the results of the annual audit, in particular their report on the financial statements, necessary changes to the audit plan, all critical accounting policies, all alternative accounting treatments of financial information that have been discussed with management and other material written communications with management, such as management letters or schedules of unadjusted differences.

The auditor is requested to supply a formal written statement at least once a year, delineating all relationships with the company that might affect auditor independence. The Audit Committee actively engages in a dialogue with the auditor in respect of any disclosed relationships or services that might impact the auditor's objectivity and independence, and recommends to the Board of Directors appropriate action in response to the auditors' statement to satisfy itself of the external auditor's independence; it obtains from the auditor and reviews, at least annually, a report describing the auditor's own quality control procedures, and any material issues raised by the most recent internal reviews, or inquiries or investigations by governmental or professional authorities within the preceding five years and any steps taken to deal with any such issues. In addition, it reviews the audit fees to consider whether the level of fees is appropriate, as well as any fees paid to the auditor in respect of non-audit services.

In accordance with the Swiss Federal Act on the Licensing and Oversight of Auditors, and to ensure independence of the external auditor, the lead audit partner rotates from his or her role after seven years.

# 9 Information policy

One of Swiss Re's core values is integrity through an uncompromising commitment to transparency and ethical principles. As a result, the Group's information policy goes beyond legal requirements, aiming to meet best practice standards.

Swiss Re maintains a close relationship with the financial community and the broader public by using all available communication channels. Important corporate news is announced on an ad-hoc basis. The Group's website includes full details of its corporate disclosure.

The Investor Relations unit at Swiss Re is responsible for managing all contacts with investors and analysts. Meetings are held regularly with institutional investors and analysts to discuss important corporate news or specific topics. These meetings can also be followed by private shareholders via telephone conference or on the Swiss Re website. In 2008, Swiss Re held an investors' day on its Life & Health business and at the same time gave an update on market exposures. Presentations and conference call recordings are made available to the public on the Group's website.

In 2008, Swiss Re published its first Economic Value Management (EVM) report. EVM is Swiss Re's framework used for planning, pricing, reserving and managing the business. On 31 March 2008 Swiss Re held an EVM teach-in and disclosed EVM figures for 2006. In the analyst and investor conference call on 6 May 2008 Swiss Re published its EVM results for 2007.

Swiss Re is strongly committed to treating all investors equally. The Group prevents selective disclosure by observing ad-hoc publicity rules and a policy of restrictions for the so-called "close period", during which quarterly and annual financial results information is finalised. Swiss Re subjects all employees globally to the corresponding trading restrictions in Swiss Re securities. The close period commences on a given date preceding the official publication of the financial information and ends after a "cooling off" period following public release.

# 9 Information policy

The corporate calendar as well as regularly updated information are available on Swiss Re's website: www.swissre.com/investorrelations

**Corporate news in 2008 and method of distribution**

| Date | News | Method of dissemination |
|---|---|---|
| 7 January | Swiss Re enters into strategic partnership with the largest domestic reinsurer in Vietnam | News release |
| 7 January | Swiss Re successfully places EUR 200 million in a French windstorm securitisation for the benefit of Groupama SA | News release |
| 9 January | World Economic Forum event; Global Risk Report 2008 | News release and press conference in London |
| 11 January | Swiss Re successfully closes USD 175 million private XXX transaction with The Savings Bank Life Insurance Company of Massachusetts | News release |
| 22 January | Swiss Re successfully places first ever bond linked to Central American earthquakes | News release |
| 23 January | Berkshire Hathaway acquires a 3% stake in Swiss Re | News release |
| 29 February | To extend its leading influence in the risk transfer industry, Swiss Re continues to sharpen its business model | News release |
| 29 February | Annual Results 2007 | News release, press conference and analysts' meeting in Zurich (including telephone conference and web cast) |
| 2 April | Swiss Re to establish full-service third party administrator in China – move underlines commitment to Chinese medical insurance industry | News release |
| 2 April | Swiss Re appoints David J. Blumer as Chief Investment Officer and Member of the Executive Committee | News release |
| 18 April | 144th Annual General Meeting | Meeting in Zurich and news release |
| 6 May | First quarter 2008 and EVM 2007 results | News release and press and analysts' telephone conference in Zurich |
| 26 May | Swiss Re recognised as Admitted Reinsurer to Brazilian reinsurance market | News release |
| 30 June | Swiss Re obtains USD 150 million of natural catastrophe protection through Vega capital programme | News release |

### Corporate news in 2008 and method of distribution

| Date | News | Method of dissemination |
|---|---|---|
| 10 July | Swiss Re names Stefan Lippe as Deputy CEO and Chief Operating Officer and Brian Gray as Chief Underwriting Officer; Andreas Beerli to retire in 2009 | News release |
| 5 August | Second quarter 2008 results | News release, press conference in Zurich and analysts' telephone conference |
| 19 August | Walter Bell to join Swiss Re as Chairman of Swiss Re America Holding Corporation | News release |
| 8 September | "Les Rendez-Vous de Septembre 2008", (re)insurance industry event in Monte Carlo | News release, press conference and analysts' meeting in Monte Carlo |
| 25 September | Swiss Re hosts Investors' Day in Zurich: The Group provides update on its Life & Health business and its investment portfolio | News release, press conference and analysts' meeting in Zurich |
| 20 October | Swiss Re enters into a weather derivative contract with the World Bank covering drought in Malawi | News release |
| 31 October | Swiss Re completes GBP 762 million acquisition of Barclays Life Assurance Company Ltd | News release |
| 4 November | Third quarter 2008 results | News release, press conference in Zurich and analysts' telephone conference |
| 9 December | Swiss Re's Economic Forum 2008: The financial crisis and its effects on global insurance | News release and press conference in London (including telephone conference) |

### Important dates for 2009

| | |
|---|---|
| 19 February | 2008 annual results |
| 13 March | 145th Annual General Meeting |
| 7 May | First quarter 2009 results |
| 5 August | Second quarter 2009 results |
| 3 November | Third quarter 2009 results |
| 9 December | Investors' Day |

# Financial statements

## Contents

# Income statement

For the years ended 31 December

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

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

# Balance sheet

As of 31 December

## Assets

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

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

## Liabilities and shareholders' equity

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

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

# Statement of shareholders' equity

For the years ended 31 December

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

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

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

# Statement of comprehensive income

For the years ended 31 December

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

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

# Statement of cash flow

For the years ended 31 December

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

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

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

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

# Notes to the Group financial statements

## 1 Organisation and summary of significant accounting policies

**Nature of operations**

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

**Basis of presentation**

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

**Principles of consolidation**

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

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

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

**Foreign currency remeasurements and translation**

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

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

### Valuation of financial assets

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

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

There can also be differences between the market values implied by collateral requested by counterparties and the prices observed in the markets. The Group has provided collateral on all financial instruments, including the structured credit default swap, in excess of the market value estimate of CHF 391 million. For these assets or derivative structures, the Group uses market prices or inputs derived from market prices. A separate internal price verification process, independent of the trading function, provides an additional control over the market prices or market input used to determine the fair values of such assets. Whilst management considers that appropriate values have been ascribed to such assets, current market conditions increase the level of uncertainty and judgment over these valuations. Subsequent valuations could differ significantly from the results of the process described above. The Group may become aware of counterparty valuations, either directly through the exchange of information or indirectly, for example, through collateral demands. Any implied differences are considered in the independent price verification process and may result in adjustments to initially indicated valuations.

### Investments

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

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

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

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

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

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

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

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

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

### Derivative financial instruments and hedge accounting

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

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

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

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

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

**Cash and cash equivalents**

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

**Deferred acquisition costs**

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

**Business combinations**

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

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

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

**Acquired present value of future profits**

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

**Goodwill**

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

**Other assets**

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

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

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

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

**Capitalised software costs**

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

### Deferred income taxes

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

### Unpaid claims and claim adjustment expenses

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

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

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

### Liabilities for life and health policy benefits

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

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

### Policyholder account balances

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

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

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

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

### Funds held assets and liabilities

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

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

### Premiums

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

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

**Reinsurance ceded**

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

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

**Pensions and other post-retirement benefits**

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

**Share-based payment transactions**

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

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

**Treasury shares**

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

**Earnings per common share**

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

**Recent accounting guidance**

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

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

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

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

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

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

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

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

## 2 Investments

### Investment income

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

| CHF millions | 2007 | **2008** |
|---|---|---|
| Fixed income securities | 7516 | 6788 |
| Equity securities | 888 | 767 |
| Policy loans, mortgages and other loans | 604 | 541 |
| Investment real estate | 221 | 232 |
| Short-term investments | 494 | 275 |
| Other current investments | 539 | 409 |
| Share in earnings of equity-accounted investees | 448 | –944 |
| Cash and cash equivalents | 351 | 332 |
| Deposits with ceding companies | 777 | 595 |
| **Gross investment income** | 11838 | **8995** |
| Investment expenses | –612 | –732 |
| Interest charged for funds held | –534 | –382 |
| **Net investment income** | 10692 | **7881** |

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

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

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

**Realised gains and losses**

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

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

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

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

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

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

### Investments available-for-sale

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

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

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

### Investments trading

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

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

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

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

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

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

### Maturity of fixed income securities available-for-sale

The amortised cost or cost and estimated fair values of investments in fixed income securities available-for-sale by remaining maturity are shown below. Fixed maturity investments are assumed not to be called for redemption prior to the stated maturity date. As of 31 December 2007 and 2008, CHF 5 169 million and CHF 8 648 million, respectively, of fixed income securities available-for-sale were callable.

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

### Assets on deposit or pledged

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

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

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

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

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

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

**Unrealised losses on securities available-for-sale**

The following table shows the fair value and unrealised losses of the Group's fixed income securities, aggregated by investment category and length of time that individual securities were in a continuous unrealised loss position, as of 31 December 2007 and 2008. A continuous decline in the value of equity securities available-for-sale for longer than twelve months is considered other-than-temporary and recognised as net realised investment gains/losses in the income statement. Therefore, as of 31 December 2007 and 2008, the gross unrealised loss on equity securities available-for-sale of CHF 485 million, respectively, and CHF 26 million relates to declines in value for less than 12 months.

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

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

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

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

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

## Mortgages, loans and real estate

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

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

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

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

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

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

## 3 Fair value disclosures

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

Fair value, as defined by SFAS 157, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

SFAS 157 requires all assets and liabilities that are measured at fair value to be categorised within the fair value hierarchy. This three-level hierarchy is based on the observability of the inputs used in the fair value measurement. The levels of the fair value hierarchy are defined as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Fair value option**

SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities", permits the choice to measure specified financial assets and liabilities at fair value on an instrument-by-instrument basis.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 4 Derivative financial instruments

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

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

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

| | As of 31 December 2007 | | | **As of 31 December 2008** | | |
|---|---|---|---|---|---|---|
| CHF millions | Positive fair value | Negative fair value | Carrying value assets/liabilities | Positive fair value | Negative fair value | Carrying value assets/liabilities |
| **Interest rate contracts** | | | | | | |
| Forwards and futures | 88 | –396 | –308 | 253 | –333 | –80 |
| Swaps | 5 330 | –5 483 | –153 | 15 354 | –15 292 | 62 |
| Other | 101 | –101 | | 749 | –432 | 317 |
| **Total** | 5 519 | –5 980 | –461 | **16 356** | **–16 057** | **299** |
| **Equity and index contracts** | | | | | | |
| Forwards and futures | 670 | –672 | –2 | 311 | –265 | 46 |
| Options | 2 763 | –1 997 | 766 | 3 360 | –1 220 | 2 140 |
| Swaps | 290 | –131 | 159 | 10 | –138 | –128 |
| Other | 57 | –11 | 46 | 21 | –23 | –2 |
| **Total** | 3 780 | –2 811 | 969 | **3 702** | **–1 646** | **2 056** |
| **Foreign currency** | | | | | | |
| Options | 407 | –359 | 48 | 396 | –286 | 110 |
| Swaps | 2 034 | –2 821 | –787 | 2 118 | –3 363 | –1 245 |
| Other | | | | 25 | –18 | 7 |
| **Total** | 2 441 | –3 180 | –739 | **2 539** | **–3 667** | **–1 128** |
| **Other derivatives** | | | | | | |
| Credit derivatives | 4 011 | –4 071 | –60 | 15 710 | –15 008 | 702 |
| Catastrophe derivatives | 1 | –11 | –10 | 2 | –1 | 1 |
| Weather derivatives | 3 | –12 | –9 | 1 130 | –1 284 | –154 |
| Other | 40 | –97 | –57 | 661 | –3 986 | –3 325 |
| **Total** | 4 055 | –4 191 | –136 | **17 503** | **–20 279** | **–2 776** |
| **Total derivative financial instruments** | 15 795 | –16 162 | –367 | **40 100** | **–41 649** | **–1 549** |

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

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

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

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

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

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

### Hedges of net investment in foreign operations

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

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

### Credit derivatives written/sold

The Group writes/sells credit derivatives, including credit default swaps, credit spread options and credit index products, and total return swaps. The credit derivatives, which protect the counterparty against credit risk, are classified as credit derivatives under FAS 133-1. The total return swaps, for which the Group assumes asset risks mainly of variable interest entities, qualify as guarantees under FIN 45-4. These activities are part of the Group's overall portfolio and risk management strategies. The events that could require the Group to perform include bankruptcy, default, obligation acceleration or moratorium of the credit derivative's underlying.

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

| | | | | | **As of 31 December 2008** |
|---|---|---|---|---|---|
| | Total fair values of written/ sold credit derivatives | Maximum potential payout (time to maturity)[1] | | | Total maximum potential payout |
| CHF millions | | 0–5 years | 5–10 years | Over 10 years | |
| **Credit Default Swaps** | | | | | |
| Credit spread in basis points | | | | | |
| 0–250 | –2310 | 38109 | 20784[2] | 1180 | 60073 |
| 251–500 | –1233 | 19464 | 1943 | 115 | 21522 |
| 501–1000 | –1795 | 12965 | 1448 | 85 | 14498 |
| Greater than 1000 | –6373 | 13029 | 587 | 3392[3] | 17008 |
| No credit spread available | –149 | 2685 | 330 | 173 | 3188 |
| **Total** | **–11860** | **86252** | **25092** | **4945** | **116289** |
| **Credit Spread Options** | | | | | |
| Credit spread in basis points | | | | | |
| 0–250 | –35 | 2372 | | | 2372 |
| **Total** | **–35** | **2372** | **0** | **0** | **2372** |
| **Credit Index Products** | | | | | |
| Credit spread in basis points | | | | | |
| 0–250 | –4290 | 16849 | 23572 | 134 | 40555 |
| No credit spread available | 116 | 44 | 439 | 493 | 976 |
| **Total** | **–4174** | **16893** | **24011** | **627** | **41531** |
| **Total Return Swaps[4]** | | | | | |
| Credit spread in basis points | | | | | |
| No credit spread available | –534 | 7227 | 716 | | 7943 |
| **Total** | **–534** | **7227** | **716** | **0** | **7943** |
| **Total credit derivatives written/sold** | **–16603** | **112744** | **49819** | **5572** | **168135** |

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

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

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

## 5 Acquisitions

**Determination of purchase price**

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

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

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

**Allocation of purchase price**

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

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

**Investments**

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

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

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

**Restructuring provision**

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

**Deferred taxes**

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

**Pro forma financial result (unaudited)**

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

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

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

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

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

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

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

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

## 7 Debt

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

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

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

**Maturity of long-term debt**

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

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

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

The Group uses debt for general corporate purposes and to fund discrete pools of operational leverage and financial intermediation assets. Operational leverage and financial intermediation are subject to strong asset and liability matching, resulting in little to no risk that the assets will be insufficient to service and settle the liabilities. Debt used for operational leverage and financial intermediation is treated as operational debt and excluded by the rating agencies from financial leverage calculations. As of 31 December 2007 and 2008, operational leverage and financial intermediation liabilities amounted to CHF 52.4 billion (thereof CHF 9.8 billion non-recourse) and CHF 34.2 billion (thereof CHF 5.2 billion non-recourse), respectively.

## Senior long-term debt

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

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

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

## Subordinated long-term debt

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

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

## Interest expense on long-term debt

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

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

## Long-term debt issued in 2008

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

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

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

## Additional funding resources

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

## 8 Unpaid claims and claim adjustment expenses

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

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

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

| CHF millions | 2007 | **2008** |
|---|---|---|
| Balance as of 1 January | 80 391 | 73 171 |
| Reinsurance recoverable | –7 622 | –5 041 |
| Deferred expense on retroactive reinsurance | –875 | –723 |
| **Net** | 71 894 | **67 407** |
| | | |
| Incurred related to: | | |
| Current year | 11 945 | 10 092 |
| Prior year | –205 | –462 |
| Amortisation of deferred expense on retroactive reinsurance and impact of commutations | 92 | 125 |
| **Total incurred** | 11 832 | **9 755** |
| | | |
| Paid related to: | | |
| Current year | –1 767 | –1 521 |
| Prior year | –12 285 | –12 131 |
| **Total paid** | –14 052 | **–13 652** |
| | | |
| Foreign exchange | –2 567 | –6 527 |
| Effect of acquisitions, disposals, new retroactive reinsurance and other items | 300 | 578 |
| | | |
| Net | 67 407 | 57 561 |
| Reinsurance recoverable | 5 041 | 4 701 |
| Deferred expense on retroactive reinsurance | 723 | 540 |
| **Balance as of 31 December** | 73 171 | **62 802** |

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

### Asbestos and environmental claims exposure

The Group's obligation for claims payments and claims settlement charges also includes obligations for long-latent injury claims arising out of policies written prior to 1985, in particular in the area of US asbestos and environmental liability.

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

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

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

### Prior year development

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

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

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

## 9 Reinsurance information

For the years ended 31 December

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

**Claims and claim adjustment expenses**

**Acquisition costs**

| CHF millions | Non-Life | Life & Health | 2007 Total | Non-Life | Life & Health | **2008** Total |
|---|---|---|---|---|---|---|
| **Premiums written** | | | | | | |
| Direct | 2 742 | 2 147 | 4 889 | 2 204 | 1 520 | 3 724 |
| Assumed | 17 436 | 12 029 | 29 465 | 16 280 | 10 847 | 27 127 |
| Ceded | –1 539 | –1 598 | –3 137 | –3 886 | –1 306 | –5 192 |
| **Total premiums written** | 18 639 | 12 578 | 31 217 | **14 598** | **11 061** | **25 659** |
| **Premiums earned** | | | | | | |
| Direct | 2 838 | 2 148 | 4 986 | 2 201 | 1 519 | 3 720 |
| Assumed | 17 537 | 12 101 | 29 638 | 15 418 | 10 851 | 26 269 |
| Ceded | –1 376 | –1 584 | –2 960 | –3 208 | –1 280 | –4 488 |
| **Total premiums earned** | 18 999 | 12 665 | 31 664 | **14 411** | **11 090** | **25 501** |
| **Fee income from policyholders** | | | | | | |
| Direct | | 798 | 798 | | 654 | 654 |
| Assumed | | 293 | 293 | | 271 | 271 |
| Ceded | | –136 | –136 | | –117 | –117 |
| **Total fee income from policyholders** | | 955 | 955 | | **808** | **808** |
| **Claims** | | | | | | |
| Claims paid, gross | –17 897 | –10 971 | –28 868 | –15 749 | –12 226 | –27 975 |
| Claims paid, retro | 3 845 | 1 384 | 5 229 | 2 097 | 1 429 | 3 526 |
| Claims paid, net | –14 052 | –9 587 | –23 639 | –13 652 | –10 797 | –24 449 |
| Change in unpaid claims and claim adjustment expenses; life and health benefits, gross | 4 846 | –1 810 | 3 036 | 3 813 | 2 928 | 6 741 |
| Change in unpaid claims and claim adjustment expenses; life and health benefits, retro | –2 859 | 285 | –2 574 | –168 | –1 196 | –1 364 |
| Change in unpaid claims and claim adjustment expenses; life and health benefits, net | 1 987 | –1 525 | 462 | 3 645 | 1 732 | 5 377 |
| **Claims and claim adjustment expenses; life and health benefits** | –12 065 | –11 112 | –23 177 | **–10 007** | **–9 065** | **–19 072** |
| **Acquisition costs** | | | | | | |
| Acquisition costs, gross | –3 901 | –3 021 | –6 922 | –3 532 | –3 128 | –6 660 |
| Acquisition costs, retro | 67 | 356 | 423 | 792 | 502 | 1 294 |
| **Acquisition costs, net** | –3 834 | –2 665 | –6 499 | **–2 740** | **–2 626** | **–5 366** |

## Reinsurance assets and liabilities

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

## 10 Financial guarantee reinsurance

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

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

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

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

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

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

## 11 Earnings per share

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

Dividends are declared in Swiss francs. For the years ended 31 December 2007 and 2008, the Group's dividends per share were CHF 3.40 and CHF 4.00, respectively.

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

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

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

## 12 Income taxes

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

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

### Tax rate reconciliation

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

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

### Deferred and other non-current taxes

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

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

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

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

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

**FIN 48**

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

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

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

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

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

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

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

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

## 13 Benefit plans

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

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

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

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

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

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

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

Amounts recognised in the balance sheet in 2008 consist of:

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

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

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

## Components of net periodic benefit cost

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

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

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

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

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

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

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

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

## Principal actuarial assumptions

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

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

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

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

### Plan asset allocation by asset category

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

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

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

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

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

### Expected contributions and estimated future benefit payments

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

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

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

## Defined contribution pension plans

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

## Impact of new accounting guidance

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

## 14 Share-based payments

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

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

### Stock option plans

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

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

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

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

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

No options were granted under this plan from 2007 onwards.

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

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

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

### Options exercisable

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

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

### Restricted shares

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

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

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

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

### Long-term Incentive plan

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

### Stock appreciation rights

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

**Unrecognised compensation costs**

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

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

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

**Employee participation plan**

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

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

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

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

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

**Compensation for acting members of governing bodies**

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

**Board of Directors**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Executive Committee

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

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

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

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

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

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

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

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

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

### Highest paid member of the Executive Committee

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

Jacques Aigrain, Chief Executive Officer

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

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

David J. Blumer, Head of Asset Management

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

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

### Compensation of former members of governing bodies

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

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

### Share ownership, options and related instruments

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

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

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

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

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

## Restricted shares

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

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

| Members of the Board of Directors<br>Grant year | As of 31 December 2007<br>2004 | <br>2005 | **As of 31 December 2008**<br>2005 |
|---|---|---|---|
| Share price in CHF as of grant date | 93.00 | 82.85 | **82.85** |
| Peter Forstmoser, Chairman | 10 000 | 5 000 | **5 000** |

| Members of the Executive Committee<br>Grant year | As of 31 December 2007<br>2004 | <br>2005 | **As of 31 December 2008**<br>2005 | <br>2008 |
|---|---|---|---|---|
| Average share price in CHF as of grant date | 93.00 | 82.85 | **82.85** | **86.29** |
| Jacques Aigrain, Chief Executive Officer | | 13 750 | 13 750 | |
| Stefan Lippe, Deputy Chief Executive Officer and Chief Operating Officer | | 9 125 | 8 750 | |
| Andreas Beerli, Head of Associated Units and Special Projects | 7 500 | 7 500 | 7 500 | |
| David J. Blumer, Head of Asset Management | | | | 81 000 |
| Brian Gray, Chief Underwriting Officer | | | 750 | |
| Michel M. Liès, Head of Client Markets | | 3 750 | 3 750 | |
| Raj Singh, Chief Risk Officer | | | | 4 000 |
| Christian Mumenthaler, Former Chief Risk Officer | 1 250 | 5 000 | | |
| **Total** | 8 750 | 39 125 | **34 500** | **85 000** |

## Unvested options

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

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

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

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

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

**Vested options**

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

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

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

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

**Loans to members of governing bodies**

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

| CHF thousands | 2007 | 2008 |
|---|---|---|
| Mortgages and loans to members of the Board of Directors | | |
| Walter B. Kielholz, Vice Chairman | 2 000 | 2 000 |
| Total mortgages and loans to members of the Executive Committee | 8 585 | 6 004 |
| Highest mortgages and loans to an individual member of the Executive Committee | | |
| Andreas Beerli, Head of Associated Units and Special Projects | 3 000 | 3 000 |
| Total mortgages and loans not at market conditions to former members of the Executive Committee | 4 184 | 4 528 |

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

## 16 Commitments and contingent liabilities

**Leasing commitments**

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

| As of 31 December 2008 | CHF millions |
|---|---|
| 2009 | 78 |
| 2010 | 73 |
| 2011 | 65 |
| 2012 | 57 |
| 2013 | 48 |
| After 2013 | 509 |
| **Total operating lease commitments** | **830** |
| Less minimum non-cancellable sublease rentals | –95 |
| **Total net future minimum lease commitments** | **735** |

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

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

**Other commitments**

As a participant in limited investment partnerships, the Group commits itself to making available certain amounts of investment funding, callable by the partnerships for periods of up to 10 years. The total commitments remaining uncalled as of 31 December 2008 were CHF 2 757 million.

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

**Putative class action suit**

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

### Legal proceedings

In the normal course of business operations, the Group is involved in various claims, lawsuits and regulatory matters. In the opinion of management, the disposition of these or any other legal matters, except as disclosed in this note, is not expected to have a material adverse effect on the Group's business, consolidated financial position or results of operations.

## 17 Information on business segments

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

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

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

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

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

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

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

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

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

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

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

2007 information is disclosed accordingly to 2008 segments presentation basis.

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

### a) Business segment results

For the years ended 31 December

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

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

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

For the years ended 31 December

| 2007<br>CHF millions | Property traditional | Casualty traditional | Specialty traditional | Total traditional | Non-traditional | Total |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Premiums earned | 6 464 | 7 446 | 4 701 | 18 611 | 366 | 18 977 |
| Net investment income | 496 | 1 936 | 477 | 2 909 | 279 | 3 188 |
| Net realised investment gains/losses | –300 | | | –300 | 17 | –283 |
| Other revenues | –7 | | 112 | 105 | –8 | 97 |
| **Total revenues** | 6 653 | 9 382 | 5 290 | 21 325 | 654 | 21 979 |
| | | | | | | |
| **Expenses** | | | | | | |
| Claims and claim adjustment expenses | –2 800 | –6 634 | –2 077 | –11 511 | –538 | –12 049 |
| Acquisition costs | –1 143 | –1 417 | –1 123 | –3 683 | –143 | –3 826 |
| Other expenses | –510 | –732 | –326 | –1 568 | –65 | –1 633 |
| **Total expenses** | –4 453 | –8 783 | –3 526 | –16 762 | –746 | –17 508 |
| | | | | | | |
| **Operating income/loss** | 2 200 | 599 | 1 764 | 4 563 | –92 | 4 471 |
| | | | | | | |
| Claims ratio in % | 43.3 | 89.1 | 44.2 | 61.9 | | |
| Expense ratio in % | 25.6 | 28.9 | 30.8 | 28.2 | | |
| Combined ratio in % | 68.9 | 118.0 | 75.0 | 90.1 | | |

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

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

For the years ended 31 December

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

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

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

For the years ended 31 December

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

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

### d) Asset Management

For the years ended 31 December

| 2007<br>CHF millions | Credit & Rates | Equity & Alternative Investments | Total |
|---|---|---|---|
| **Revenues** | | | |
| Premiums earned | | | |
| Net investment income | 7 390 | 505 | 7 895 |
| Net realised investment gains/losses | –1 045 | 1 472 | 427 |
| Other revenues | 125 | | 125 |
| **Total revenues** | 6 470 | 1 977 | 8 447 |
| | | | |
| **Expenses** | | | |
| Claims and claim adjustment expenses | | | |
| Acquisition costs | | | |
| Other expenses | | | |
| **Total expenses** | 0 | 0 | 0 |
| | | | |
| **Operating income/loss** | 6 470 | 1 977 | 8 447 |

| **2008**<br>CHF millions | Credit & Rates | Equity & Alternative Investments | Total |
|---|---|---|---|
| **Revenues** | | | |
| Premiums earned | | | |
| Net investment income | 6 297 | –937 | 5 360 |
| Net realised investment gains/losses | 807 | –327 | 480 |
| Other revenues | 80 | –8 | 72 |
| **Total revenues** | **7184** | **–1272** | **5912** |
| | | | |
| **Expenses** | | | |
| Claims and claim adjustment expenses | | | |
| Acquisition costs | | | |
| Other expenses | | | |
| **Total expenses** | **0** | **0** | **0** |
| | | | |
| **Operating income/loss** | **7 184** | **–1 272** | **5 912** |

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

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

# 18 Subsidiaries, equity investees and variable interest entities

## Subsidiaries and equity investees

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

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

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

| | Share capital (CHF millions) | Affiliation in % as of 31.12.2008 | Method of consolidation |
|---|---|---|---|
| **North America and Caribbean** | | | |
| | | | |
| **Barbados** | | | |
| Accra Holdings Corporation | 17 | 100 | f |
| Atlantic International Reinsurance Company Ltd | 5 | 100 | f |
| European Finance Reinsurance Company Ltd | 5 | 100 | f |
| European International Holding Company Ltd | 3282 | 100 | f |
| European International Reinsurance Company Ltd | 3277 | 100 | f |
| Gasper Funding Corporation | 18 | 100 | f |
| Stockwood Reinsurance Company, Ltd | 1 | 100 | f |
| Underwriters Reinsurance Company (Barbados) Ltd | 17 | 100 | f |
| | | | |
| **Bermuda** | | | |
| CORE Reinsurance Company Ltd | 0 | 100 | f |
| Englewood Ltd | 0 | 100 | f |
| Old Fort Insurance Company Ltd | 1 | 100 | f |
| Swiss Re Global Markets Ltd | 0 | 100 | f |
| SwissRe Capital Management (Bermuda) Ltd | 0 | 100 | f |
| SwissRe Finance (Bermuda) Ltd | 0 | 100 | f |
| SwissRe Investments (Bermuda) Ltd | 0 | 100 | f |
| | | | |
| **Canada** | | | |
| Swiss Re Holdings (Canada) Inc. | 101 | 100 | f |
| Swiss Re Life & Health Canada | 98 | 100 | f |
| Swiss Reinsurance Company Canada | 0 | 100 | f |
| | | | |
| **Cayman Islands** | | | |
| Ampersand Investments (UK) Ltd | 918 | 100 | f |
| Cobham Funding Ltd | 0 | 100 | f |
| Dunstanburgh Finance (Cayman) Ltd | 0 | 100 | f |
| Epping Funding Ltd | 0 | 100 | e |
| Kilgallon Finance Ltd | 0 | 100 | f |
| Swiss Re Alternative Financing I SPC | 0 | 100 | f |
| Swiss Re Alternative Financing II SPC | 0 | 100 | f |
| SR Cayman Holdings Ltd | 0 | 100 | f |
| SR York Ltd | 77 | 100 | f |
| Swiss Re Strategic Investments (UK) Ltd | 0 | 100 | f |

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

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

## Variable interest entities

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

When analysing the status of an entity, Swiss Re Group mainly assesses if (1) the equity is sufficient to finance the entity's activities without additional subordinated financial support, (2) the equity owners have the right to make significant decisions affecting the entity's operations, and (3) the holders of the voting rights substantively participate in the gains and losses of the entity. When one of these criteria is not met, these entities need to be assessed for consolidation under FIN46(R).

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

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

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

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

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

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

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

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

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

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

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

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

| As of 31 December<br>CHF millions | 2008 |
|---|---|
| Fixed income securities: | |
| Available-for-sale (whereof restricted 8 144) | 8953 |
| Trading | 131 |
| Policy loans, mortgages and other loans (whereof restricted 260) | 260 |
| Other invested assets (whereof restricted 162) | 162 |
| Cash and cash equivalents (whereof restricted 411) | 411 |
| Acquired present value of future profits (whereof restricted 84) | 84 |
| Accrued investment income (whereof restricted 80) | 80 |
| Other assets (whereof restricted 33) | 33 |
| **Total assets** | **10114** |
| Liabilities for life and health policy benefits | 1327 |
| Policyholder account balances | 1718 |
| Deferred and other non-current taxes | 162 |
| Accrued expenses and other liabilities | 525 |
| Long-term debt | 5155 |
| Net unrealised investment gains/losses, net of deferred taxes | –187 |
| Cumulative translation adjustments, net of deferred taxes | 1204 |
| Additional paid in capital | 241 |
| Retained earnings | –31 |
| **Total liabilities and equity** | **10114** |

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

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

| As of 31 December<br>CHF millions | 2007 | 2008 |
|---|---|---|
| Insurance-linked/Credit-linked securitisations | | 163 |
| Investment vehicles | 241 | 162 |
| Debt financing | 7766 | 6097 |
| Modified coinsurance agreement | 4022 | 3830 |
| Other | 1 | 34 |
| **Total** | **12030** | **10286** |

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

| As of 31 December 2008<br>CHF millions | Assets | Liabilities |
|---|---|---|
| Other invested assets | 2166 | |
| Accrued expenses and other liabilities | | 752 |
| **Total** | **2166** | **752** |

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

| As of 31 December<br>CHF millions | 2007 | 2008 |
|---|---|---|
| Insurance-linked/Credit-linked securitisations | 10874 | 6510 |
| Investment vehicles | 17684 | 3939 |
| Debt financing | 7753 | 5074 |
| Other | 1690 | 1721 |
| **Total** | **38001** | **17244** |

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

| As of 31 December<br>CHF millions | Maximum exposure to loss 2007 | Maximum exposure to loss 2008 | Total liabilities 2008 | Difference 2008 |
|---|---|---|---|---|
| Insurance-linked/Credit-linked securitisations | 10874 | 6255 | 865 | 5390 |
| Investment vehicles | 2089 | 1664 | | 1664 |
| Debt financing | 526 | 266 | | 266 |
| Other | 1137 | 991 | 213 | 778 |
| **Total** | **14626** | **9176** | **1078** | **8098** |

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

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

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

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

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

## 19 Restructuring provision

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

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

**2008**

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

## 20 Risk assessment

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

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

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

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

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

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

## 21 Subsequent event

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

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

# Report of the statutory auditor

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

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

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

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

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

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

**Report on other legal requirements**

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

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

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

PricewaterhouseCoopers AG

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

Zurich, 18 February 2009

# Annual report Swiss Reinsurance Company Ltd

**Reinsurance and holding company**

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

The following commentary on the 2008 financial year of the parent company thus complements the review of the financial year of the Swiss Re Group.

**Financial year 2008**

In 2008, the Company reported an after-tax gain of CHF 15 million, compared to a gain of CHF 1.7 billion in the previous year.

The reinsurance business continued to perform well and delivered a gain of CHF 1.8 billion. The investment result, however, suffered from the current financial markets crisis.

The business year was characterised by a number of transactions in connection with the simplification of the Group's entity structure in the EU and the consolidation of its EU business. During 2008, the Company transferred assets and liabilities from its French, Italian and Spanish branches to the respective branch operations of a reinsurance carrier based in Luxembourg by way of contribution in kind. In addition, the life and health business written by the Company's German branch was transferred into the German branch of a Luxembourg entity by way of portfolio transfer.

Furthermore, the termination of the Group's Bermuda operations led to the assumption of a considerable life and health reinsurance portfolio by the Company.

In 2008, the Swiss franc increased significantly against the US dollar, the British pound and the euro. The currency fluctuations markedly affect the comparison of year-on-year reported income statement and balance sheet figures.

**Reinsurance result**

Net premiums earned increased slightly to CHF 20.3 billion. Property and casualty premiums decreased mainly due to a quota share arrangement with Berkshire Hathaway, which had an impact on both the retroceded premiums and the premiums assumed from the Swiss Re Group companies via quota share agreements. In addition, the transfer of the business from the European branches of the Company to a Luxembourg carrier led to a considerable reduction in premiums earned. This decrease was offset by the initial premium consideration received at inception of a life and health portfolio being recorded as a written premium.

The development of the claims and claim adjustment expenses, life and health benefits and acquisition costs was principally affected by the portfolio transactions described above.

Operating costs allocated to reinsurance operations decreased mainly as a result of the change of the reporting classification of unallocated management expenses. The overall management expenses decreased as well due to lower personnel expenses incurred in the year under report.

**Investment result**

The investment result declined to a loss of CHF 0.7 billion.

Both the realised gains and valuation adjustments increased significantly mostly driven by extended volume of the derivative financial instruments in connection with variable annuity business.

In addition, higher valuation adjustments were necessary on the alternative investments and on own shares. Furthermore, a CHF 1.8 billion valuation adjustment on a subsidiary was recognised to reflect losses from the structured credit default swaps. Realised losses increased due to the substantial reduction of the equity portfolio, as well as sales of fixed income securities.

These negative effects were partly offset by a compensation received on the basis of an intragroup profit allocation agreement. The agreement stipulates the compensation for Swiss Re Group entities participating in the trading, structuring and treasury operations of Swiss Re's Asset Management division, based on the residual profit split method.

**Other income and expenses**

The increase in other expenses is mainly due to losses assumed in the context of the merger with a Swiss Re Group subsidiary. Furthermore, administrative expenses which cannot be directly allocated to reinsurance or investment operations are newly reported under "Other expenses".

**Assets**

Total assets decreased by 2% to CHF 103.3 billion. At constant foreign exchange rates total assets would amount to CHF 110.9 billion.

During 2008, the Company substantially reduced its equity portfolio. Loans to subsidiaries and affiliated companies increased due to intragroup financing transactions. Increased volume of the assets in derivative financial instruments is mainly driven by the foreign currency swaps. Furthermore, the Company absorbed a subsidiary holding the majority of the Group's alternative investments. The corresponding assets, composed mainly of investments in hedge funds and private equity investments, are reported under the new line item "Alternative investments".

**Liabilities**

Total liabilities remained at the previous year level and amounted to CHF 86.2 billion. The technical provisions decreased by 8% to CHF 60.2 billion mainly due to the weakening of the US dollar, the British pound and the euro against the Swiss franc. The movement in the provision for currency fluctuation reflects considerable foreign exchange rate fluctuations in 2008. The liabilities from derivative financial instruments increased mainly driven by the foreign currency swaps and the derivatives in connection with the variable annuity business.

**Shareholders' equity**

As of 31 December 2007, shareholders' equity amounted to CHF 19.0 billion before allocation of the profit. After the dividend payment of CHF 1 331 million for 2007, the cancellation of shares from the share buy-back programme, the issuance of new shares and the inclusion of the profit for the 2008 financial year, shareholders' equity decreased to CHF 17.1 billion at the end of 2008.

Other reserves decreased by CHF 364 million to CHF 14.9 billion in 2008, due to the net result of the increase of the reserve for own shares, the allocation of the profit for the 2007 financial year, the cancellation of shares from the share buy-back programme, the creation of new shares for the conversion of a mandatory convertible bond and newly issued shares from options being exercised.

The nominal share capital of the Company decreased slightly due to the net effect from the cancellation of 17 349 000 shares, based on a 2008 General Meeting resolution, the creation of 10 460 076 new shares from the conditional capital for the conversion of a mandatory convertible bond, and 18 205 newly issued shares from the conditional capital in connection with employee participation programmes. As of 31 December 2008, the nominal share capital amounted to CHF 36 million.

# Income statement
# Swiss Reinsurance Company Ltd

For the years ended 31 December

| CHF millions | Notes | 2007 | 2008 |
|---|---|---|---|
| **Reinsurance** | 1 | | |
| Premiums earned | | 18 883 | **20 327** |
| Claims and claim adjustment expenses | | –13 663 | **–13 331** |
| Life and health benefits | | 77 | **–3 382** |
| Change in equalisation provision | | –300 | **–** |
| Acquisition costs | | –3 949 | **–2 895** |
| Other reinsurance result | | 983 | **898** |
| Operating costs | | –1 101 | **–941** |
| Allocated investment return | | 1 326 | **1 136** |
| **Reinsurance result** | | 2 256 | **1 812** |
| | | | |
| **Investments** | 2 | | |
| Investment income | | 5 437 | **9 482** |
| Investment expenses | | –4 175 | **–9 007** |
| Allocated investment return | | –1 326 | **–1 136** |
| **Investment result** | | –64 | **–661** |
| | | | |
| **Other income and expenses** | | | |
| Other interest income | | 348 | **313** |
| Other interest expenses | | –524 | **–554** |
| Other income | | 226 | **213** |
| Other expenses | | –297 | **–848** |
| **Result from other income and expenses** | | –247 | **–876** |
| | | | |
| **Income before tax expense** | | 1 945 | **275** |
| **Tax expense** | | –248 | **–260** |
| **Net income** | | 1 697 | **15** |

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

# Balance sheet Swiss Reinsurance Company Ltd

As of 31 December

## Assets

| CHF millions | Notes | 2007 | 2008 |
|---|---|---|---|
| **Non-current assets** | | | |
| **Investments** | | | |
| Investment real estate | | 1 098 | **1 116** |
| Investments in subsidiaries and affiliated companies | | 17 092 | **17 403** |
| Loans to subsidiaries and affiliated companies | | 13 737 | **16 188** |
| Mortgages and other loans | | 749 | **756** |
| Equity securities | | 7 461 | **1 314** |
| Fixed income securities | | 22 860 | **18 205** |
| Short-term investments | | 1 497 | **2 470** |
| Alternative investments | | – | **3 473** |
| Assets in derivative financial instruments | | 1 713 | **2 987** |
| **Total investments** | | 66 207 | **63 912** |
| | | | |
| **Tangible assets** | | 772 | **732** |
| **Intangible assets** | | 63 | **59** |
| | | | |
| **Total non-current assets** | | 67 042 | **64 703** |
| | | | |
| **Current assets** | | | |
| Premiums and other receivables from reinsurance | 3 | 9 615 | **8 322** |
| Funds held by ceding companies | 3 | 20 115 | **21 292** |
| Deferred acquisition costs | 3 | 1 085 | **837** |
| Cash and cash equivalents | | 4 041 | **3 422** |
| Other receivables | | 1 382 | **3 878** |
| Other assets | | 590 | **543** |
| Accrued income | | 1 224 | **270** |
| **Total current assets** | | 38 052 | **38 564** |
| | | | |
| **Total assets** | | 105 094 | **103 267** |

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

## Liabilities and shareholders' equity

| CHF millions | Notes | 2007 | 2008 |
|---|---|---|---|
| **Liabilities** | | | |
| **Technical provisions** | | | |
| Unpaid claims | 4 | 48 469 | **41 579** |
| Liabilities for life and health policy benefits | 4 | 11 053 | **13 550** |
| Unearned premiums | 4 | 4 832 | **4 064** |
| Provisions for profit commissions | 4 | 617 | **474** |
| Equalisation provision | 4 | 550 | **550** |
| **Total technical provisions** | | 65 521 | **60 217** |
| | | | |
| **Non-technical provisions** | | | |
| Provision for taxation | | 179 | **191** |
| Provision for currency fluctuation | | 948 | **2 040** |
| Other provisions | | 518 | **363** |
| **Total non-technical provisions** | | 1 645 | **2 594** |
| | | | |
| **Debt** | | | |
| Debentures | | 5 757 | **4 094** |
| Loans | | 3 060 | **4 109** |
| **Total debt** | | 8 817 | **8 203** |
| | | | |
| **Funds held under reinsurance treaties** | 4 | 2 849 | **2 327** |
| **Reinsurance balances payable** | 4 | 3 713 | **3 307** |
| **Liabilities from derivative financial instruments** | | 2 417 | **6 523** |
| **Other liabilities** | | 949 | **2 839** |
| **Accrued expenses** | | 202 | **178** |
| | | | |
| **Total liabilities** | | 86 113 | **86 188** |
| | | | |
| **Shareholders' equity** | 5 | | |
| Share capital | | 37 | **36** |
| Reserve for own shares | | 1 297 | **1 446** |
| Other legal reserves | | 650 | **650** |
| Other reserves | | 15 235 | **14 871** |
| Retained earnings brought forward | | 65 | **61** |
| Profit for the financial year | | 1 697 | **15** |
| **Total shareholders' equity** | | 18 981 | **17 079** |
| | | | |
| **Total liabilities and shareholders' equity** | | 105 094 | **103 267** |

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

# Notes
# Swiss Reinsurance Company Ltd

Significant accounting principles

**Basis of presentation**

The financial statements are prepared in accordance with Swiss Company Law.

**Time period**

The 2008 financial year comprises the accounting period from 1 January to 31 December 2008.

**Foreign currency translation**

Assets and liabilities denominated in foreign currencies are translated into Swiss francs at year-end exchange rates. Participations are maintained in Swiss francs at historical exchange rates.

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

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

**Investments**

The following assets are carried at cost, less necessary and legally permissible depreciation:
- Investment real estate
- Investments in subsidiaries and affiliated companies
- Equity securities
- Fixed income securities
- Investments in funds
- Short-term investments
- Alternative investments
- Assets in derivative financial instruments

These assets are generally not subject to revaluation. The valuation rules prescribed by the Swiss Financial Market Supervisory Authority FINMA are observed.

Assets in derivative financial instruments include reinsurance contracts or features embedded in reinsurance contracts that fulfil the characteristics of derivative financial instruments.

Short-term investments contain investments with a remaining maturity at the date of acquisition of one year or less, but greater than three months.

Loans to subsidiaries and affiliated companies, mortgages and other loans are carried at nominal value. Value adjustments are recorded where the recovery value is lower than the nominal value.

**Tangible assets**

Property for own use is valued at the purchase or construction cost less necessary and legally permissible depreciation.

Other tangible assets are carried at cost, less individually scheduled straight-line depreciation over their useful lives. Items of minor value are not capitalised.

**Intangible assets**

Intangible assets, consisting of capitalised development costs for software for internal use, are stated at cost less straight-line amortisation over the estimated useful lives.

**Deferred acquisition costs**

Deferred acquisition costs consist principally of commissions and are related to the production of new reinsurance business. Deferred acquisition costs for short duration contracts are amortised in proportion to premiums earned. Deferred acquisition costs for long duration contracts are amortised over the life of the underlying contracts.

**Other assets**

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

**Other current assets**

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

**Technical provisions**

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

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

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

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

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

The equalisation provision is established to achieve a protection of the balance sheet and to break peaks of incurred claims in individual financial years with an exceptionally high claims burden by releasing appropriate amounts from the provision.

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

Liabilities assumed and consideration provided in connection with portfolio transactions are established through the respective income statement line items. The initial recognition of the assumed outstanding claims is recorded as change in unpaid claims, with the consideration being recognised as negative claims paid. The assumption of the provision for unearned premiums is established through the change in unearned premiums, with the respective consideration accounted for as premiums written. The liability for life and health policy benefits is established as a charge against life and health benefits, with the initial premium consideration recorded as premiums written.

The initial set up of assets and liabilities in respect of property and casualty retroactive treaties with Group external counterparties is accounted for as a balance sheet transaction.

**Non-technical provisions**

The provision for taxation contains taxes on the basis of the financial year just ended.

The provision for currency fluctuation comprises all currency differences arising from the revaluation of the opening balance sheet, the adjustments from application of year-end or average rates and foreign exchange transactions.

Other provisions are determined according to business principles and are based on estimated needs and in accordance with tax regulations.

**Debt**

Debt is held at redemption value.

**Funds held under reinsurance treaties**

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

**Reinsurance balances payable**

Reinsurance balances payable are held at redemption value.

**Liabilities from derivative financial instruments**

Liabilities from derivative financial instruments are generally maintained at the highest commitment amount as per a balance sheet date during the life of the underlying contracts. Premiums received in respect of derivative financial instruments are not realised until expiration or settlement of the contract.

Included in this position are reinsurance contracts or features embedded in reinsurance contracts that fulfil the characteristics of derivative financial instruments. For such contracts, premiums received may be recognised as income prior to contract expiration or settlement in cases, where the recorded commitment has already reached the maximum liability amount potentially payable under the terms of the respective contracts.

**Deposit arrangements**

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

**Allocated investment return**

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

**Management expenses**

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

**Tax expense**

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

# Notes
# Swiss Reinsurance Company Ltd

Additional information on the financial statements

## 1. Reinsurance result

| CHF millions | Gross | Retro | 2007<br>Net | Gross | Retro | 2008<br>Net |
|---|---|---|---|---|---|---|
| Premiums written | 23788 | –4106 | 19682 | **23899** | **–3832** | **20067** |
| Change in unearned premiums | –1160 | 361 | –799 | **418** | **–158** | **260** |
| **Premiums earned** | 22628 | –3745 | 18883 | **24317** | **–3990** | **20327** |
| | | | | | | |
| Claims paid and claim adjustment expenses | –8276 | 1684 | –6592 | **–19677** | **4364** | **–15313** |
| Change in unpaid claims | –7177 | 106 | –7071 | **3508** | **–1526** | **1982** |
| **Claims and claim adjustment expenses** | –15453 | 1790 | –13663 | **–16169** | **2838** | **–13331** |
| | | | | | | |
| **Life and health benefits** | –271 | 348 | 77 | **–3115** | **–267** | **–3382** |
| | | | | | | |
| **Change in equalisation provision** | –300 | – | –300 | **–** | **–** | **–** |
| | | | | | | |
| Fixed commissions | –4210 | 579 | –3631 | **–3424** | **855** | **–2569** |
| Profit commissions | –385 | 67 | –318 | **–380** | **54** | **–326** |
| **Acquisition costs** | –4595 | 646 | –3949 | **–3804** | **909** | **–2895** |
| | | | | | | |
| Other reinsurance income and expenses | –7 | –36 | –43 | **139** | **–25** | **114** |
| Result from cash deposits | 1187 | –161 | 1026 | **913** | **–129** | **784** |
| **Other reinsurance result** | 1180 | –197 | 983 | **1052** | **–154** | **898** |
| | | | | | | |
| **Operating costs** | | | –1101 | | | **–941** |
| | | | | | | |
| **Allocated investment return** | | | 1326 | | | **1136** |
| | | | | | | |
| **Reinsurance result** | | | 2256 | | | **1812** |

## 2. Investment result

| CHF millions | 2007 | 2008 |
|---|---|---|
| Income from investment real estate | 93 | **100** |
| Income from subsidiaries and affiliated companies | 2 109 | **1 790** |
| Income from equity securities | 817 | **17** |
| Income from fixed income securities, mortgages and other loans | 905 | **892** |
| Income from short-term investments | 56 | **47** |
| Income from alternative investments | – | **6** |
| Income from investment services | 88 | **64** |
| Income from intragroup profit allocation agreement | – | **795** |
| Realised gains on sale of investments | 1 369 | **5 771** |
| **Investment income** | 5 437 | **9 482** |
| | | |
| Investment management expenses | –235 | **–225** |
| Valuation adjustments on investments | –2 432 | **–6 196** |
| Realised losses on sale of investments | –1 508 | **–2 586** |
| **Investment expenses** | –4 175 | **–9 007** |
| | | |
| Allocated investment return | –1 326 | **–1 136** |
| **Investment result** | –64 | **–661** |

## 3. Assets from reinsurance

| | | | 2007 | | | **2008** |
|---|---|---|---|---|---|---|
| CHF millions | Gross | Retro | Net | Gross | Retro | Net |
| Premiums and other receivables from reinsurance | 9 464 | 151 | 9 615 | **8 204** | **118** | **8 322** |
| Funds held by ceding companies | 20 115 | – | 20 115 | **21 292** | **–** | **21 292** |
| Deferred acquisition costs | 1 367 | –282 | 1 085 | **1 072** | **–235** | **837** |
| **Assets from reinsurance** | 30 946 | –131 | 30 815 | **30 568** | **–117** | **30 451** |

## 4. Liabilities from reinsurance

| CHF millions | Gross | Retro | 2007 Net | Gross | Retro | 2008 Net |
|---|---|---|---|---|---|---|
| Unpaid claims | 52 433 | –3 964 | 48 469 | **43 788** | **–2 209** | **41 579** |
| Liabilities for life and health policy benefits | 12 189 | –1 136 | 11 053 | **14 504** | **–954** | **13 550** |
| Unearned premiums | 6 129 | –1 297 | 4 832 | **5 136** | **–1 072** | **4 064** |
| Provisions for profit commissions | 656 | –39 | 617 | **510** | **–36** | **474** |
| Equalisation provision | 550 | – | 550 | **550** | **–** | **550** |
| Funds held under reinsurance treaties | 403 | 2 446 | 2 849 | **392** | **1 935** | **2 327** |
| Reinsurance balances payable | 1 506 | 2 207 | 3 713 | **1 519** | **1 788** | **3 307** |
| **Liabilities from reinsurance** | 73 866 | –1 783 | 72 083 | **66 399** | **–548** | **65 851** |

## 5. Shareholders' equity

### Change in shareholders' equity

| CHF millions | 2007 | 2008 |
|---|---|---|
| Shareholders' equity as of 1 January | 18 409 | **18 981** |
| Dividend paid for the previous year | –1 162 | **–1 331** |
| Capital increase/decrease including premium | 37 | **–586** |
| Profit for the financial year | 1 697 | **15** |
| **Shareholders' equity on 31 December before allocation of profit** | 18 981 | **17 079** |
| Dividend payment | –1 387 | **–34**[1] |
| **Shareholders' equity on 31 December after allocation of profit** | 17 594 | **17 045** |

[1] Board of Directors' proposal to the Annual General Meeting of 13 March 2009, subject to the actual number of shares outstanding and eligible for dividend. The difference between the proposed dividend payment in the previous year and the actual dividend payment in the year under report is described on page 240.

### Sources of shareholders' equity after allocation of profit

| CHF millions | 2007 | 2008 |
|---|---|---|
| From nominal capital | 37 | **36** |
| From share premium | 10 045 | **9 459** |
| From profit allocation | 7 213 | **7 251** |
| From other allocations | 299 | **299** |
| **Shareholders' equity on 31 December after allocation of profit** | 17 594 | **17 045** |

**Contingent liabilities**

Swiss Reinsurance Company Ltd has issued a number of guarantees to various of its subsidiaries in support of their business activities by securing either their overall capital positions or specific transactions. These guarantees are generally not limited by a nominal amount but rather by the exposure of the underlying business.

In addition, as a component of the Group's financing structure, Swiss Reinsurance Company Ltd has guaranteed CHF 4 798 million (2007: CHF 7 069 million) of debt issued by certain of its subsidiaries and letter of credit facilities benefiting various subsidiaries of which an amount of CHF 4 537 million (2007: CHF 4 980 million) was drawn as of the balance sheet date.

Currently the Company or one of its subsidiaries expect to provide funding of USD 1.5 billion to a Swiss Re Group subsidiary in 2009 under the terms of a guarantee.

**Putative class action suit**

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

**Unfunded commitments**

As a participant in limited investment partnerships, Swiss Reinsurance Company Ltd commits itself to making available certain amounts of investment funding, callable by the partnerships for periods of up to 10 years. As of 31 December 2008, total commitments remaining uncalled were CHF 2 309 million. These commitments were assumed in the context of the absorption of a subsidiary in 2008.

**Leasing contracts**

Total off-balance sheet commitments from operating leases for the next five years and thereafter are as follows:

| CHF millions | 2007 | **2008** |
|---|---|---|
| 2008 | 16 | **–** |
| 2009 | 8 | **18** |
| 2010 | 5 | **15** |
| 2011 | 2 | **10** |
| 2012 | 12 | **5** |
| After 2013 | – | **18** |

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

In addition, a financial lease of IT hardware is recognised on the balance sheet. The corresponding asset and liability of CHF 27 million (2007: CHF 13 million) are included in tangible assets and other liabilities, respectively.

**Security deposits**

To secure the technical provisions on the 2008 balance sheet date, securities with a value of CHF 11 646 million (2007: CHF 10 428 million) were deposited in favour of ceding companies, of which CHF 7 519 million (2007: CHF 5 839 million) was to Group companies.

**Securities lending**

As of 31 December 2008, securities of CHF 878 million (2007: CHF 5 845 million) were lent under securities lending agreements, with the right to be sold or pledged by the borrowing entity. In 2008, no securities were lent to Group companies (2007: CHF 4 154 million). The securities which were held and lent by the investment funds are excluded.

**Investment funds**

Equity securities of CHF 2 million (2007: CHF 5 681 million) and fixed income securities of CHF 1 811 million (2007: CHF 5 333 million) were held in investment funds, which are fully owned by Swiss Re Group companies. The securities in these funds and their revenues are reported in the corresponding asset category.

**Fire insurance value of tangible assets**

As of 31 December 2008, the insurance value of tangible assets, comprising the real estate portfolio and other tangible assets, amounted to CHF 2 515 million (2007: CHF 2 508 million).

**Obligations towards employee pension funds**

Other liabilities include CHF 6 million (2007: CHF 7 million) payable to the employee pension funds.

**Debentures**

As of 31 December 2008, the following debentures were outstanding:

| Instrument | Issued in | Currency | Nominal in millions | Interest rate | First call in | Book value CHF millions |
|---|---|---|---|---|---|---|
| Subordinated perpetual bond | 1999 | CHF | 600 | 3.75% | 2011 | 600 |

**Investments in subsidiaries**

Details on the Swiss Re Group's subsidiaries are disclosed on pages 208 to 217.

**Treasury shares**

As of 31 December 2008, the Group held 16 973 828 treasury shares (2007: 12 334 212). In the year under report, 25 495 057 treasury shares (2007: 25 277 897) were purchased at an average price of CHF 77.18 (2007: CHF 101.41) and 20 855 441 treasury shares (2007: 13 231 309) were sold at an average price of CHF 84.03 (2007: CHF 99.19).

**Deposit account**

Deposit arrangements generated the following balances, which are included in:

| CHF millions | 2007 | 2008 |
|---|---|---|
| Reinsurance result | –76 | **50** |
| Premiums and other receivables from reinsurance | 677 | **570** |
| Funds held by ceding companies | 162 | **211** |
| Funds held under reinsurance treaties | 403 | **392** |
| Reinsurance balances payable | 644 | **484** |

**Claims on and obligations towards Group companies**

| CHF millions | 2007 | 2008 |
|---|---|---|
| Premiums and other receivables from reinsurance | 3 353 | **3 665** |
| Funds held by ceding companies | 13 830 | **18 035** |
| Other receivables | 1 137 | **3 733** |
| Funds held under reinsurance treaties | 213 | **77** |
| Reinsurance balances payable | 1 712 | **1 523** |
| Loans | 2 785 | **3 534** |
| Other liabilities | 445 | **2 362** |

### Conditional capital and authorised capital

As of 31 December 2008, Swiss Reinsurance Company Ltd's total conditional capital outstanding amounted to CHF 2 160 487 (2007: CHF 3 208 316). CHF 1 557 920 was reserved for the exercise of conversion rights and warrants granted in connection with bonds and similar instruments and CHF 602 567 for employee participation purposes.

In addition, no authorised capital with shareholders' subscription rights was outstanding at the end of 2008 (2007: CHF 1 105 337).

### Change in undisclosed reserves

In the year under report, no net undisclosed reserves on investments and on provisions were released (2007: no net release).

### Major shareholders

As of 31 December 2008, there were four shareholders with a participation exceeding the 3% threshold of Swiss Reinsurance Company Ltd's share capital.

a. Swiss Reinsurance Company Ltd, Mythenquai 50/60, 8022 Zurich, Switzerland, held a total of 28 521 789 Swiss Re shares or 7.85% of the share capital. Of these shares, 6 036 987 shares were fully paid-in shares held for general corporate purposes, 11 678 802 shares were paid in only at nominal value and reserved for general corporate purposes, 8 881 000 shares were acquired under the share buy-back programme and subject to cancellation, and 1 925 000 were acquired under the first trading line of the share buy-back programme.

b. Dodge & Cox, 555 California Street, San Francisco, CA, USA, announced on 31 October 2008 that they held, on behalf of the Dodge & Cox International Stock Fund, through an acquisition, 10 766 995 registered Swiss Re shares. Dodge & Cox thus has a voting right of 3.05% in Swiss Reinsurance Company Ltd which can be exercised autonomously of the beneficial owners.

c. Berkshire Hathaway Inc., 3555 Farnam Street, Omaha, NE, USA, notified Swiss Reinsurance Company Ltd on 22 January 2008 that, as of the same day, it held through its subsidiary Columbia Insurance Company, 3024 Harney Street, Omaha, NE, USA, 11 250 000 registered shares or 3.03% of the voting rights of Swiss Reinsurance Company Ltd.

d. Franklin Resources, Inc., 500 E. Broward Blvd., Ft. Lauderdale, FL, USA, known as Franklin Templeton Investments, notified Swiss Reinsurance Company Ltd on 6 December 2008 that it holds as of 4 December 2008, through an acquisition by a number of its Group companies, in the capacity of investment manager for mutual funds and clients, 10 970 364 registered Swiss Re shares. Franklin Templeton Investments now holds 3.11% of the voting rights of Swiss Reinsurance Company Ltd.

### Personnel information

As of 31 December 2008, Swiss Reinsurance Company Ltd employed a worldwide staff of 3 568 (2007: 3 802). Personnel expenses for the 2008 financial year amounted to CHF 892 million (2007: CHF 1 009 million).

In connection with the integration of GE Insurance Solutions, restructuring charges of CHF 59 million were recognised in 2006. As of 31 December 2008, a respective restructuring provision of CHF 1 million (2007: CHF 4 million) remained on the Company's books.

### Management compensation

The disclosure requirements under Swiss Company Law in respect of management compensation to the members of the Board of Directors and of the Executive Committee of Swiss Reinsurance Company Ltd, as well as to closely related persons, are detailed on pages 189 to 197.

**Management fee contribution**

In 2008, management expenses of CHF 173 million (2007: CHF 152 million) were recharged to Group companies and reported net under "Operating costs" and "Investment expenses".

**Allocation of management expenses**

In 2008, Swiss Reinsurance Company Ltd has revised the basis for the reporting of management expenses that cannot be clearly allocated to the reinsurance or investment business. Such unallocated expenses of CHF 179 million (2007: CHF 168 million) are newly reported under "Other expenses". In previous years, those expenses were included in the line item "Operating costs" within the reinsurance result. The comparative 2007 figures are adjusted accordingly.

**Risk assessment**

Article 663b lit.12 of Swiss Company Law requires disclosure of information on the performance of a risk assessment.

The identification, assessment and control of risk exposures of the Swiss Reinsurance Company Ltd on a stand-alone basis are integrated in and covered by the Swiss Re's Group risk management organisation and processes.

Details are disclosed on page 219.

**Major transactions**

On 1 January 2008, the reinsurance business of the Company's German branch was integrated into the German branch of a Luxembourg based reinsurance carrier of the Swiss Re Group by way of a portfolio transfer. Both assets and liabilities of CHF 1.0 billion were transferred.

On 1 October 2008, the Company contributed its French, Italian and Spanish branch to the respective branch operations of a reinsurance carrier based in Luxembourg by way of contribution in kind. The final aggregate value of these contributions has been determined as of 30 September 2008 at EUR 301 million. Both assets and liabilities of CHF 9.0 billion were transferred.

Due to the termination of the Swiss Re Group's Bermuda operations, the majority of the reinsurance business previously written by the Bermuda branch of a Swiss Re Group's subsidiary was novated into the Company as per 31 December 2008. The Company assumed both assets and liabilities of CHF 7.9 billion and paid ceding commissions of CHF 1.2 billion.

On 1 October 2008, the Company absorbed a subsidiary holding the majority of the Swiss Re Group's alternative investments. In connection with the merger the Company assumed both assets and liabilities of CHF 4.4 billion. The merger has been executed per 1 October 2008. The Swiss Financial Market Supervisory Authority FINMA has given approval to the transaction and the notification to the register of commerce has been performed subsequently.

**Subsequent event**

Swiss Re Group and Berkshire Hathaway Inc. have agreed in principle, as announced on 5 February 2009, that Berkshire Hathaway Inc. will invest CHF 3.0 billion in Swiss Re Group. The final closing of the investment is subject to shareholder approval.

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

# Proposal for allocation of profit

The Annual General Meeting, to be held in Zurich on 13 March 2009, has at its disposal the following profit:

| in CHF | 2007 | 2008 |
|---|---|---|
| Retained earnings brought forward from the previous year | 64 760 537 | **60 976 534** |
| Profit for the financial year | 1 697 024 261 | **15 441 566** |
| **Disposable profit** | 1 761 784 798 | **76 418 100** |

| Share structure | Number of registered shares | Nominal capital in CHF |
|---|---|---|
| For the financial year 2008: | | |
| – eligible for dividend | 335 665 775 | **33 566 578** |
| – not eligible for dividend | 27 850 261 | **2 785 026** |
| **Total shares issued** | 363 516 036 | **36 351 604** |

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

| in CHF | 2007 | 2008 |
|---|---|---|
| Dividend | 1 386 663 864[1] | **33 566 578**[2] |
| Allocation to other reserves | 370 000 000 | **–** |
| Balance carried forward | 5 120 934[1] | **42 851 522** |
| **Disposable profit** | 1 761 784 798 | **76 418 100** |

[1] The number of registered shares eligible for dividend at the dividend payment date decreased since the proposal for allocation of profit, dated 29 February 2008, due to the net effect from the share buy-back of 13 980 000 shares and the issuance of 16 100 new registered shares from options being exercised. This resulted in a lower dividend of CHF 55 855 600 compared to the Board of Directors' proposal, and in higher retained earnings brought forward from the previous year by the same amount.

[2] Board of Directors' proposal to the Annual General Meeting of 13 March 2009, subject to the actual number of shares outstanding and eligible for dividend.

**Dividend**

If the Board of Directors' proposal for allocation of profit is accepted, a dividend of CHF 0.10 per share will be paid.

After deduction of Federal Withholding Tax of 35%, the dividend will be paid from 18 March 2009 by means of dividend order to shareholders recorded in the Share Register or to their deposit banks.

Zurich, 18 February 2009

# Report of the statutory auditor

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

**Report of the statutory auditor on the Financial Statements**
As statutory auditor, we have audited the financial statements of Swiss Reinsurance Company Ltd, which comprise the income statement, balance sheet and notes (pages 227 to 239), for the year ended 31 December 2008.

*Board of Directors´ responsibility*
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

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

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

*Opinion*
In our opinion, the financial statements for the year ended 31 December 2008 comply with Swiss law and the company's articles of incorporation.

**Report on other legal requirements**

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

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

We further confirm that the proposal for allocation of profit complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

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

Zurich, 18 February 2009

# Financial years 1999 – 2008

| CHF millions | 1999[1] | 2000[1] | 2001[1] | 2002[1] | 2003[1] | 2004[1] | 2005 | 2006[2] | 2007[2] | **2008[2]** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Income statement** | | | | | | | | | | |
| | | | | | | | | | | |
| **Revenues** | | | | | | | | | | |
| Premiums earned | 18051 | 22081 | 25219 | 29058 | 30740 | 29439 | 26891 | 29515 | 31664 | **25501** |
| Fee income | | | | | | | 881 | 879 | 955 | **808** |
| Net investment income | 3846 | 4802 | 5765 | 5494 | 4606 | 4857 | 6137 | 7991 | 10692 | **7881** |
| Net realised investment gains/losses | 3588 | 4275 | 2665 | –730 | 376 | 1116 | 3474 | 2106 | –739 | **–9482** |
| Trading revenues | | | | 228 | 472 | 438 | 346 | | | |
| Other revenues | 246 | 395 | 455 | 365 | 236 | 243 | 283 | 280 | 302 | **270** |
| **Total revenues** | 25731 | 31553 | 34104 | 34415 | 36430 | 36093 | 38012 | 40771 | 42874 | **24978** |
| | | | | | | | | | | |
| **Expenses** | | | | | | | | | | |
| Claims and claim adjustment expenses | –9333 | –12153 | –16266 | –14485 | –14898 | –13853 | –14758 | –11799 | –12065 | **–10007** |
| Life and health benefits | –6200 | –7478 | –8532 | –10084 | –9085 | –9331 | –8668 | –9594 | –11112 | **–9065** |
| Return credited to policyholders | | | | | | | –3019 | –2827 | –2120 | **2822** |
| Acquisition costs | –3973 | –4883 | –5658 | –6220 | –6854 | –6325 | –5927 | –6079 | –6499 | **–5366** |
| Amortisation of goodwill | –211 | –310 | –368 | –350 | –315 | –277 | | | | |
| Other operating costs and expenses | –2785 | –3074 | –3384 | –3240 | –2942 | –2940 | –3081 | –4616 | –5891 | **–4712** |
| **Total expenses** | –22502 | –27898 | –34208 | –34379 | –34094 | –32726 | –35453 | –34915 | –37687 | **–26328** |
| | | | | | | | | | | |
| **Income/loss before income tax expense** | 3229 | 3655 | –104 | 36 | 2336 | 3367 | 2559 | 5856 | 5187 | **–1350** |
| Income tax expense | –783 | –689 | –61 | –127 | –634 | –892 | –255 | –1296 | –1025 | **486** |
| **Net income/loss on ordinary activities** | 2446 | 2966 | –165 | –91 | 1702 | 2475 | 2304 | 4560 | 4162 | **–864** |
| Extraordinary income | 450 | | | | | | | | | |
| Extraordinary charges | –450 | | | | | | | | | |
| | | | | | | | | | | |
| **Net income/loss** | 2446 | 2966 | –165 | –91 | 1702 | 2475 | 2304 | 4560 | 4162 | **–864** |
| | | | | | | | | | | |
| **Balance sheet** | | | | | | | | | | |
| | | | | | | | | | | |
| **Assets** | | | | | | | | | | |
| Investments | 85684 | 89584 | 95888 | 86728 | 90653 | 108023 | 130601 | 204238 | 227812 | **163965** |
| Other assets | 44516 | 53056 | 74342 | 75129 | 79045 | 76417 | 90698 | 87062 | 79475 | **75912** |
| **Total assets** | 130200 | 142640 | 170230 | 161857 | 169698 | 184440 | 221299 | 291300 | 307287 | **239877** |
| | | | | | | | | | | |
| **Liabilities** | | | | | | | | | | |
| Unpaid claims and claim adjustment expenses | 54072 | 59600 | 68618 | 62652 | 63474 | 61619 | 71759 | 95011 | 88528 | **75510** |
| Liabilities for life and health policy benefits | 23279 | 29300 | 41370 | 37269 | 37244 | 43239 | 31081 | 44899 | 50026 | **39911** |
| Unearned premiums | 4251 | 6131 | 6399 | 6754 | 6457 | 5748 | 6563 | 8025 | 7722 | **7802** |
| Other liabilities | 18819 | 19764 | 24200 | 32833 | 39205 | 49361 | 81651 | 97743 | 105807 | **75748** |
| Long-term debt | 4947 | 5058 | 7045 | 5663 | 4807 | 5296 | 5852 | 14738 | 23337 | **20453** |
| **Total liabilities** | 105368 | 119853 | 147632 | 145171 | 151187 | 165263 | 196906 | 260416 | 275420 | **219424** |
| | | | | | | | | | | |
| **Shareholders' equity** | 24832 | 22787 | 22598 | 16686 | 18511 | 19177 | 24393 | 30884 | 31867 | **20453** |
| | | | | | | | | | | |
| Earnings/losses per share in CHF | 8.55* | 10.39* | –0.57 | –0.29 | 5.48 | 8.00 | 7.44 | 13.49 | 11.95 | **–2.61** |

* Adjusted by 20-for-1 share split
[1] Numbers are based on the Group's previous accounting standards
[2] Trading revenues are included in net investment income; long-term debt also includes debt positions from former Financial Markets

# General information

# 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:

- the direct and indirect impact of the continuing deterioration in the financial markets and the efficacy of efforts to strengthen financial institutions and stabilise the credit markets and the broader financial system;
- changes in global economic conditions and the effects of the global economic downturn;
- the occurrence of other unanticipated market developments or trends;
- 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 Swiss Re's 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 Swiss Re's hedging arrangements may not be effective;
- the lowering or loss of one of the financial strength or other ratings of one or more companies in the Group;
- risks associated with implementing Swiss Re's business strategies;
- 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;

# Cautionary note on forward-looking statements

- 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;
- political risks in the countries in which Swiss Re operates or in which it insures risks;
- the impact of current, pending and future legislation, regulation and regulatory and legal actions;
- the impact of 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. We operate in a continually changing environment and new risks emerge continually. Readers are cautioned not to place undue reliance on forward-looking statements. We undertake no obligation to publicly revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.

# Note on risk factors

**Current market conditions**

The global financial markets have experienced extreme volatility and disruption for more than 18 months, due in large part to the turmoil affecting the liquidity of the banking system and the market reaction thereto. The impact of the turmoil in the financial markets has been exacerbated by adverse macroeconomic trends affecting an increasing number of the principal economies that have moved toward, or are now in, recession. Volatility and disruption have reached unprecedented levels.

Governments in a number of countries have undertaken initiatives to stabilise the financial markets. It remains to be seen whether these initiatives will be sufficient to positively impact or stabilise the volatility in the financial markets. Failure of these or other initiatives to stabilise and improve the performance of the financial markets could result in continued constraints on the liquidity available to the banking system and financial markets and increased pressure on securities prices of financial institutions. Moreover, government intervention may have a distorting impact on the markets, ranging from changes to the competitive landscape to capital support for ceding companies, thus reducing their need for reinsurance, as well as having a distorting impact on the debt capital markets.

It is unclear whether the severity of the downturn in the global financial markets and/or economic conditions will continue to worsen, or when conditions might improve. It is also unclear what the impact of further deterioration in the financial markets is likely to be on the financial condition of market participants (from a capital, liquidity or other perspective) and on investor confidence. If current levels of market disruption and volatility continue or worsen, at the very least, there can be no assurance that the Group will not be required to record further write-downs and impairments on assets over and above those announced to date, and more broadly, it is difficult to predict what the impact of continued market turbulence will be on the Group from a general business perspective or from a capital or liquidity perspective.

**Market risk**

As a result of the extreme and unprecedented volatility and disruption in the global financial markets, the Group is exposed 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. With widening of credit spreads, the net unrealised loss position of the Group's investment portfolio has increased, as have 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. Exposure to foreign exchange risk arises from exposures to changes in spot prices, forward prices and volatilities of currency rates.

# Note on risk factors

These risks can have a significant effect on investment returns, which in turn affects both 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. As interest rates have dropped significantly in line with reductions in central bank rates, which trend is exacerbated by the effects of unprecedented government intervention and the corresponding need for governments to raise debt to finance rescue efforts, the Group may be unable to successfully match, or come close to, historical parameters.

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 has been adversely impacted by the deterioration in the credit markets, and further market fluctuations and volatility could have a material adverse effect on the Group's business, financial condition and results of operations. For 2008, the Group reported a net loss of CHF 0.9 billion, which was due principally to mark-to-market losses recognised in income and CHF 2.9 billion of impairments on the investment portfolio. Total mark-to-market losses were approximately CHF 3.2 billion excluding unit-linked investments and with-profit business, which included approximately CHF 2.5 billion attributable to two related structured CDS contracts written by the Group's former Credit Solutions business. Shareholders' equity in 2008 decreased to CHF 20.5 billion. This was mainly due to credit spread widening resulting in net unrealised losses of CHF 5.5 billion, foreign exchange movements of CHF –2.3 billion, share buy-back of CHF 2.0 billion and dividend of CHF 1.3 billion paid to shareholders during the year.

The unprecedented and severe ratings downgrades that the Group and others have experienced over the past 18 months, and the absence of a liquid market for credit-related and other securities, have resulted in a significant and material reduction in the value of the underlying assets. With respect to the credit default swaps, the Group remains exposed to continued fluctuations in the market value of the underlying securities and could be required to report further mark-to-market 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 continue to deteriorate, the Group could face further losses in other areas of its portfolio, including other structured instruments.

More generally, the continued deterioration of the credit markets and related developments have had, and can be expected to have (at least in the near term), an adverse impact on the ability of market participants, including the Group and its counterparties, to value credit default swaps and other credit-related instruments. In the absence of a liquid market, various methodologies may be available to value securities positions. Valuation is a complex process involving quantitative modelling and management judgment, which is also impacted by external factors including default rates, rating agency action, financial strength of counterparties and prices of observable comparable market transactions. In addition, to the extent institutions sell assets as part of national rescue efforts, such sales may establish new valuation benchmarks.

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. In addition, the Group's ability to meet liquidity needs may be further 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 we are a party) at a time when the Group's ability to obtain liquidity from external sources is limited by such ratings action.

**Counterparty risks**

In the current financial crisis and in view of the impact it is having, or may have, on market participants, the Group's general exposure to counterparty risk is heightened and this risk could 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.

**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 have come 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.

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 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.

**Insurance and operational 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 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.

**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 already 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 November 19, 2007. The Group cannot predict whether it could be subject to further claims arising out of the market turmoil.

# Glossary

| | |
|---|---|
| **Accident insurance** | Insurance of individuals or groups against economic risks in the event of death or temporary or permanent disability by accident. A branch of casualty insurance. |
| **Accumulation risk** | Risk that arises when a large number of individual risks are correlated such that a single event will affect many or all of these risks. |
| **Acquisition costs** | That portion of an insurance premium which represents the cost of obtaining the insurance business: it includes the intermediaries' commission, the company's sales expense and other related expenses. |
| **Admin Re®** | Acceptance of a closed block of in-force life and health insurance business either through acquisition or reinsurance, typically assuming the responsibility to administer the underlying policies. Admin Re® can also extend to the acquisition of an entire life insurance company. |
| **Asset-backed securities** | Securities backed by notes or receivables against assets such as auto loans, credit cards, royalties, student loans and insurance. |
| **Asset-liability management (ALM)** | Management of a business in a way that coordinates decisions on assets and liabilities. Specifically, the ongoing process of formulating, implementing, monitoring and revising strategies related to assets and liabilities in an attempt to achieve financial objectives for a given set of risk tolerances and constraints. |
| **Aviation insurance** | Insurance of accident and liability risks, as well as hull damage, connected with the operation of aircraft. |
| **Business interruption** | Insurance covering the loss of earnings resulting from, and occurring after, destruction of property; also known as "loss of profits" or "business income protection insurance". |
| **Capacity** | Maximum amount of risk that can be accepted in insurance. Capacity also refers to the amount of insurance coverage allocated to a particular policyholder or in the marketplace in general. |
| **Casualty insurance** | Branch of insurance – mainly comprising accident and liability business – which is separate from property, engineering and life insurance. |
| **Catastrophe bonds** | Risk-based securities that allow (re)insurance companies to transfer peak insurance risks, including natural catastrophes, to institutional investors in the form of bonds. Catastrophe bonds help to spread peak exposures (see insurance-linked securities). |
| **Cession** | Insurance that is reinsured: the passing of the insurer's risks to the reinsurer against payment of a premium. The insurer is referred to as the ceding company or cedent. |
| **Claim** | Demand by an insured for indemnity under an insurance contract. |
| **Claims handling** | Activities in connection with the investigation, settlement and payment of claims from the time of their occurrence until settlement. |

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| **Claims incurred and claim adjustment expenses** | All claims payments plus the adjustment in the outstanding claims provision of a business year and claim adjustment expenses. |
| **Claims ratio** | Sum of claims paid, change in the provisions for unpaid claims and claim adjustment expenses in relation to premiums earned. |
| **Coinsurance** | Arrangement by which a number of insurers and/or reinsurers share a risk. |
| **Combined ratio** | Combination of the non-life claims ratio and the expense ratio. |
| **Commission** | Remuneration paid by the insurer to its agents, brokers or intermediaries, or by the reinsurer to the insurer, for costs in connection with the acquisition and administration of insurance business. |
| **Commutation** | Transaction in which policyholders or insurers surrender all rights and are relieved from all obligations under an insurance or reinsurance contract in exchange for a single current payment. |
| **Cover** | Insurance and reinsurance protection based on a contractual agreement. |
| **Credit insurance** | Insurance against financial losses sustained through the failure, for commercial reasons, of policyholders' clients to pay for goods or services supplied to them. |
| **Directors' and officers' liability insurance (D&O)** | Liability insurance for directors and officers of an entity, providing cover for their personal legal liability towards shareholders, creditors, employees and others arising from wrongful acts such as errors and omissions. |
| **Disability insurance** | Insurance against the incapacity to exercise a profession as a result of sickness or other infirmity. |
| **Expense ratio** | Sum of acquisition costs and other operating costs and expenses, in relation to premiums earned. |
| **Guaranteed minimum death benefit (GMDB)** | A feature of variable annuity business. The benefit is a predetermined minimum amount that the beneficiary will receive upon the death of the insured. |
| **Health insurance** | Generic term applying to all types of insurance indemnifying or reimbursing for losses caused by bodily injury or sickness or for expenses of medical treatment necessitated by sickness or accidental bodily injury. |
| **Incurred but not reported (IBNR)** | Provision for claims incurred but not reported by the balance sheet date. In other words, it is anticipated that an event will affect a number of policies, although no claims have been made so far, and is therefore likely to result in liability for the insurer. |
| **Industry loss warranties (ILW)** | Index-linked catastrophe contracts with a dual trigger that require a minimum industry loss to occur before the coverage responds to the individual company loss. |
| **Impairment charge** | Adjustment in the accounting value of an asset. |

# Glossary

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|---|---|
| **Insurance-linked securities (ILS)** | Bonds for which the payment of interest and/or principal depends on the occurrence or severity of an insurance event. The underlying risk of the bond is a peak or volume insurance risk. |
| **Layer** | Section of cover in a non-proportional reinsurance programme in which total coverage is divided into a number of consecutive layers starting at the retention or attachment point of the ceding company up to the maximum limit of indemnity. Individual layers may be placed with different (re)insurers. |
| **Liability insurance** | Insurance for damages that a policyholder is obliged to pay because of bodily injury or property damage caused to another person or entity based on negligence, strict liability or contractual liability. |
| **Life insurance** | Insurance that provides for the payment of a sum of money upon the death of the insured. In addition, life insurance can be used as a means of investment or saving. |
| **Mandatory convertible bond** | Bond that has a compulsory conversion or redemption feature. Either on or before a contractual conversion date, the holder must convert the mandatory convertible into the underlying stock. |
| **Marine insurance** | Line of insurance which includes coverage for property in transit (cargo), means of transportation (except aircraft and motor vehicles), offshore installations and valuables, as well as liabilities associated with marine risks and professions. |
| **Motor insurance** | Line of insurance which offers coverage for property, accident and liability losses involving motor vehicles. |
| **Net reinsurance assets** | Receivables related to deposit accounting contracts (contracts which do not meet risk transfer requirements) less payables related to deposit contracts. |
| **Non-life insurance** | All classes of insurance business excluding life insurance. |
| **Non-proportional reinsurance** | Form of reinsurance in which coverage is not in direct proportion to the original insurer's loss; instead the reinsurer is liable for a specified amount which exceeds the insurer's retention; also known as "excess of loss reinsurance". |
| **Nuclear energy insurance** | Property and liability insurance for atomic reactors, power stations or any other plant related to the production of atomic energy or its incidental processes. |
| **Operating revenues** | Premiums earned plus net investment income plus other revenues. |
| **Operational risk** | Risk arising from failure of operational processes, internal procedures and controls leading to financial loss. |
| **Premium** | The payment, or one of the periodical payments, a policyholder agrees to make for an insurance policy. |

| | |
|---|---|
| **Premiums earned** | Premiums an insurance company has recorded as revenues during a specific accounting period. |
| **Premiums written** | Premiums for all policies sold during a specific accounting period. |
| **Product liability insurance** | Insurance covering the liability of the manufacturer or supplier of goods for damage caused by their products. |
| **Professional indemnity insurance** | Liability insurance cover which protects professional specialists such as physicians, architects, engineers, lawyers, accountants and others against third-party claims arising from activities in their professional field; policies and conditions vary according to profession. |
| **Property insurance** | Collective term for fire and business interruption insurance as well as burglary, fidelity guarantee and allied lines. |
| **Proportional reinsurance** | Form of reinsurance in which the premiums and claims of the insurer are shared proportionally by the insurer and reinsurer. |
| **Present value of future profits (PVFP)** | Intangible asset primarily arising from the purchase of life and health insurance companies or portfolios. |
| **Quota-share reinsurance** | Form of proportional reinsurance in which a defined percentage of all risks held by the insurer in a specific line is reinsured. |
| **Reinsurance** | Insurance which lowers the risk carried by primary insurance companies. Reinsurance includes various forms such as facultative, financial, non-proportional, proportional, quota-share, surplus and treaty reinsurance. |
| **Reserves** | Amount required to be carried as a liability in the financial statements of an insurer or reinsurer to provide for future commitments under outstanding policies and contracts. |
| **Retention** | Amount of risk which the policyholder or insurer does not insure or reinsure but keeps for its own account. |
| **Retrocession** | Amount of the risk accepted by the reinsurer which is then passed on to other reinsurance companies. |
| **Return on equity** | Net income as a percentage of time-weighted shareholders' equity. |
| **Return on investments** | Investment result as a percentage of average invested assets. Invested assets include investments, funds held by ceding companies, net cash equivalents and net reinsurance assets. Average invested assets are calculated as opening balance plus one half of the net asset turnover. |

# Glossary

**Risk** Condition in which there is a possibility of loss; also used by insurance practitioners to indicate the property insured or the peril insured against.

**Risk management** Management tool for the comprehensive identification and assessment of risks based on knowledge and experience in the fields of natural sciences, technology, economics and statistics.

**Securitisation** Financial transaction, in which future cash flows from assets (or insurable risks) are pooled, converted into tradeable securities and transferred to capital market investors. The assets are commonly sold to a special-purpose entity, which purchases them with cash raised through the issuance of beneficial interests (usually debt instruments) to third-party investors.

**Solvency II** Initiative launched by the European Commission to revise current EU insurance solvency rules. Solvency II focuses on capital requirements, risk modelling, prudential rules, supervisory control, market discipline and disclosure.

**Stop-loss reinsurance** Form of reinsurance that protects the ceding insurer against an aggregate amount of claims over a period, in excess of either a stated amount or a specified percentage of estimated benefit costs. An example of this is employer stop loss (ESL) coverage, which is used by US companies to cap losses on self-funded group health benefit programmes. The stop-loss can apply to specific conditions or aggregate losses.

**Surety insurance** Sureties and guarantees issued to third parties for the fulfilment of contractual liabilities.

**Surplus reinsurance** Form of proportional reinsurance in which risks are reinsured above a specified amount.

**Tail VaR** See "Value at risk".

**Treaty reinsurance** Participation of the reinsurer in certain sections of the insurer's business as agreed by treaty, as opposed to single risks.

**Underwriting result** Premiums earned less the sum of claims paid, change in the provision for unpaid claims and claim adjustment expenses and other expenses (acquisition costs and other operating costs and expenses).

**US GAAP** United States Generally Accepted Accounting Principles are the accounting rules, as issued by the Financial Accounting Standards Board (FASB), its predecessors and other bodies, used to prepare financial statements for publicly traded companies in the United States.

**Value at risk (VaR)**

Maximum possible loss in market value of an asset portfolio within a given time span and at a given confidence level. 99% VaR measures the level of loss likely to be exceeded in only one year out of a hundred, while 99.5% VaR measures the loss likely to be exceeded in only one year out of two hundred. 99% Tail VaR estimates the average annual loss likely to occur with a frequency of less than once in one hundred years.

Some of the terms included in the glossary are explained in more detail in note 1 to the Group financial statements.

Swiss Re uses some of the term definitions provided by the glossary of the International Association of Insurance Supervisors (IAIS). For additional insurance terms, see Swiss Re's online glossary of technical terms at www.swissre.com

# Key events

CEO Jacques Aigrain announces initiative with Oxfam

Swiss Re establishes third-party administrator in China


Swiss Re's Pierre Ozendo honoured by Insurance Industry Charitable Foundation

## 2008

**7 January**
**Strategic partnership in Vietnam**
Acquisition of 25% stake in Vietnam's leading reinsurance provider, Vietnam National Reinsurance Corporation

**11 January**
**"Regulation XXX" transaction with SBLI**
USD 175 million of peak "Regulation XXX" reserve requirements for the Savings Bank Life Insurance Company of Massachusetts (SBLI) funded through private securitisation

**22 January**
**First Central American earthquake bond**
USD 85 million issued in multi-peril securitisation covering windstorm events in the US and earthquakes in California and Central America

**23 January**
**Property & Casualty quota-share arrangement**
Five year quota-share agreement with Berkshire Hathaway covering 20% of the Group's new and renewed Property & Casualty business

**29 February**
**2007 annual results**
Net income of CHF 4.2 billion and a return on equity of 13.5%

**2 April**
**Comprehensive third-party healthcare administrator established in China**
Swiss Re received approval to establish a consulting company in China to provide full-service third-party administrator and related consulting services to hospitals, insurers, policyholders and employers

**18 April**
**144th Annual General Meeting**
Shareholders approved an 18% increase in dividend to CHF 4.00 per share

**6 May**
**First quarter 2008 results**
Net income of CHF 624 million for the first quarter (EPS: CHF 1.84)

**7 May**
**GlobeCat transaction named Deal of the Year**
"Energy Risk" magazine named Swiss Re's USD 85 million GlobeCat transaction, covering windstorm events in the US and earthquakes in California and Central America, Deal of the Year

**26 May**
**Swiss Re recognised as admitted reinsurer in Brazil**
Swiss Reinsurance America Corporation and Swiss Reinsurance Company Ltd recognised as admitted reinsurers with the ability to sell reinsurance in the newly de-regulated Brazil marketplace

**11 June**
**Joint operations for electronic data exchange in accounting and settlement launched**
Swiss Re and global insurance broker Guy Carpenter successfully implemented joint operations for electronic data exchange in accounting and settlement

**30 June**

**USD 150 million in natural catastrophe protection**
Swiss Re obtained USD 150 million protection against North Atlantic hurricane, European windstorm, Californian earthquake and Japanese typhoon through a natural catastrophe protection programme named Vega Capital Ltd

**5 August**

**Second quarter 2008 results**
Net income of CHF 0.6 billion for the second quarter (EPS: CHF 1.70)

**26 September**

**Swiss Re and Oxfam America launched joint risk management initiative for farmers in Tigray, Ethiopia**
Swiss Re and Oxfam America announced a joint Commitment to Action at the Clinton Global Initiative 2008 meeting in New York. The collaboration is aimed at helping communities most vulnerable to climate variability and change

**30 September**

**Swiss Re entered into partnership with CelsiusPro**
Partnership with CelsiusPro, the first Europe-based weather derivative online sales platform, to offer weather risk transfer solutions. Swiss Re provides risk capacity and expertise to support CelsiusPro's online platform

**31 October**

**GBP 762 million acquisition of Barclays Life Assurance Company Ltd completed**
The transaction, announced on 5 August 2008, received all the required regulatory approvals. The transaction provides further scale and infrastructure for Swiss Re's Admin Re® business in the United Kingdom

**4 November**

**Third quarter 2008 results**
Net loss of CHF 304 million for the third quarter (EPS: CHF –0.93)

## 2009

**5 February**

**Swiss Re announced preliminary and unaudited 2008 results – Warren Buffett to invest CHF 3 billion in Swiss Re via Berkshire Hathaway Inc.**
Swiss Re Group announced that it expected to report a net loss for the full year 2008 of approximately CHF 1 billion. The Group is raising CHF 3 billion of capital from Berkshire Hathaway Inc. and will consider further equity raising of up to CHF 2 billion, both of which are subject to shareholder approval

**12 February**

**Swiss Re's Board of Directors appointed Stefan Lippe as new Chief Executive Officer**
Swiss Re's Board of Directors announced that it had accepted the resignation of Jacques Aigrain as Chief Executive Officer, and had appointed Stefan Lippe as his successor

# 2008 awards

**Swiss Re received a broad range of awards in 2008. They confirm our strict client focus as well as our ability to develop customised solutions for clients.**

### Reactions Global Awards

- Best Global Reinsurance Company
- Best Reinsurance Company for Life

"Swiss Re remains one of the most innovative in the business and embodies the convergence of the industry with the capital markets through its Swiss Re Capital Markets division.(...) In 2008, Swiss Re demonstrated that it too is committed to being disciplined when it comes to rates and terms and conditions." ("Reactions" magazine, August 2008)

### The Review Worldwide Reinsurance Awards

- Life reinsurance company of the year
- Professional service provider of the year

"For the third year running the world's largest reinsurer has been awarded the accolade of being the best life player in the secondary market.

In Asia, the main focus of Swiss Re's push to grow health business will be in offering reinsurance solutions that combine risk taking, professional risk management and professional third party administration (for example, in India and China) to promote the sustainable development of the primary medical industry". ("The Review" magazine, September 2008)

### Asia Insurance Industry Awards

- General Reinsurer of the Year

"With 11 offices across the region, Swiss Re has continued to understand and stay close to client and market needs. (...) The reinsurer takes the honour for its customer focus, innovation in the area of parametric covers and claims, and contribution towards India's medical insurance market." ("Asia Insurance Review", November 2008)

### Risk & Insurance

- 2008 Risk Innovators: Financial Institutions & Services

"The Farmers Insurance Exchange deal was the first broadly syndicated transaction to combine an insurance event, in this case a hurricane, with the issuance of regulatory capital. The concept created "just-in-time" capital that would be available if a major natural disaster loss occurred rather than holding additional, and expensive, equity on its balance sheet or purchasing more reinsurance to cover remote events." ("Risk & Insurance", September 2008)

### Reactions London Market Awards

- Best Reinsurance Company Underwriting Marine

"Swiss Re is a dominant player in all lines of business. And the judges felt it led the way for marine risks. (...) Swiss Re impressed the judges with its expertise. (...) The firm's marine underwriters have worked together as a team for many years and have made Swiss Re in the UK a respected London market lead for both proportional and non-proportional treaty business." ("Reactions" London Market Awards, June 2008)

**Global Broker London Market Awards**

- Marine Reinsurer of the Year 2008

"Swiss Re was voted as top of the market in this category. 'It is efficient and responsive,' said one broker." ("Global Broker & Underwriter", May/June 2008)

**The Banker**

- Deal of the Year 2008

"During turbulent times, any temporary stable market condition must be taken advantage of. Thanks to meticulous organisation, Swiss Re successfully launched its inaugural benchmark Sterling hybrid Tier 1 notes at short notice when windows of stability were identified." ("The Banker", May 2008)

**Dow Jones Sustainability Indexes**

- 2008 leadership position (Insurance sector)

"Today, the world's leading companies are integrating sustainability considerations into their core business. They are accounting for general as well as industry-specific sustainability risks and opportunities. And they do so by setting and achieving clear and quantifiable objectives. At the same time, there remains significant room for improvement and thus wide scope for a continued strong sustainability momentum." Alexander Barkawi, Managing Director, SAM Indexes (SAM media release, September 2008)

**Energy Risk Awards**

- Weather House of the Year

"Philanthropy is rarely an innovator in capitalism but it is sometimes a by-product. In the case of global reinsurer Swiss Re, the attention of the panel was captured by the ability of its environmental and commodities markets (ECM) arm to combine these two philosophies, leading it once again to being voted Weather House of the Year for 2008." ("Energy Risk magazine", June 2008)

**Energy Risk**

- Deal of the Year 2008

"At the end of 2007, Swiss Re Capital Markets launched a catastrophe bond with a difference – not only was it the first cat bond to offer protection against earthquakes in Central America, it was also the blueprint for a new concept allowing charities or governments to leverage donations to pay for the coupon of the bond." ("Energy Risk", Spring 2008)

# Corporate calendar

**13 March 2009**
145th Annual General Meeting

**7 May 2009**
First quarter 2009 results

**5 August 2009**
Second quarter 2009 results

**3 November 2009**
Third quarter 2009 results

**9 December 2009**
Investors' Day



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