

# ELM B.V.

*(Incorporated for an unlimited duration with limited liability in The Netherlands  
and having its corporate seat in Amsterdam, The Netherlands)*

## £500,000,000 6.3024% Perpetual Step-Up Notes

secured over the

## £500,000,000 6.3024% Perpetual Subordinated Step-Up Loan Notes of Swiss Reinsurance Company

## €15,000,000,000 Secured Note Programme

### SERIES 101

#### Joint Bookrunning Lead Managers

**Barclays Capital**

**Deutsche Bank**

**UBS Investment Bank**

**Co-Lead Managers**

**HSBC**

**Morgan Stanley**

**The Royal Bank of Scotland**

This Prospectus (as used herein, this “**Prospectus**”) is prepared in connection with the EUR 15,000,000,000 Secured Note Programme (the “**Programme**”) of ELM B.V. (the “**Issuer**”) and is issued in conjunction with the Programme Memorandum dated 29 July 2005 relating to the Programme and the supplemental Programme Memorandum dated 28 April 2006 (together, the “**Programme Memorandum**”). The Programme Memorandum constitutes a base prospectus for the purpose of the Luxembourg law dated 10 July 2005 on Prospectuses for Securities. Application has been made to list the Notes on the official list of the Luxembourg Stock Exchange and for such Notes to be admitted to the EuroMTF Market of the Luxembourg Stock Exchange. The Programme Memorandum is incorporated by reference herein and, accordingly, forms part of this Prospectus. In the event of any inconsistency between the Programme Memorandum and any other part of this Prospectus, such other part of this Prospectus shall prevail. See “*Terms of the Notes*” for certain definitions of terms used below. The Programme Memorandum is available for viewing, and copies may be obtained from, the offices of the Paying Agents, UBS AG, London Branch, 100 Liverpool Street, London EC2M 2RH and Dexia Banque Internationale à Luxembourg, société anonyme, 69 route d’Esch, L-1470 Luxembourg.

This Prospectus may only be used for the purposes for which it has been published. The Issuer, having made all reasonable enquiries, confirms that this Prospectus contains all information regarding the Issuer and the Notes that is material in the context of the issue and offering of the Notes, that such information contained in this Prospectus is true and accurate in every material respect and is not misleading, that the opinions and intentions expressed in this Prospectus are honestly held and that there are no other facts the omission of which makes any statement, whether of fact or opinion, contained herein misleading. The Issuer accepts responsibility for such information contained in this Prospectus accordingly.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, (the “**Securities Act**”) and are subject to U.S. tax law requirements, and may not be offered or sold in the United States (as defined in Regulation S (“**Regulation S**”) under the Securities Act) or to, or for the account or the benefit of, U.S. persons (as defined in Regulation S) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. For a description of certain restrictions on offers and sales of the Notes and on the distribution of this Prospectus, see “*Subscription and Sale*” below and the section of the Programme Memorandum entitled “*Subscription and Sale*”.

None of the Trustee or the Managers have separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is or will be made and no responsibility or liability is or will be accepted by the Trustee or the Managers as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Notes. Furthermore, in relation to the issue of the Notes and save as required by all applicable laws, no representation, warranty or undertaking, express or implied is or will be made and no responsibility or liability to any holder of Notes is or will be accepted by the issuer of the Charged Assets (“**Swiss Re**” or the “**Charged Assets Issuer**”) as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Notes.

No person is, has been or will be authorised to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Trustee or any of the Managers or any other person.

Neither this Prospectus nor any other information supplied in connection with the Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or as constituting an invitation or offer by the Issuer, the Trustee or any of the Managers that any recipient of this Prospectus or other information supplied in connection with the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Charged Assets Issuer. Neither this Prospectus nor any other information supplied in connection with the Notes constitutes an offer or invitation by or on behalf of the Issuer, the Trustee or any of the Managers or any other person to any person to subscribe for or to purchase the Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes shall at any time or in any circumstances imply that the information contained herein or therein concerning the Issuer is correct at any time subsequent to the date hereof or thereof (as the case may be) or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Trustee and the Managers expressly do not undertake to review the financial condition or affairs of

the Issuer or the Charged Assets Issuer while the Notes are outstanding. Investors contemplating purchasing any Notes should review, *inter alia*, the most recent financial statements, if any, of the Issuer and the Charged Assets Issuer when deciding whether or not to purchase any Notes.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Trustee and the Managers do not and will not represent that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been or will be taken by the Issuer, the Trustee or the Managers which would permit a public offering of the Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published, in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or Notes come must inform themselves about, and observe, any such restrictions. In particular, there are restrictions on the distribution of this Prospectus and the offer and sale of Notes in the United States (or to or for the account or benefit of U.S. persons), the United Kingdom, The Netherlands and other jurisdictions (see “*Subscription and Sale*” below and the section of the Programme Memorandum entitled “*Subscription and Sale*”).

This document is directed only at persons who (i) are outside the United Kingdom or (ii) have professional experience in matters relating to investments or (iii) are persons falling within Articles 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc.”) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as “relevant persons”). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

The distribution of this document in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of U.S. securities laws or the laws of any such other jurisdictions.

The Notes will be issued in bearer form and therefore are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and the regulations promulgated thereunder.

Any prospective purchaser of the Notes should ensure that it understands the nature of the Notes and the extent of its exposure to risk and that it considers the suitability of the Notes as an investment in the light of its own circumstances and financial condition. In particular, the Notes are secured limited recourse securities, the value and return in respect of which is dependent on the performance of the Charged Assets. Accordingly, among other risks, investors will be exposed to the credit risk of the Charged Assets Issuer and the terms of the Charged Assets. **Prospective purchasers of Notes must read all of this Prospectus (including the document annexed to this Prospectus and the Programme Memorandum incorporated by reference herein), paying particular attention to the section of this Prospectus entitled “Risk Factors” and the section of the offering memorandum relating to the Charged Assets annexed to, and forming part of, this Prospectus entitled “Risk Factors”.**

All references in this Prospectus to “sterling”, “pounds sterling”, “GBP” and “£” are to the lawful currency of the United Kingdom.

**In connection with the issue of the Notes, UBS Limited (the “Stabilising Manager”) (or any persons acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes.**

## TABLE OF CONTENTS

RISK FACTORS .....	5
TERMS OF THE NOTES .....	9
USE OF PROCEEDS .....	17
SWISS TAXATION .....	18
SUBSCRIPTION AND SALE .....	19
GENERAL INFORMATION .....	20
ANNEX .....	A-1

## RISK FACTORS

### Investor Suitability

The purchase of the Notes may involve substantial risks. Each prospective purchaser of the Notes should be familiar with instruments having characteristics similar to the Notes and should fully understand the terms of the Notes and the nature and extent of its exposure to risk of loss.

Before making an investment decision, prospective purchasers of the Notes should conduct such independent investigation and analysis regarding the Issuer, the Charged Assets Issuer and all other relevant persons and such market and economic factors as they deem appropriate to evaluate the merits and risks of an investment in the Notes. However, as part of such independent investigation and analysis, prospective purchasers of the Notes should consider carefully all the information set out in this Prospectus (including the offering memorandum in relation to the Charged Assets (the “**Charged Assets Offering Memorandum**”) annexed to, and forming part of, this Prospectus and the Programme Memorandum incorporated by reference into this Prospectus) and the considerations set out below.

Investment in the Notes is only suitable for investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the information contained in this Prospectus (including the information annexed to and incorporated by reference in this Prospectus) and the merits and risks of an investment in the Notes in the context of the investor’s own financial circumstances and investment objectives.

No assurance as to the availability of a secondary market for the Notes can be given. Prospective purchasers of the Notes should therefore recognise that they may not be able to make any transfer of the Notes for a substantial period of time, if at all. Investment in the Notes is therefore only suitable for investors who are capable of bearing the economic risk of an investment in the Notes for their full term and are not acquiring the Notes with a view to a potential resale, distribution or other disposition at some future date.

None of the Issuer, the Trustee or the Managers nor any affiliate of any of them or other person on their behalf has made any investigation of, or makes any representation or warranty, express or implied, as to (i) the credit quality or transferability of the Charged Assets, (ii) the existence or financial or other condition of the Charged Assets Issuer or the Charged Assets or (iii) whether the Charged Assets constitute legal, valid and binding obligations of the Charged Securities Issuer.

### Investment Considerations Associated with the Charged Assets

The Charged Assets in respect of the Notes comprise unsecured £500,000,000 6.3024% Perpetual Subordinated Step-Up Loan Notes issued by Swiss Re. The ability of the Issuer to meet its obligations under the Notes will be dependent upon the payment of interest and principal due on the Charged Assets. Accordingly, Noteholders are exposed to, among other things, the terms of the Charged Assets and the creditworthiness of the Charged Assets Issuer in respect of the Charged Assets. In particular, to the extent that the Charged Assets Issuer is subject to any financial difficulties, laws relating to bankruptcy, moratorium, reorganisation or similar processes may apply which could result in the Charged Assets Issuer defaulting or making partial payment on the Charged Assets which will result in the Issuer being unable to meet its obligations under the Notes. The Charged Assets Offering Memorandum, which is annexed to, and forms a part of, this Prospectus, and the risk factors set out in such document should be considered carefully in relation to the Notes.

### Limited Recourse

The Notes constitute secured, limited recourse obligations of the Issuer, recourse in respect of which will be limited to the proceeds of the Charged Assets and the other Mortgaged Property relating to the Notes and no other assets of the Issuer will be available to satisfy claims of Noteholders. The Notes are not obligations of, or guaranteed in any way by, the Charged Assets Issuer or any Manager.

### Reliance on Cashflows from Charged Assets

The payments made on the Charged Assets are the only source of payment on the Notes. The stated interest rate in respect of the Notes is 6.3024% until 25 May 2019 and, thereafter, the Notes bear interest at a floating rate. However, interest will be payable under the Notes only to the extent that interest is paid under the terms of the Charged Assets. In particular, interest may be deferred in certain circumstances pursuant to the terms of the

Charged Assets, in which case the Issuer will not be able to pay interest under the Notes to the extent of such deferral and for as long as such deferral is continuing. In certain circumstances, interest on the Charged Assets that is deferred may be cancelled. The Issuer will pay deferred interest to Noteholders, but only to the extent that amounts of deferred interest are received from the Charged Assets Issuer.

The terms of the Notes provide for capitalisation of deferred interest. However, the terms of the Charged Assets do not provide for capitalisation of deferred interest. Accordingly, while the amount of interest due under the Notes at any time may be greater than the amount of interest due under the Charged Assets as a result of capitalisation of deferred interest, the Issuer's obligation in respect of interest shall be to pay no more than amounts of interest received by it from time to time under the Charged Assets at the time such amounts are received by the Issuer and all claims in respect of any such shortfall shall, upon redemption, be extinguished.

The Issuer will not have any source of income to fund principal other than principal amounts received by the Issuer under the Charged Assets. Accordingly, regardless of the outstanding principal amount of the Notes as at the final redemption date, the amount payable upon redemption of the Notes shall be equal to the amount payable upon redemption of the Charged Assets and the excess of the outstanding principal amount of the Notes over the redemption amount actually payable shall be written off and no Noteholder shall have any claim for such written-off amount.

### **Redemption of the Notes**

The Notes are perpetual securities and accordingly, there is no Maturity Date. However, the Notes will fall due for redemption by payment of an amount described above under "*Reliance on Cashflows from Charged Assets*" when the Charged Assets fall due for redemption. Prospective Noteholders should read the Charged Assets Offering Memorandum and understand the circumstances in which the Charged Assets may fall due for redemption.

### **No Recourse against Charged Assets Issuer**

An investment in the Notes is not the same as an investment directly in the Charged Assets. Investors in the Notes will not have rights in or against the Charged Assets and will have no recourse against the Charged Assets Issuer. Investors must recognise that it is likely that the only assets which will be available to the Issuer to meet any claims against it by Noteholders will be the assets which comprise the security for the Notes. In particular, the proceeds of the Managers' Security Interest (as defined in item 26(vi)(A) of the Terms of the Notes set out in this Prospectus) will, in the event that the Managers' Security Interest becomes enforceable, be held by the Trustee on behalf of the Managers and applied in respect of any Managers' Claims (also as defined in such item 26(vi)(A)). Such proceeds will only be available to the Issuer to satisfy any claims of Noteholders to the extent not otherwise required to satisfy all Managers' Claims.

Furthermore, if the Charged Assets Issuer should default in the performance of any of its obligations under the Charged Assets, no Noteholder shall be entitled to proceed against the Charged Assets Issuer. In the event of a payment default under the Charged Assets or the Charged Assets becoming due and repayable for any reason other than following the exercise of an early redemption option thereunder, then the Notes shall become due and repayable and security for the Notes shall become enforceable. Upon security becoming enforceable, the Trustee may in its discretion or as directed by holders of at least one-fifth in aggregate principal amount of the Notes or by an Extraordinary Resolution of Noteholders, on being indemnified and/or secured to its satisfaction, but without liability as to the consequence of such action and without having regard to the effect of such action on individual Noteholders, realise the Charged Assets and the other Mortgaged Property in respect of the Notes. In doing so, the Trustee may attempt to sell the Charged Assets (as to which see applicable restrictions on transfers of Charged Assets under "*Transfer of Charged Assets*", below) or take such action as may be appropriate against the Charged Assets Issuer. Any such action brought by the Trustee against the Charged Assets Issuer shall be taken by the Trustee, acting as agent for the Issuer and not as trustee for the Noteholders and no Noteholder shall be entitled to give directions to the Trustee in relation to the manner in which any such action is pursued against the Charged Assets Issuer. In no circumstances will any Charged Assets be delivered to any Noteholder.

If the Trustee fails to take enforcement action within a reasonable period of time, investors in the Notes will have no right to take possession of the Charged Assets or to take any action against the Charged Assets Issuer. However, the Noteholders have the power, exercisable by Extraordinary Resolution, to remove the Trustee provided that a successor is appointed.

## **Transfer of Charged Assets**

No assurance as to the availability of a liquid secondary market for the Charged Assets can be given or as to the price at which they would be sold upon the security for the Notes becoming enforceable. In particular, certain transfer restrictions apply in respect of the Charged Assets which restrict their ownership to Qualifying Banks (as defined in the Charged Assets Offering Memorandum) or one Permitted Non-Qualifying Lender (as defined in the Charged Assets Offering Memorandum). The Issuer is currently the one Permitted Non-Qualifying Lender. The market value of the Charged Assets, if they were ever sold following the security for the Notes becoming enforceable, may be less than would be the case were the Charged Assets fully transferable.

## **Tender Offer/Exchange Offer**

The terms of the Notes provide that in certain circumstances (as set out in the Special Conditions below) the Issuer may participate in a Tender Offer or an Exchange Offer (each, as defined in the Special Conditions below) with respect to the Charged Assets. If, in such circumstances, the Charged Assets Issuer defaults in the performance of its payment or delivery obligations under the terms of the Tender Offer or the Exchange Offer, then all the Notes will become subject to mandatory early redemption upon which the security for the Notes shall become enforceable. Accordingly, Noteholders must recognise that they will be exposed to the risk of default by the Charged Assets Issuer in respect of any such offer, regardless of whether or not they participate in an ELM Tender Offer or an ELM Exchange Offer (each, as defined in the Special Conditions below). Any ELM Tender Offer or ELM Exchange Offer is subject to any terms or conditions required by the Trustee and, for as long as the Notes are listed on the official list of the Luxembourg Stock Exchange and admitted to trading on the EuroMTF Market of the Luxembourg Stock Exchange, all applicable rules and regulations of the Luxembourg Stock Exchange.

## **Independent Review and Advice**

Each prospective Noteholder must determine, based on its own independent review and such legal, business and tax advice as it deems appropriate under the circumstances, that its acquisition of the Notes (i) is fully consistent with its financial needs, objectives and condition, (ii) complies and is fully consistent with all investment policies, guidelines, authorisations and restrictions (including as to its capacity) applicable to it, (iii) has been duly approved in accordance with all applicable laws and procedures and (iv) is a fit, proper and suitable investment for it, undertaken for a proper purpose.

## **Legality of Purchase**

None of the Issuer, the Trustee or the Managers or any affiliate of any of them or other person on their behalf has or assumes responsibility for the lawfulness of the acquisition of the Notes by a prospective purchaser of the Notes, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective purchaser with any law, regulation or regulatory policy applicable to it.

## **No Reliance**

The Issuer, the Trustee or the Managers and all affiliates of any of them disclaim any responsibility to advise purchasers of the Notes of the risks and investment considerations associated with the purchase of the Notes as they may exist at the date hereof or from time to time hereafter. Noteholders may not at any time rely on any of the Issuer, the Trustee or the Managers or any affiliate of any of them or any person on their behalf to monitor whether or not a default or an event or circumstances which, with the giving of notice, the passage of time or making of any determination, could constitute a default has occurred under the Charged Assets.

## **No Restrictions on Activities**

Any of the Issuer, the Trustee or the Managers and any affiliate of any of them or other person on their behalf may have existing or future business relationships (including depository, lending, advisory or any other kind of commercial or investment banking activities or other business) with the Charged Assets Issuer or any affiliate of the Charged Assets Issuer and may purchase, sell or otherwise deal in any assets or obligations of, or relating to, any such party. Any of the Issuer, the Trustee or the Managers and any affiliate of any of them or other person on their behalf may act with respect to any such business, assets or obligations without regard to any possible consequences for the Charged Assets Issuer, the Notes or any Noteholder (or the impact of any such dealing on the interests of any Noteholder) or otherwise.

## **Provision of Information**

Any of the Issuer, the Trustee or the Managers or any affiliate of any of them or any other person acting on their behalf may at the date hereof or at any time hereafter be in possession of information in relation to the Charged Assets Issuer or the Charged Assets (which may or may not be publicly available or confidential). None of such persons shall be under any obligation to make any such information available to Noteholders or any other party.

## **Taxation**

Each Noteholder will assume and be solely responsible for any and all taxes of any jurisdiction or governmental or regulatory authority, including, without limitation, any state or local taxes or other like assessment or charges, that may be applicable to any payment to it in respect of the Notes. Neither the Issuer nor any other person will pay any additional amounts to the Noteholders to reimburse them for any tax, assessment or charge required to be withheld or deducted from payments in respect of the Notes by the Issuer or by the Principal Paying Agent, although such requirement will give rise to an obligation to redeem the Notes early in the circumstances described in the terms of the Notes.

## **Credit Ratings**

The Notes and the Charged Assets are rated securities. Credit ratings of debt securities represent the rating agencies' opinions regarding their credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value; therefore, credit ratings may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates. Also, rating agencies may change their rating methodology which could adversely affect the rating of the Notes.

## **Legal Opinions**

Whilst legal opinions relating to the issue of the Notes have been obtained with respect to English law and Dutch law, no such opinions have been obtained with respect to any other applicable laws, including the laws of Switzerland or as to the validity, enforceability or binding nature of the Charged Assets as against the Charged Assets Issuer.

## TERMS OF THE NOTES

The Notes designated as above (the “**Notes**”) shall have the following “**Terms**” which shall complete, modify and amend the Master Conditions (July 2005 Edition) (as set out in the Issuer’s Programme Memorandum under the heading “Terms and Conditions of the Notes”), which shall apply to the Notes as so completed, modified and amended. References to “**Conditions**” or “**Condition**” shall, unless otherwise provided, mean references to the Terms and Conditions of the Notes. Unless the context otherwise requires, expressions used herein and not otherwise defined herein or in the Conditions shall have the meanings given to them in the terms and conditions of the Charged Assets.

1.	(i) Issuer:	ELM B.V.
	(ii) Arranger:	In relation to the Notes, there is no Arranger. Pursuant to a subscription agreement dated March 2007 (the “ <b>Subscription Agreement</b> ”) between the managers listed below (the “ <b>Managers</b> ”) and the Issuer, the Managers have agreed, subject to the satisfaction of certain conditions, to subscribe for the Notes at the Issue Price. The Managers are:  Joint Bookrunning Lead Managers: Barclays Bank PLC; Deutsche Bank AG, London Branch; and UBS Limited.  Co-Lead Managers: HSBC Bank plc; Morgan Stanley & Co. International Limited; and The Royal Bank of Scotland plc.  Each reference in the Conditions to the Arranger shall be construed as a reference to the Managers.
2.	(i) Series Number:	101.
	(ii) Tranche Number:	Not applicable.
3.	Principal Amount:	The principal amount of the Notes is GBP £500,000,000. The aggregate outstanding principal amount of the Notes shall, from time to time, increase by an amount equal to any increase in the outstanding principal amount of Charged Assets pursuant to the terms thereof. Any such increase shall be effective as of the Interest Payment Date on which the relevant increase in the outstanding principal amount of the Charged Assets occurs. The Issuer shall promptly notify the Noteholders of the same in accordance with Condition 14.
4.	Issue Price:	100.00 per cent.
5.	Net proceeds:	GBP 497,500,000.
6.	Authorised Denomination:	GBP 50,000.
7.	(i) Issue Date:	27 March 2007.
	(ii) Interest Commencement Date:	Issue Date.
8.	Maturity Date:	The Notes are perpetual securities and, accordingly, there is no Maturity Date. The Notes shall be redeemed on the Business Day next following the due date for redemption of the Charged Assets for an amount equal to their outstanding principal amount together with accrued interest on the Notes up to the due date for redemption of the Charged Assets; provided always that, on the date on which the

		Notes are due to be redeemed, the aggregate outstanding principal amount of the Notes shall be reduced to an amount equal to the amount of principal payable under the Charged Assets minus an amount equal to the difference between (i) the accrued interest due on the Notes on the relevant redemption date and (ii) the accrued interest due on the Charged Assets on their relevant redemption date, and the outstanding principal amount of each Note shall be reduced proportionately.
9.	Interest Basis:	Fixed Rate as provided in item 12 below in respect of the period from and including the Issue Date, to but excluding 25 May 2019 and thereafter Floating Rate as provided in item 13 below.
10.	Status of the Notes:	<p>(i) Status of the Notes:</p> <p>Secured and limited recourse obligations of the Issuer ranking <i>pari passu</i> without any preferences amongst themselves secured as set out under Security below and subject to the priority set out under Priority below. (<i>See also, in particular, Condition 10 as set out in the Programme Memorandum incorporated by reference herein</i>).</p> <p>(ii) Priority:</p> <p>Noteholder Priority (<i>see Condition 4(d)</i>). For the avoidance of doubt, Noteholder Priority shall only apply in relation to the application of the proceeds of enforcement of the security for the Notes and shall not apply to the application of the proceeds of enforcement of the Managers' Security Interest (as defined in item 26(vi) below). The proceeds of enforcement of the Managers' Security Interest shall be applied first in meeting the expenses and remuneration and any other amounts due to the Trustee (both in its capacity as trustee of the Managers and the Noteholders and in its capacity as agent of the Issuer in the circumstances described in item 26(vi)(B) below) including in respect of any liabilities incurred, or to any receiver appointed pursuant to the relevant Constituting Instrument including in respect of any liabilities incurred and thereafter in meeting the claims of the Managers <i>pari passu</i> and rateably under the Subscription Agreement.</p>
11.	Listing:	Application has been made to list the Notes on the official list of the Luxembourg Stock Exchange and for such Notes to be admitted to trading on the EuroMTF Market of the Luxembourg Stock Exchange on the Issue Date.
12.	Fixed Rate Provisions:	<p>(i) Interest Rate:</p> <p>Applicable in respect of the Interest Payment Dates specified below.</p> <p>6.3024 per cent. per annum.</p> <p>(ii) Interest Payment Dates:</p> <p>25 May and 25 November in each year, commencing on 25 November 2007 to and including 25 May 2019, each such date subject to adjustment in accordance with the Business Day Convention; provided that each Interest Amount shall not actually be payable until the Business Day immediately following each Interest Payment Date.</p> <p>(iii) Calculation Amount:</p> <p>The definition of Calculation Amount in Condition 6 shall apply; provided that if the aggregate outstanding principal amount of the Notes is reduced pursuant to the second paragraph of item (vii) below on any day other than an Interest Payment Date, the Calculation Amount in respect of each Note shall be an amount equal to the sum of the Calculation Amount on each day during the relevant Interest Period divided by the number of days in that Interest Period.</p> <p>(iv) Relevant Business Day:</p> <p>Means, for the purposes of these Fixed Rate Provisions, a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London and Zurich (each, a "Business Day").</p>

(v) Day Count Fraction: The Day Count Fraction shall be determined in the same manner as the Fixed Rate Day Count Fraction as defined in the terms and conditions of the Charged Assets.

(vi) Business Day Convention: Following Business Day Convention; provided that no Interest Period shall be adjusted even if a relevant Interest Payment Date is so adjusted.

(vii) Other terms relating to the method of calculating interest for Notes for the period during which the Interest Basis is Fixed Rate: The Interest Amount shall be calculated in accordance with the Conditions and the Fixed Rate Note provisions set out above, save to the extent that the Issuer receives an amount of interest under the Charged Assets (in accordance with the terms and conditions of the Charged Assets) which is payable on an Interest Payment Date and which is less than the aggregate of the Interest Amounts due on each Note with respect to such Interest Payment Date, in which case the aggregate Interest Amount shall be such lesser amount. An amount equal to the difference between the aggregate Interest Amount as calculated in accordance with the Conditions and the Fixed Rate Note provisions and the aggregate Interest Amount actually paid to the Noteholders with respect to such Interest Payment Date (the “**Deferred Fixed Amount**”), shall, as of such Interest Payment Date, be added to the aggregate outstanding principal amount of the Notes.

The aggregate of all Deferred Fixed Amounts which have not previously been paid pursuant to these Terms shall be payable on the Business Day next following the date (if any) on which any amount of interest which has been deferred for any reason pursuant to the terms of the Charged Assets is payable pursuant to the terms of the Charged Assets; provided that if such payment in respect of deferred interest under the Charged Assets is less than the amount otherwise payable pursuant to this paragraph in respect of Deferred Fixed Amounts then the amount payable by the Issuer pursuant to this paragraph shall be reduced to such lesser amount. The aggregate outstanding principal amount of the Notes shall be reduced by the amount actually paid pursuant to the preceding sentence in respect of Deferred Fixed Amounts.

13. Floating Rate Provisions:

(i) Interest Payment Dates: Applicable in respect of the Interest Payment Dates specified below.

25 May and 25 November in each year commencing on 25 November 2019, each such date subject to adjustment in accordance with the Business Day Convention; provided that each Interest Amount shall not actually be payable until the Business Day immediately following each Interest Payment Date.

(ii) Business Day Convention: Modified Following Business Day Convention (where, for the purposes of these Floating Rate Provisions, “**Relevant Business Day**” means a day (other than a Saturday or a Sunday) on which commercial banks are open for business in London and Zurich.

(iii) Manner in which the Interest Rate is to be determined: The Interest Rate shall be comprised of the Benchmark and the Spread (each, as set out below). If the Benchmark does not appear on the Relevant Screen Page on the relevant Interest Determination Date, the Calculation Agent will:

(a) Request the principal London office of each of four major banks in the Relevant Financial Centre (the “**Reference Banks**”) to provide a quotation of the rate at which deposits in pounds sterling are offered by it at approximately 11:00 a.m. (London time) on the Interest Determination Date to prime banks in the London interbank market for a period of six months commencing on the first day of the relevant Interest Period and in an amount that is representative for a single

....

transaction in the market at that time; and determine the arithmetic mean of such quotations to the nearest 5 decimal places (with 0.00005 being rounded upwards).

- (b) If fewer than two quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates quoted by major banks in London selected by the Calculation Agent at approximately 11:00 a.m. (London time) on such Interest Determination Date for loans in pounds sterling to leading European banks for a period of six months commencing on the first day of the relevant Interest Period and in an amount that is representative for a single transaction in the relevant market at that time.
- (c) If the Calculation Agent is unable to determine an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Interest Rate during such Interest Period will be the Interest Rate in effect for the last preceding Interest Period to which one of the preceding determinations of this item 13(iii) shall have applied or if none the Interest Rate that applied under the Fixed Rate Provisions.

In Condition 6(g) the following words shall be added after the words “extension or shortening of the Interest Rate”: “or in the event that the Calculation Amount changes during an Interest Period”.

(iv) Calculation Amount:

The definition of Calculation Amount in Condition 6 shall apply; provided that if the aggregate outstanding principal amount of the Notes is reduced pursuant to the second paragraph of item (xii) below on any day other than an Interest Payment Date, the Calculation Amount in respect of each note shall be an amount equal to the sum of the Calculation Amount on each day during the relevant Interest Period divided by the number of days in that Interest Period.

(v) If Screen Rate Determination:

The “**Relevant Screen Page**” is (A) Reuters LIBOR01 Screen page; (B) such other Page as may replace that page on that service for the purpose of displaying such information; or (C) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one selected at the discretion of the Calculation Agent) as may replace the Reuters LIBOR01 Screen Page.

The “**Benchmark**” is six month sterling LIBOR, being the offered rate for deposits in pound sterling with a designated maturity of six months which appears on the Relevant Screen Page as of 11:00 a.m. (London time) on the relevant Interest Determination Date.

The “**Interest Determination Date**” shall be the first day of each Interest Period. The first Interest Period under these Floating Rate Provisions shall commence on 25 May 2019.

(vi) Spread:

2.12 per cent. per annum.

(vii) Spread Multiplier:

Not applicable.

(viii) Minimum Interest Rate:

Not applicable.

(ix) Maximum Interest Rate:

Not applicable.

(x) Relevant Financial Centre:

London.

(xi) Day Count Fraction:

Actual/Actual.

(xii) Other terms relating to the method of calculating interest for Notes for the period during which the Interest Basis is Floating Rate:

The Floating Amount shall be calculated in accordance with the Floating Rate Note provisions set out above, save to the extent that the Issuer receives an amount of interest under the Charged Assets (in accordance with the terms and conditions of the Charged Assets) which is payable on an Interest Payment Date and which is less than the aggregate of the Interest Amounts due on each Note with respect to such Interest Payment Date, in which case the aggregate Interest Amount shall be such lesser amount. An amount equal to the difference between the aggregate Interest Amount as calculated in accordance with the Conditions and the Floating Rate Note provisions and the aggregate Interest Amount actually paid to the Noteholders with respect to such Interest Payment Date (the **“Deferred Floating Amount”**), shall, as of such Interest Payment Date, be added to the aggregate outstanding principal amount of the Notes.

The aggregate of all Deferred Fixed Amounts and Deferred Floating Amounts which have not previously been paid pursuant to these Terms shall be payable on the Business Day next following the date (if any) on which any amount of interest which has been deferred for any reason pursuant to the terms of the Charged Assets is payable pursuant to the terms of the Charged Assets; provided that if such payment in respect of deferred interest under the Charged Assets is less than the amount otherwise payable pursuant to this paragraph in respect of Deferred Fixed Amounts and Deferred Floating Amounts then the amount payable by the Issuer pursuant to this paragraph shall be reduced to such lesser amount. The aggregate outstanding principal amount of the Notes shall be reduced by the amount actually paid pursuant to the preceding sentence in respect of Deferred Fixed Amounts and Deferred Floating Amounts.

14. Zero Coupon Note provisions:	Not applicable.
15. Dual Currency Note Provisions:	Not applicable.
16. Variable Coupon Amount Note Provisions:	Not applicable.
17. Call/Put Option:	Not applicable.
18. Redemption Amount:	An amount equal to the Authorised Denomination of each Note, subject as provided in item 8 above.
19. Mandatory Redemption:	Condition 7(b)(1) shall apply, save that the words “or become capable of being declared due and repayable” therein shall be deemed to be deleted and save to the extent that item 8 above applies.
20. Redemption Amount on redemption for taxation:	Condition 7(c) shall apply.
21. Form of Notes:	Bearer Notes: TEFRA D.
(i) The Notes will initially be represented by:	Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note.
(ii) Registered Notes:	Not applicable.
22. Additional Financial Centre(s) or other special provisions relating to Payment Dates:	Not applicable.

23.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	No.
24.	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	Not applicable.
25.	Redenomination applicable:	Not applicable.
26.	Security:	<p>(i) Charged Assets: £500,000,000 6.3024% Perpetual Subordinated Step-Up Loan Notes issued by Swiss Reinsurance Company (“<b>Swiss Re</b>” or the “<b>Charged Assets Issuer</b>”) as the same may be increased from time to time pursuant to and in accordance with the terms of the Charged Assets.</p> <p><i>(The Charged Assets are not listed on any stock exchange and the Charged Assets Offering Memorandum is annexed to and forms a part of this Prospectus).</i></p> <p>The Custodian (which shall initially be UBS AG) is required at all times to be an OECD bank or other financial institution with a rating in respect of its short-term unsecured, unsubordinated and unguaranteed debt obligations of no less than A-1 from Standard &amp; Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. (“<b>S&amp;P</b>”) and no less than P-1 from Moody’s Investor Services, Inc. (“<b>Moody’s</b>”).</p> <p>(ii) Charging Instrument: Not applicable.</p> <p>(iii) Depositary Account: Each account of the Custodian in which the Charged Assets are held from time to time.</p> <p>(iv) Charged Agreement: No.</p> <p>(v) Swap Counterparty: Not applicable.</p> <p>(vi) Other Security: (A) Pursuant to the Trust Deed in relation to the Notes, the Issuer will assign by way of security in favour of the Trustee for itself and as trustee for the Managers all of the Issuer’s rights against the Charged Assets Issuer under the purchase agreement (the “<b>Purchase Agreement</b>”) between the Issuer and the Charged Assets Issuer relating to the purchase of the Charged Assets by the Issuer and will charge the proceeds of enforcement of any claim under the Purchase Agreement (such security, the “<b>Managers’ Security Interest</b>”). The Managers’ Security Interest is granted to the Trustee to hold for itself and as trustee for the Managers as continuing security in respect of any claim the Managers may have (a “<b>Managers’ Claim</b>”) against the Issuer under the Subscription Agreement arising from any representation, warranty, covenant or agreement given therein by the Issuer regarding the Charged Assets, the Charged Assets Issuer and the part of the Prospectus for the Notes comprising the Charged Assets Offering Memorandum. Enforcement of the Managers’ Security Interest shall, subject to and in accordance with the terms of the Trust Deed, take effect only in the manner described in paragraph (B) below.</p>

*No Noteholder shall have any interest in the Managers’ Security Interest. If the Managers’ Security Interest becomes enforceable, the*

*security for the Notes shall not consequentially become enforceable and the Notes shall not be affected thereby and shall accordingly remain outstanding.*

(B) Any action which the Trustee takes against the Charged Assets Issuer upon the security for the Notes or the Managers' Security Interest becoming enforceable shall be taken by the Trustee in its capacity as agent for the Issuer and not as trustee for the Noteholders or the Managers. Pursuant to the Trust Deed, the Issuer has appointed the Trustee as its agent for such purposes. Consequently, the Issuer has assigned by way of security in favour of the Trustee for itself and as trustee for the Noteholders and the Managers all of the Issuer's rights against the Trustee (in its capacity as the Issuer's agent) pursuant to the Trust Deed. Such security is granted to the Trustee to hold for itself and as trustee for the Noteholders as continuing security for the payment of interest and principal on the Notes and for the Managers as continuing security for the Managers' Claim.

(C) The net proceeds of issue of the Notes shall be credited to an account (the "**Custody Cash Account**") of the Issuer with the Custodian pending application on or about the Issue Date towards payment of the purchase price by the Charged Assets Issuer. The Issuer will, pursuant to the Trust Deed in relation to the Notes, create a charge over, and assign by way of security its rights against the Custodian in respect of, the Custody Cash Account in favour of the Trustee for itself and as trustee for the Noteholders.

27.	Securities Lending Agreement:	No.
28.	Additional selling restrictions:	The applicable selling restrictions are as set out in "Subscription and Sale" below and in the Programme Memorandum. In the event of any inconsistency, the selling restrictions set out in "Subscription and Sale" shall prevail.
29.	Rating:	It is a condition to the issuance of the Notes that they receive a rating at the time of issuance from S&P of at least A and from Moody's of at least A2.
30.	ISIN Code:	XS0293392105.
31.	Common Code:	029339210
32.	Alternative Clearing System:	Not applicable.
33.	Delivery:	Delivery against payment.
34.	Principal Paying Agent:	UBS AG, London Branch.
35.	Sub-Custody:	Not applicable.
36.	Calculation Agent:	UBS Limited or any successor thereof. All determinations made by the Calculation Agent hereunder shall, in the absence of manifest error, wilful default or bad faith, be final and conclusive, and the Calculation Agent shall have no liability to the Issuer, the Noteholders or any third party in relation to such determinations. Nothing contained herein shall prevent the Calculation Agent from dealing in these Notes or from entering into any transactions, including without limitation any swap or hedging transactions with the Charged Assets Issuer.

37. Exchange of Permanent Global Note: Provided that certification of non-U.S. beneficial ownership has been received by Euroclear or Clearstream, Luxembourg the Permanent Global Note will be exchangeable, in whole but not in part, for definitive Bearer Notes if:

- (i) Euroclear or Clearstream, Luxembourg or other clearing system in which the Permanent Global Note is for the time being deposited is closed for business for a period of 14 days (other than by reason of holidays statutory or otherwise) or announces an intention permanently to cease business or to make its book-entry system available for settlement of beneficial interests in such Permanent Global Note or does in fact do either of such things and no alternative clearing system, satisfactory to the Trustee and the Principal Paying Agent (after consultation with the Issuer) is available, or
- (ii) the Notes become due and payable in accordance with Condition 9 and payment is not made on due presentation of the Permanent Global Note for payment.

38. PMP Redemption Event under Condition 7(k): Not applicable.

#### **Special Condition: Tender Offers and Exchange Offers**

The Issuer may at any time make an offer to purchase the Notes for cash consideration (an “**ELM Tender Offer**”) or to exchange the Notes for non-cash assets (an “**ELM Exchange Offer**”). Any ELM Tender Offer or ELM Exchange Offer may only be made on a limited recourse basis and the Issuer shall not make an ELM Tender Offer or an ELM Exchange Offer without first having entered into an agency agreement with an agent to act as tender agent or, as the case may be, exchange agent for the Issuer in connection with the ELM Tender Offer or the ELM Exchange Offer and without first being satisfied that its costs and expenses in connection with the same will be met. Furthermore, any ELM Tender Offer or ELM Exchange Offer shall be subject to any terms or conditions required by the Trustee and shall, for as long as the Notes are listed on the official list of the Luxembourg Stock Exchange and admitted to trading on the EuroMTF Market of the Luxembourg Stock Exchange, be in accordance with all applicable rules and regulations of the Luxembourg Stock Exchange.

If at any time the Charged Assets Issuer makes an offer to the Issuer, or the Custodian on behalf of the Issuer, to purchase the Charged Assets for cash consideration (a “**Tender Offer**”) or for non-cash assets (an “**Exchange Offer**”), then the Issuer shall not accept such Tender Offer or Exchange Offer, and the Trustee shall not be permitted to release the security created over the Charged Assets pursuant to the Trust Deed, other than in accordance with this paragraph. The Trustee shall release the security created over the Charged Assets to the extent Noteholders accept an ELM Tender Offer or an ELM Exchange Offer, which the Issuer shall make, subject as provided in the previous paragraph, upon such occurrence unless, in the reasonable opinion of the Issuer, the Issuer would be materially disadvantaged by the same.

The occurrence of any default by the Charged Assets Issuer in respect of any payment or delivery obligation under a Tender Offer or an Exchange Offer, shall be an Additional Mandatory Redemption Event for the purposes of Condition 7(b)(3).

## **USE OF PROCEEDS**

The net proceeds from the issue of the Notes (amounting to approximately £497,500,000) will be applied by the Issuer to finance the purchase price for the Charged Assets.

## SWISS TAXATION

### General

The following summary does not purport to address all tax consequences of the acquisition, ownership and disposal of Notes, and does not take into account the specific circumstances of any particular investor. This summary is based on the tax laws, regulations and regulatory practices of Switzerland, as in effect on the date hereof, which are subject to change (or subject to changes in interpretation), possibly with retroactive effect and a tax ruling with the Swiss federal tax administration, and assumes, as confirmed in a Swiss federal tax ruling, residence and effective management of the Issuer outside Switzerland.

Noteholders or prospective Noteholders are advised to consult their own tax advisers in light of their particular circumstances as to the Swiss tax laws, regulations and regulatory practices that could be relevant for them in connection with acquiring, owning and disposing of Notes and receiving interest, principal or other payments on the Notes and the consequences of such events under the tax laws, regulations and regulatory practices of Switzerland.

### Withholding Tax

Interest, principal and other payments on the Notes will not be subject to Swiss Withholding Tax (*Verrechnungssteuer*).

### Stamp Taxes

The issuance of the Notes will not be subject to Swiss Issuance Stamp Tax (*Emissionsabgabe*) and the issuance of the Notes to the original Noteholders at the original offering price will not be subject to Swiss Securities Turnover Tax (*Umsatzabgabe*). Subsequent dealings in the Notes where a bank or another securities dealer in Switzerland (as defined in the Swiss Federal Stamp Tax Act) acts as an intermediary, or is a party, to the transaction, may be subject to Swiss Securities Turnover Tax at an aggregated rate of up to 0.3 percent of the purchase price of the Notes.

### Swiss Federal, Cantonal and Communal Income Taxation

#### *Non-Resident Noteholders*

Payments on the Notes to a Noteholder who is not resident in Switzerland for tax purposes, and who, during the relevant taxation year, has not engaged in a trade or business through a permanent establishment or fixed place of business in Switzerland for tax purposes, and who is not subject to corporate or individual income taxation in Switzerland for any other reason will not be subject to any Swiss federal, cantonal or communal income tax, capital tax or wealth tax.

#### *Resident Noteholders and Noteholders with a Trade or Business in Switzerland*

Noteholders who hold Notes as part of a trade or business in Switzerland for tax purposes, in the case of residents abroad carried on through a permanent establishment or a fixed place of business, are required to recognize payments on the Notes and capital gains or losses realized on the disposal of Notes in their income statement for the respective taxation period and are subject to Swiss federal, cantonal and communal corporate or individual income tax, as the case may be, on any net taxable income (including payments on the Notes and capital gains or losses realized on the disposal of Notes) for such taxation period. The same taxation treatment also applies to Swiss-resident private individuals who, for income tax purposes, are classified as “professional securities dealers” for reasons of, *inter alia*, frequent dealing, or leveraged investments, in securities.

Private individuals resident in Switzerland and holding Notes as part of their private fortune, are required to include interest payments (but not repayment of principal) on the Notes in their personal income tax return and are subject to Swiss federal, cantonal and communal income tax on any net taxable income (including interest payments (but not repayment of principal) on the Notes) for the relevant taxation period. For private individuals capital gains resulting from the disposal of Notes are not subject to Swiss federal, cantonal and communal income tax; this is also the case for accrued interest. Capital losses are not tax-deductible. Swiss resident private individuals who hold the Notes as part of their private fortune are required to report their Notes as part of their taxable wealth and will be subject to cantonal and communal wealth tax, provided that their net taxable wealth (including the Notes) exceeds applicable allowances or levels.

## SUBSCRIPTION AND SALE

Barclays Bank PLC, Deutsche Bank AG, London Branch, HSBC Bank plc, Morgan Stanley & Co. International Limited, The Royal Bank of Scotland plc and UBS Limited (the “**Managers**”) have in the subscription agreement (the “**Subscription Agreement**”) dated 23 March 2007 agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Notes at 100 per cent. of their principal amount. The Subscription Agreement entitles the Managers acting together to terminate it in certain circumstances.

### United States

The Notes have not been and will not be registered under the U.S. Securities Act of 1933 (the “**Securities Act**”), as amended and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes will be issued in bearer form and therefore are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each of the Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution of all the Notes of the Tranche of which such Notes form a part, in either case within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

Until 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

### United Kingdom

Each of the Managers has represented and agreed that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

### General

No action has been taken by the Issuer or any of the Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

## GENERAL INFORMATION

### 1. Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes. The issue of the Notes was duly authorised by a resolution of the board of directors of the Issuer dated 23 March 2007.

### 2. Listing of the Notes

Application has been made to list the Notes on the official list of the Luxembourg Stock Exchange and for such Notes to be admitted to trading on the EuroMTF Market of the Luxembourg Stock Exchange.

### 3. Interests of Natural and Legal Persons in the Issue

So far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.

### 4. Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer since the date of its incorporation and there has been no material adverse change in the financial position or prospects of the Issuer since such date.

### 5. Litigation

There are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have had since the date of its incorporation a significant effect on the financial position of the Issuer.

### 6. Paying Agent in Luxembourg; Listing Agent

The Paying Agent in Luxembourg through which payments are made is Dexia Banque Internationale à Luxembourg, *société anonyme*, whose office is set out on the back page hereof. The address of the Luxembourg Listing Agent is set out on the back page hereof.

### 7. Documents Available

The consolidated financial statements of the Charged Assets Issuer for the years ended 31 December 2005 and 2006 and all subsequent consolidated financial statements published by the Charged Assets Issuer (including any interim consolidated financial statements) will be available for inspection and collection free of charge during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the specified office of the Paying Agent in Luxembourg. Also the statutory documents of the Charged Assets Issuer will be available for inspection and collection free of charge during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the specified office of the Paying Agent in Luxembourg.

### 8. Clearing Systems and Settlement

The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg or such other clearing system approved by the Issuer and the Trustee. The common code and ISIN for the Notes, will be 029339210 and XS0293392105 respectively.

## LISTING APPLICATION

This Prospectus comprises the listing particulars required to list the issue of Notes described herein pursuant to the EUR 15,000,000,000 Secured Note Programme of the Issuer.

## **RESPONSIBILITY**

Subject as provided herein, the Issuer accepts responsibility for the information contained in this Prospectus.

By: \_\_\_\_\_

*Duly authorised*

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**ANNEX**

Charged Assets Offering Memorandum

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## Swiss Reinsurance Company

£500,000,000

6.3024% Perpetual Subordinated Step-Up Loan Notes

The £500,000,000 6.3024% Perpetual Subordinated Step-Up Loan Notes (the “Loan Notes”) will be issued by Swiss Reinsurance Company on March 27, 2007 (the “Issue Date”). Initially, only one Loan Note will be issued in this offering (the “Loan Notes Offering”).

The Loan Notes have no final maturity date. We may redeem the Loan Notes in whole but not in part at their principal amount, together with any accrued interest, on May 25, 2019 (the “First Optional Redemption Date”) and on each Interest Payment Date (as defined in Condition 3.1 of the terms and conditions of the Loan Notes (the “Conditions”)) thereafter. We may also redeem the Loan Notes in whole but not in part upon the occurrence of a Recalculation of Interest Event or a Special Tax Event (each as defined in the Conditions, and referred to collectively as a “Par Redemption Event”) or upon the occurrence of an Accounting Event, a Regular Tax Event, a Capital Event or a Regulatory Event (each as defined in the Conditions, and referred to collectively as a “Make Whole Redemption Event”). A redemption upon the occurrence of a Par Redemption Event will be at the principal amount of the Loan Notes, together with any accrued interest. A redemption upon the occurrence of a Make Whole Redemption Event will be at the Make Whole Redemption Amount (as defined in the Conditions). In the case of any redemption, we may call and redeem the Loan Notes only if the Swiss Federal Office of Private Insurance (“FOPI”), any successor to the FOPI or any authority or successor authority that has primary supervisory authority over the Group (any such successor to the FOPI or otherwise, a “Successor Authority”) has given (and has not subsequently withdrawn) its consent to the redemption, to the extent such consent is required, or otherwise has not objected to the redemption, all as more fully described in the Conditions.

The Loan Notes will bear interest at (i) a fixed rate of 6.3024% per annum from and including March 27, 2007 until (and excluding) the First Optional Redemption Date payable semi-annually in arrears on May 25 and November 25 in each year commencing on November 25, 2007, and (ii) a floating rate equal to the sum of Six Month Sterling LIBOR for such coupon period and 2.12% per annum from and including the First Optional Redemption Date payable semi-annually in arrears on each May 25 and November 25 thereafter. Under certain circumstances described in Condition 3.2 of the Conditions, we may elect, or be required, to defer interest payments on the Loan Notes.

Our obligations under the Loan Notes constitute unsecured and subordinated obligations ranking junior to Senior Securities, *pari passu* among themselves and with Parity Securities, and senior to Junior Securities (all as defined in the Conditions). In the event of the liquidation, dissolution, insolvency or other proceedings for the avoidance of insolvency of, or against, us, our obligations under the Loan Notes will be subordinated to the claims of all holders of Senior Securities, so that in any such event no amounts shall be payable in respect of the Loan Notes until the claims of all holders of Senior Securities shall have first been satisfied in full.

The Loan Notes will be represented by definitive certificates in registered form. The Loan Notes will not be listed on any securities exchange.

**None of the perpetual subordinated Loan Notes offered by this offering memorandum or any securities issuable upon substitution of the Loan Notes have been or will be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”). The Loan Notes may not be offered or sold within the United States or to U.S. persons. The Loan Notes are subject to significant restriction on transfer. See “Offering and Transfer Restrictions.”**

**See “Risk Factors” beginning on page 16 of this Offering Memorandum for a discussion of certain factors that should be considered by prospective investors. Investors should note, without limitation, that the Loan Notes have no fixed date for repayment, being perpetual in nature.**

The Loan Notes are not deposits or other obligations of Swiss Reinsurance Company. None of the Loan Notes are insured by any governmental agency. Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or determined if this Offering Memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

**The date of this Offering Memorandum is March 23, 2007**

Each investor contemplating purchasing the Loan Notes should make its own independent investigation of our financial condition and affairs, and its own appraisal of our creditworthiness.

No person has been authorised to give any information or to make any representation other than those contained in this Offering Memorandum in connection with the issue or sale of the Loan Notes and, if given or made, such information or representation must not be relied upon as having been authorised by us.

The offer, sale and delivery of the Loan Notes and the distribution of this Offering Memorandum in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Memorandum comes are required by us to inform themselves about and to observe any such restriction. In particular, the Loan Notes have not been, and will not be, registered under the Securities Act and may not be offered, sold or delivered within the United States. In addition, each holder of Loan Notes (a “Loan Noteholder”) must be a Qualifying Bank (as defined in the Conditions); provided, however, that one single Permitted Non-Qualifying Lender (as defined in the Conditions) may also be a Loan Noteholder. For a description of the restrictions on resales and other transfers of the Loan Notes, see “Offering and Transfer Restrictions.”

The Loan Notes may be transferred only in amounts of £50,000.

## TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
Summary .....	1	Regulation .....	116
Risk Factors .....	16	Management .....	122
Terms and Conditions of the Loan Notes .....	25	Principal Shareholders .....	140
Use of Proceeds .....	44	Taxation .....	141
Capitalisation .....	45	Offering and Transfer Restrictions .....	142
Exchange Rate Information .....	46	Independent Auditors .....	143
Selected Consolidated Financial Data .....	47	General Information .....	144
Operating and Financial Review .....	48	Glossary of Selected Insurance and Reinsurance Terms .....	145
Overview of Reinsurance .....	90	Index To Financial Statements .....	F-1
Our Business .....	94		

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In this Offering Memorandum, unless the context otherwise requires, “Issuer,” Swiss Re,” “Swiss Re Group,” “the Group,” “we,” “us” and “our” refer to Swiss Reinsurance Company and its consolidated subsidiaries. See also “Glossary of Selected Insurance and Reinsurance Terms” beginning on page 145.

### PRESENTATION OF FINANCIAL INFORMATION

Effective beginning with the fiscal year ended December 31, 2006, our primary Group financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). Accordingly we have presented our audited consolidated financial statements as of and for the year ended December 31, 2006 in this Offering Memorandum in accordance with U.S. GAAP.

We publish our consolidated financial statements in Swiss francs. Unless we note otherwise, all amounts in this Offering Memorandum are expressed in Swiss francs. As used in this Offering Memorandum, references to “Swiss francs” or “CHF” are to Swiss currency and references to “U.S. dollars,” “\$” or “USD” are to U.S. currency. For your convenience, unless otherwise indicated, this Offering Memorandum contains translations of Swiss franc amounts into U.S. dollars at CHF 1.2190 = \$1.00, the Bloomberg Rate on December 29, 2006. On March 21, 2007, the Bloomberg Rate was CHF 1.2097 = \$1.00. See “Exchange Rate Information” for historical information about the Bloomberg Rate. We do not use these rates in the preparation of our consolidated financial statements. You should not construe these translations as representations that the amounts referred to actually represent translated amounts or that you could convert these amounts into U.S. dollars at the rate indicated.

### SOURCES OF INFORMATION

Our financial statement data as of and for the years ended December 31, 2005 and 2006 included in this Offering Memorandum have been derived from our audited consolidated financial statements as of and for the year ended December 31, 2006 included elsewhere in this Offering Memorandum.

Unless otherwise noted, the financial data set forth in the financial tables included in “Summary Consolidated Financial Data,” “Selected Consolidated Financial Data,” “Operating and Financial Review” and “Our Business” have been derived from our audited consolidated financial statements, and unless otherwise noted, the ratios of financial measures presented in this Offering Memorandum have been calculated based on information presented in our audited consolidated financial statements.

Except where we otherwise attribute market or market share data to another source, all market and market share data included in this Offering Memorandum are our own estimates. These estimates are based upon our experience in the reinsurance industry and our familiarity with the global reinsurance market. While we believe these estimates to be reliable, we have not verified them with independent sources.

Information that we indicate has been sourced from Bloomberg has been accurately reproduced and, as far as we are aware and are able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading.

## FORWARD-LOOKING STATEMENTS

Certain statements contained in this Offering Memorandum are forward-looking. These statements 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 our actual results, performance, achievements or prospects to be materially different from any future results, performance, achievements or prospects expressed or implied by such statements. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Offering Memorandum. Among the key factors that have a direct bearing on our results of operations are:

- 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;
- the cyclical nature of the reinsurance industry;
- changes in general economic conditions, particularly in our core markets;
- uncertainties in estimating reserves;
- the performance of financial markets;
- expected changes in our investment results as a result of the changed composition of its investment assets or changes in its investment policy;
- the frequency, severity and development of insured claim events;
- acts of terrorism and acts of war;
- mortality and morbidity experience;
- policy renewal and lapse rates;
- the lowering or loss of one of the financial or claims-paying ratings of one or more of our subsidiaries;
- changes in levels of interest rates;
- political risks in the countries in which we operate or in which we insure risks;
- extraordinary events affecting our clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- risks associated with implementing our business strategies;
- changes in currency exchange rates;
- changes in laws and regulations, including changes in accounting standards and taxation requirements and the impact on the industry in general, or us in particular, of governmental investigations; and
- changes in competitive pressures.

See "Risk Factors" for additional details.

These factors are not exhaustive. Because these factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us or on our behalf, you should not place undue reliance on any of these forward-looking statements. Further, any forward-looking statement speaks only as of the date of this Offering Memorandum. Except as may be required by applicable law, stock exchange rules or regulations, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. New factors emerge from time to time, and it is not possible to predict which will arise. In addition, we cannot assess the effect of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those described in any forward-looking statement.

## SUMMARY

*This summary should be read as an introduction to the Offering Memorandum. You should read the entire Offering Memorandum carefully, including the “Risk Factors” section, our consolidated financial statements and the notes to those consolidated financial statements.*

### Company Overview

We are the world’s leading global reinsurer, based on premiums earned. We operate through more than 90 offices in over 25 countries. We have been engaged in the reinsurance business since our founding in Zurich, Switzerland in 1863. We offer financial services products that enable risk-taking essential to enterprise and progress. Our traditional reinsurance products and related services for property and casualty, together with our life and health business, are complemented by insurance-based corporate finance solutions and supplementary services for comprehensive risk management. We are recognised as a leading authority in managing capital and risk, based on our core competencies of: risk transfer, for which our objective is to identify, evaluate, underwrite and diversify risk to minimise the capital cost of carrying the risk; risk finance, for which we employ a range of products to finance risk retention; and asset management, which combines analysis of insurance liabilities, reinsurance products and asset management skills to optimise total return on financial assets. Our global reach enables us to offer our expertise to, and to service, clients throughout the world.

At and for the year ended December 31, 2006, we reported:

- premiums written of CHF 29.1 billion (\$23.9 billion);
- premiums earned of CHF 29.5 billion (\$24.2 billion);
- total assets of CHF 291.3 billion (\$239.0 billion);
- shareholders’ equity of CHF 30.9 billion (\$25.3 billion); and
- investments of CHF 172.5 billion (\$141.5 billion).

### Recent Developments

#### Insurance Solutions

In June 2006, we completed our acquisition of GE Insurance Solutions (“Insurance Solutions”), excluding its U.S. life and health operations, from General Electric Company (“GE”) for a total cost of \$8.8 billion, including the reimbursement of capital injected since November 2005 of \$1.2 billion and purchase price adjustments (the “Insurance Solutions Acquisition”). The Insurance Solutions Acquisition was financed through a combination of cash, an at-market rights issue and global offering of equity, mandatory convertible securities (including the proceeds of a December 2005 CHF 1.0 billion offering and \$500 million issued to GE at closing) and hybrid debt (U.S.\$752 million of 6.854% Perpetual Subordinated Step-Up Preferred Securities and €1.0 billion of 5.252% Perpetual Subordinated Step-Up Loan Notes). The financing also included the issuance of \$2.4 billion in new Swiss Re shares to GE, resulting in GE holding an 8.9% stake in our share capital. On March 1, 2007, we announced that GE would sell approximately half its stake to the market and that, as a first step in the share buyback programme of up to CHF 6.0 billion that we announced March 1, 2007, we would acquire the balance. On March 6, 2007, GE settled the sale of its entire stake, and we repurchased 16,650,479 of our shares for an aggregate purchase price of approximately CHF 1.7 billion. The second step of our announced buyback programme contemplates share repurchases of up to CHF 4.2 billion over the next three years.

#### GE Life

In late 2006, we acquired, for £465 million, including £260 million for statutory net assets, GE’s direct UK life operations (“GE Life”) from GE (the “GE Life Acquisition”). Through the GE Life Acquisition, we acquired approximately 400,000 policies, consisting primarily of savings and income retirement planning products and the National Mutual Fund acquired by GE Life in 2002. The transaction was our largest Admin Re<sup>SM</sup> transaction to date, increasing assets acquired by over CHF 20 billion (£8 billion), and is expected to provide scale and infrastructure for ongoing business in the United Kingdom.

#### Proposed restructuring of legal entities

In addition to the restructurings of legal entities that we undertook to rationalise elements of our structure following the Insurance Solutions Acquisition (such as the merger of GE Reinsurance into Swiss Re America),

we announced on March 13, 2007 that we intend to restructure our legal entities to take advantage of opportunities presented by the upcoming implementation of the European Reinsurance Directive (which under the “single passport” system will obviate the need to maintain separate legal entities in EU member states, each subject to national regulatory (including capital reserve) requirements). We are targeting mid-2009 to put the new structure in place, with conversions of the first locations beginning January 2008.

We expect to form three legal entities in Luxembourg (where we already have a holding company for some of our EU operations) that will serve as risk carriers for most of our European reinsurance and insurance business, and will operate through branches of these entities in the rest of the EU. The new structure should have no significant impact on the interface with our clients, as local operations will continue to have responsibility for their business activities. With fewer legal entities (and therefore fewer constraints on capital distributions, while retaining the flexibility to rely on inter-group retrocession), the new structure is also expected to result in more efficient capital management, administration and reporting. This proposed restructuring does not impact the structure of our operations outside the EU.

### **Other**

In June 2006, we completed the sale of Fox-Pitt, Kelton.

As of December 1, 2006, we combined our private equity fund of funds business with Horizon 21, a Swiss investment manager that specialises in alternative investments including insurance-linked securities, contributing CHF 3.1 billion of assets to the partnership and becoming a strategic shareholder of Horizon 21 Private Equity Holdings with a 30% stake.

In December 2006, we announced that we had entered into a definitive agreement with TTK Group and India Value Funds Advisors (“IVF”) to purchase a 26% stake in TTK Healthcare Services Pvt Ltd (“TTKHCS”), one of India’s leading health insurance third party administrators. We simultaneously announced our intention to create a health care services advisory company, focusing on product development and corporate health schemes, in India, subject to regulatory approval. These announcements reflect steps taken in furtherance of our larger plan to enter into the medical reinsurance business in Asia.

In February 2007, we sold our London headquarters for £600 million.

## The Loan Notes

Issuer .....	Swiss Reinsurance Company
Securities .....	6.3024% Perpetual Subordinated Step-Up Loan Notes
Description of the Issue .....	Fully paid-up, Perpetual, Subordinated, Step-Up, Loan Notes
Status of the Loan Notes .....	Our obligations under the Loan Notes constitute unsecured and subordinated obligations ranking junior to Senior Securities, <i>pari passu</i> among themselves and with Parity Securities, and senior to Junior Securities. In the event of the liquidation, dissolution, insolvency or other proceeding for the avoidance of insolvency of, or against, us, our obligations under the Loan Notes will be subordinated to the claims of all holders of Senior Securities, so that in any such event no amounts shall be payable in respect of the Loan Notes until the claims of all holders of our Senior Securities shall have first been satisfied in full.
	Where:
	<b>“Junior Securities”</b> means any of our securities or our other relevant obligations expressly subordinated to the Loan Notes and, in case such securities may be issued or granted by us in the future, any of our securities or other relevant obligations, ranking or expressed to rank junior to the Loan Notes, including a guarantee or support (or any similar) agreement issued or entered into by us which ranks or is expressed to rank junior to the Loan Notes and, for the avoidance of doubt but without limitation, including all classes of our shares.
	<b>“Parity Securities”</b> means any of our securities or our other relevant obligations, ranking or expressed to rank <i>pari passu</i> with the Loan Notes including a guarantee or support (or any similar) agreement issued or entered into by us which ranks or is expressed to rank <i>pari passu</i> with the Loan Notes and including our obligations under the subordinated guarantee issued by us in relation to the 6.854% perpetual subordinated step-up preferred securities issued by Swiss Re Capital I LP in May 2006 and under the 5.252% perpetual subordinated step-up loan notes issued by us in May 2006 (together the “Existing Parity Securities”).
	<b>“Senior Securities”</b> means (i) any of our securities or our other relevant obligations, except those ranking or expressed to rank junior to or <i>pari passu</i> with the Loan Notes, including a guarantee or support (or any similar) agreement issued or entered into by us which ranks or is expressed to rank junior to or <i>pari passu</i> with the Loan Notes and, (ii) for the avoidance of doubt but without limitation, including obligations in respect of policies of insurance or reinsurance, trade accounts payable, any liability for income, franchise, real estate or other taxes owed or owing, unsubordinated and/or dated subordinated creditors and existing undated subordinated creditors, except those ranking or expressed to rank junior to or <i>pari passu</i> with the Loan Notes.
Aggregate Principal Amount of the Loan Notes and Denomination .....	£500,000,000, consisting of Loan Notes in minimum denominations of £50,000. Initially, only one Loan Note will be issued.
Issue Price .....	100%

Maturity .....	Perpetual, but redeemable at our option as set out below.
Issuer Call .....	The Loan Notes are redeemable in whole but not in part at our option at their principal amount together with any accrued interest on May 25, 2019 (the “ <b>First Optional Redemption Date</b> ”) and on each Interest Payment Date thereafter. In all cases, we may call and redeem the Loan Notes only if the FOPI, any successor authority to the FOPI or any other authority or successor authority that has primary supervisory authority over the Group (any such successor authority to the FOPI or otherwise, “ <b>Successor Authority</b> ”) has given (and has not subsequently withdrawn) its consent to the redemption to the extent such consent is required or otherwise has not objected to such redemption.
Early Redemption Events .....	We may also redeem the Loan Notes in whole but not in part upon the occurrence of a Par Redemption Event or upon the occurrence of a Make Whole Redemption Event (each as defined below).

#### **Par Redemption Event**

A “**Par Redemption Event**” means a redemption by us of the Loan Notes at their principal amount together with any accrued interest at any time following a (a) Recalculation of Interest Event or (b) Special Tax Event (each as defined below).

Where:

“**Recalculation of Interest Event**” means the occurrence of a Recalculation of Interest or a payment of Additional Amounts in respect of the Loan Notes and this cannot be avoided by us taking such reasonable measures as we (acting in good faith) deem appropriate. With respect to the occurrence of a Recalculation of Interest Event, we will deliver to the Fiscal Agent an opinion of a recognised independent tax counsel which confirms such occurrence.

“**Special Tax Event**” means that due to a change in law, ruling or interpretation we no longer obtain a tax deduction for the purposes of Swiss corporation tax for any payment of interest on the Loan Notes and this cannot be avoided by us taking such reasonable measures as we (acting in good faith) deem appropriate. With respect to the occurrence of a Special Tax Event, we will deliver to the Fiscal Agent an opinion of a recognised independent tax counsel which confirms such occurrence.

#### **Make Whole Redemption Event**

A “**Make Whole Redemption Event**” means a redemption by us of the Loan Notes at the Make Whole Amount at any time following (a) an Accounting Event, (b) a Regular Tax Event, (c) a Capital Event or (d) a Regulatory Event (each as defined below).

The “**Make Whole Redemption Amount**” will equal the Make Whole Redemption Price (as defined below) in respect of the aggregate principal amount of the Loan Notes, together with accrued and unpaid interest to but excluding the redemption date.

Where:

**“Accounting Event”** means that an opinion of a recognised accounting firm has been delivered to us, stating that our obligations in respect of securities arising out of this transaction must not or must no longer be recorded as liabilities on our balance sheet prepared in accordance with Applicable Accounting Standards (as defined below) for purposes of the published annual financial statements of the Group and this cannot be avoided by us taking such reasonable measures as we (acting in good faith) deem appropriate. With respect to the occurrence of an Accounting Event, we will deliver the applicable opinion to the Fiscal Agent.

**“Capital Event”** means a change by a nationally recognised statistical rating organisation to its equity credit criteria, or the interpretation or application thereof, for securities such as the Loan Notes, as such criteria are in effect on the date hereof (the “current criteria”), which change results in a lower equity credit being given to the Loan Notes as of the date of such change than the equity credit that would have been assigned to the Loan Notes as of the date of such change by such nationally recognised statistical rating organisation pursuant to its current criteria.

**“Make Whole Redemption Price”** means, in respect of each Loan Note, the higher of (a) the principal amount of such Loan Note and (b) the price expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards), at which the Gross Redemption Yield on such Loan Note on the Reference Date (assuming for this purpose that the Loan Note is to be redeemed at its principal amount on the First Optional Redemption Date) is equal to the Gross Redemption Yield (determined by reference to the middle market price) at 11:00 a.m. (London time) on the Reference Date of the Reference Bond plus 0.70 per cent.

**“Regular Tax Event”** means that we no longer obtain a tax deduction (other than due to a change in law, ruling or interpretation) for the purposes of Swiss corporation tax for any payment of interest on the Loan Notes and this cannot be avoided by us taking such reasonable measures as we (acting in good faith) deem appropriate. With respect to the occurrence of a Regular Tax Event, we will deliver to the Fiscal Agent an opinion of a recognised independent tax counsel which confirms such occurrence.

**“Regulatory Event”** means the occurrence of any of the following events which occurrence cannot be avoided by us taking such reasonable measures as we (acting in good faith) deem appropriate:

- (a) the FOPI or any Successor Authority has stated that the Loan Notes are no longer eligible to qualify as Upper Additional Capital (“*oberes ergänzendes Kapital*”), and no longer fulfill the requirements for such category, or equivalent thereof, for group or solo solvency purposes (other than through the Loan Notes exceeding the then applicable quantitative limits on such capital issuance); or
- (b) the FOPI or any Successor Authority issues further guidance in relation to Tier 1 Capital (“*Kernkapital*”) qualifying instruments for group or solo solvency purposes (by way of law, ordinance, regulation or a published interpretation thereof), and following which the FOPI or any Successor Authority states that the Loan Notes do not fulfill the requirements of Tier 1 Capital (“*Kernkapital*”); or

- (c) the FOPI or any Successor Authority issues further guidance in relation to Tier 1 Capital ("Kernkapital") qualifying instruments for group or solo solvency purposes (by way of law, ordinance, regulation or a published interpretation thereof), and the FOPI or any Successor Authority affords the Loan Notes recognition as Tier 1 Capital ("Kernkapital") for group or solo solvency purposes, and at a subsequent time the FOPI or any Successor Authority states that the Loan Notes no longer fulfill the requirements of Tier 1 Capital ("Kernkapital").

Substitution/ Modification following an Early Redemption Event .....

We may, without any requirement for the consent or approval of the Loan Noteholders, substitute at any time all (but not less than all) of the Loan Notes, or modify the terms of the Loan Notes:

- (a) if an Accounting Event occurs, so that no Accounting Event exists after such substitution or modification; or
- (b) if a Regular Tax Event occurs, so that no Regular Tax Event exists after such substitution or modification; or
- (c) if a Special Tax Event occurs, so that no Special Tax Event exists after such substitution or modification; or
- (d) if a Recalculation of Interest Event occurs, so that no Recalculation of Interest Event exists after such substitution or modification; or
- (e) if a Regulatory Event occurs, so that no Regulatory Event exists after such substitution or modification.

Any substitution or modification of the Loan Notes is conditional on the substituted Loan Notes or the modified Loan Notes:

- (a) having terms that are not less favourable to an investor than the terms of the Loan Notes; and
- (b) being issued by us or being issued by another member of the Group with a guarantee by us, such that investors have the same material rights and claims as provided by the Loan Notes; and
- (c) ranking at least equal to the Loan Notes and featuring the same tenor, principal amount, interest rate (including applicable margins and step-up), interest payment dates and first call date as the Loan Notes; and
- (d) being listed on an internationally recognised stock exchange as selected by us (provided the Loan Notes were so listed at such time).

In addition, any substitution or modification is subject to (a) all interest amounts accrued and due on the relevant Interest Payment Date (as defined below) and all Deferred Interest Payments (as defined below) (if any) being satisfied in full on or prior to the date thereof, (b) our giving prior written notice (if such notice is required to be given) to, and receiving no objection from, the FOPI or any Successor Authority, (c) the substitution or modification not itself giving rise to a change in any published rating of the Loan Notes in effect at such time, (d) the substitution or modification not triggering the right to effectuate a Par Redemption Event or a Make Whole Redemption Event and (e) certification by two of our executive officers that these conditions have been complied with.

In connection with any substitution or modification as indicated above, we will comply with the rules of any stock exchange or other relevant authority on which the Loan Notes are then listed or admitted to trading.

Interest .....	Subject to the interest deferral provisions described below, the Loan Notes bear interest at:
	<ul style="list-style-type: none"> <li>(a) a fixed rate of 6.3024% per annum from (and including) March 27, 2007 until (and excluding) the First Optional Redemption Date; and</li> <li>(b) a floating rate equal to the sum of Six Month Sterling LIBOR for such coupon period and 2.12% per annum (<i>which includes a 100 basis point step-up above the original issue margin</i>) from (and including) the First Optional Redemption Date and thereafter.</li> </ul>
Recalculation of Interest .....	If a tax deduction or withholding is required by law to be made by us in respect of any interest payable in respect of the Loan Notes, the applicable interest rate in relation to interest amounts payable on that Interest Payment Date shall be the interest rate which would have otherwise been payable on that Interest Payment Date divided by 1 minus the rate (as a fraction of 1) at which the relevant tax deduction or withholding is required to be made.
Interest Payment Dates .....	Subject to the interest deferral provisions described below, interest will be payable semi-annually in arrears on May 25 and November 25 in each year, commencing on November 25, 2007.
Optional Deferral Trigger .....	<p>Save to the extent that a Required Deferral Event has occurred, we may, on each Interest Payment Date, elect in our discretion either to pay on such Interest Payment Date the interest which accrued during the interest period to but excluding such Interest Payment Date in cash or to defer in whole or in part the payment of interest if:</p> <ul style="list-style-type: none"> <li>(a) no dividend, other distribution or payment was declared or made by us or any of our subsidiaries (except where such dividend, other distribution or payment is made intra-Group) in respect of any Parity Security (except where such parity payment is itself required on a pro rata basis) or Junior Security during the 12 months preceding the Calculation Date (as defined below) in respect of such Interest Payment Date, and</li> <li>(b) no redemption, repurchase or acquisition of Junior Securities or Parity Securities has been made by us (except where such redemption, repurchase or acquisition is made intra-Group or is in respect of shares to satisfy exercises of options or warrants that were issued to employees for compensatory purposes), either directly or indirectly during the 12 months preceding the Calculation Date in respect of such Interest Payment Date.</li> </ul> <p>In the event of a partial payment of interest, interest will be paid on a pro rata basis with Parity Securities.</p>
Required Deferral Event .....	<p>We will be required to defer payments (1) if on an Interest Payment Date or a redemption date a Solvency Event (as defined below) has occurred or (2) if on an Interest Payment Date a Mandatory Deferral Event (as defined below) has occurred (collectively referred to herein as a <b>“Required Deferral Event”</b>).</p> <p>In the case where a Solvency Event has occurred, we will be required to defer payment of the Interest Amount (as defined below). In the case where payment of such Interest Amount would itself cause a Solvency Event to occur, we will be required to defer the Solvency Shortfall (as defined below). In the case where a Mandatory Deferral Event has occurred, then scheduled interest payments on the Loan Notes during the following 12 month period will be wholly or, as the case may be, partially subject to mandatory deferral.</p>

### **Solvency Event**

The “**Solvency Event**” shall have occurred if up to the end of the 10<sup>th</sup> Business Day preceding any Interest Payment Date (the “Calculation Date”):

- (a) we or the Group do not have appropriate funds to cover the required minimum solvency margin (or a comparable term in case of a change in applicable rules) in accordance with the provisions of applicable regulatory capital requirements (including but not limited to Swiss insurance regulatory law) (for group solvency or single solvency purposes or the solvency pursuant to the regulation for financial conglomerates) or a generally recognised administrative practice, if any, of the FOPI or any Successor Authority applicable at that time, or the amount of such funds would, as a result of a full or partial interest payment or redemption payment, respectively, that would otherwise be due on such Interest Payment Date or date of redemption, respectively, be or become less than the required minimum solvency margin, or
- (b) we are unable to pay our debts owed to our Senior Creditors (as defined below) as they fall due, or
- (c) our Assets do not exceed our Liabilities (each as defined below) (other than liabilities to persons who are not Senior Creditors).

Where:

“**Assets**” means our unconsolidated total assets, as shown in our latest annual audited balance sheet, but adjusted for all subsequent events, as reasonably determined by us, or if we are being liquidated, our liquidator.

“**Interest Amount**” means, with respect to any Interest Payment Date, the amount of interest which would be payable on the aggregate principal amount of Loan Notes outstanding on such Interest Payment Date.

“**Liabilities**” means our unconsolidated total liabilities, as shown in our latest annual audited balance sheet, but adjusted for all subsequent events, as reasonably determined by us, or if we are being liquidated, our liquidator.

“**Senior Creditors**” means our creditors (a) who are unsubordinated creditors or (b) whose claims are subordinated but senior to the claims of our other subordinated creditors, being those claims that rank pari passu with, or junior to, the claims of the Loan Noteholders.

“**Solvency Shortfall**” means the portion of the Interest Amount that would cause a Solvency Event to occur or be continuing.

### **Mandatory Deferral Event**

A “**Mandatory Deferral Event**” shall have occurred on an Interest Payment Date if the following conditions are satisfied on the Test Date (as defined below) immediately preceding such Interest Payment Date:

- (a) the consolidated net income of the Group, as determined in accordance with Applicable Accounting Standards, for the 12 month period comprising two consecutive Reporting Periods ending on the Lagged Reporting Date (each as defined below) is less than zero, and

- (b) our Adjusted Equity Amount (as defined below) as at the Lagged Reporting Date has declined by more than 10% as compared to the Adjusted Equity Amount as at the Reporting Date (as defined below) that is 24 months prior to such Lagged Reporting Date (the “**Benchmark Adjusted Equity Amount**”), and
- (c) our Adjusted Capital Amount (as defined below) as at the Current Reporting Date (as defined below) has declined by more than 10% as compared to the Benchmark Adjusted Equity Amount.

As a result of the provisions described herein, if the above conditions are satisfied on any Test Date, scheduled interest payments on the Loan Notes during the 12-month period following the Test Date to but excluding the subsequent Test Date will be wholly or, as the case may be, partially subject to mandatory deferral.

Where:

“**Adjusted Equity Amount**” means, for the relevant period, published total shareholders’ equity as shown in the consolidated balance sheet of the Group, as at the end of any Reporting Period, minus foreign currency translation adjustments and minus net unrealised gains/losses, net of deferred tax.

“**Adjusted Capital Amount**” means the Adjusted Equity Amount plus Qualifying Mandatory Convertibles.

“**Applicable Accounting Standards**” means the accounting standards applied by us for the published accounts of the Group as applicable at the relevant dates and for the relevant periods.

“**Current Reporting Date**” means the most recent Reporting Date.

“**Lagged Reporting Date**” means the Reporting Date immediately prior to the Current Reporting Date.

“**Mandatory Shortfall**” is the amount by which the Interest Amount exceeds the New Capital Amount.

“**New Capital Amount**” means 100% of the net proceeds received by us or any other member of the Group between the Lagged Reporting Date and the relevant Interest Payment Date from any external issuance or sale of ordinary shares or Qualifying Mandatory Convertibles.

“**Qualifying Mandatory Convertible**” means, to the extent permitted under prevailing applicable regulatory criteria, a convertible instrument issued directly or indirectly by us that mandatorily converts into an amount or a maximum amount of our share capital (as pre-defined at the date of issuance of the relevant convertible instrument) on or prior to the third anniversary of the date of its issuance and in respect of which claims by holders rank pari passu with the claims of holders of our shares in the event of bankruptcy.

“**Reporting Date**” means June 30 or December 31.

“**Reporting Period**” means a six-month period ending on a Reporting Date.

“**Test Date**” means the 10<sup>th</sup> Business Day preceding every Interest Payment Date that falls on each May 25 starting on May 25, 2008.

## Consecutive Mandatory Deferral

### Events .....

If we are required to defer a payment of interest following the occurrence of a Mandatory Deferral Event on an Interest Payment Date, then we will also be required to defer the payment of interest that would otherwise be due without application of this condition on one or more subsequent Interest Payment Dates until the Mandatory Deferral Event has been cured. After one or more Mandatory Deferral Events have occurred or are continuing, we may only begin to pay interest on the Loan Notes on any Interest Payment Date if on that Interest Payment Date (i) no new Mandatory Deferral Event has occurred and (ii) all of the previous Mandatory Deferral Events have been cured.

A Mandatory Deferral Event that was triggered has been cured if our Adjusted Capital Amount is more than 90% of the Benchmark Adjusted Equity Amount when the Mandatory Deferral Event was triggered.

We may elect in our discretion to satisfy on the relevant Interest Payment Date the interest that would otherwise have been due on such Interest Payment Date without application of this condition with funds raised prior to the Interest Payment Date by way of the ACSM.

## Settlement of Deferred Interest

### Payments .....

Optionally or mandatorily deferred amounts of interest are referred to herein as "**Deferred Interest Payments**" and will not themselves bear interest. Deferred Interest Payments may only be settled by way of the ACSM.

We will be required to satisfy any outstanding Deferred Interest Payments only by way of the ACSM:

- (a) on the date on which the Loan Notes are called for redemption;
- (b) on the next subsequent Interest Payment Date:
  - (1) on which we are not permitted to optionally defer interest (as described under "**Optional Deferral Trigger**" above), but irrespective of whether there is a Required Deferral Event; or
  - (2) on a pro rata basis on the next subsequent Interest Payment Date following a partial payment of current or deferred interest by us on any Parity Security, in which case the proportion shall be equal to the result from the division of the amount of the payment actually paid on the Parity Security by the outstanding amount (current or deferred) of the payment to which such partial payment relates;
- (c) on the date on which a reason for our dissolution exists pursuant to Article 736 of the Swiss Code of Obligations (other than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent, where the continuing entity assumes substantially all of our assets and obligations); or
- (d) if none of the events referred to in (a), (b) or (c) above have already occurred, on the fifth anniversary of the date upon which deferral of such Deferred Interest Payment commenced.

If a relevant Deferred Interest Payment is required to be made, either at our election or as required by any of (a) to (d) above, we: (i) may choose to do so pursuant to Ordinary Share Settlement and/or Parity Security Settlement (each as defined below) through the issuance and/or sale of Payment Shares or Placement Securities (each as defined below); and (ii) will use best efforts to effect such issuance and/or sale of Payment Shares or Placement Securities on or about the relevant date on which the Deferred Interest Payment becomes due (the “**Deferred Settlement Date**”). If reasonably practicable, we will initiate this process during the six months prior to the relevant Deferred Settlement Date.

If we are unable to raise the required amount to settle the Deferred Interest Payment by the relevant Deferred Settlement Date, we must continue to use our best efforts to raise sufficient proceeds for such settlement for up to two years following such Deferred Settlement Date. If we are unable to consummate (i) the issuance and/or sale of such Payment Shares or Placement Securities or (ii) utilise PIK (as defined below) within the time period outlined above, our obligation with respect to such Deferred Interest Payment will be cancelled.

Alternative Coupon Settlement Mechanisms (“ACSM”) .....

We may only satisfy our obligations in respect of Deferred Interest Payments by one (or a combination) of the following:

1. **“Ordinary Share Settlement”** means the sale of existing or newly issued ordinary shares or Qualifying Mandatory Convertibles (the “Payment Shares”) for cash proceeds.
2. **“Parity Security Settlement”** means the receipt of cash proceeds by us or any other member of the Group from the issuance of Placement Securities and the delivery of such cash proceeds to us. **“Placement Securities”** means any securities or other instruments that have substantially the same terms and conditions as the Loan Notes.
3. **Payment-in-Kind (“PIK”)** means, to the extent permitted under prevailing applicable regulatory criteria governing the Loan Notes, the increase in the outstanding aggregate principal amount of the Loan Notes by an amount equal to all of the outstanding Deferred Interest Payments (the “PIK Amount”), and the outstanding principal amount of each Loan Note shall be so increased proportionately. For the avoidance of doubt, if PIK is utilised, it may only be used on an Interest Payment Date.

*We intend to assess the extent to which Deferred Interest Payments (if any) are due prior to each Interest Payment Date, and to satisfy such Deferred Interest Payments in accordance with Ordinary Share Settlement or Parity Security Settlement. Where we are unable to satisfy the Deferred Interest Payments that are due and payable by Ordinary Share Settlement or Parity Security Settlement, we intend to utilise PIK up to the Sub-Threshold (as defined below). It is our intention that in the unlikely event of a mandatory deferral in respect of the Loan Notes (other than in circumstances where we are deferring interest or distributions on all our hybrid issues) we would use our best endeavours to arrange for the issue and sale of our shares or such other securities so as to raise cash to enable us to settle interest, not later than 30 days after its original due date for payment.*

If in the event of the liquidation, dissolution, insolvency or other proceedings for the avoidance of insolvency of, or against, us, we are unable to apply the ACSM, then our obligations in respect of such unsettled amount shall rank *pari passu* with our obligations in respect of the principal amount of the Loan Notes in an amount up to the Threshold; to the extent the Threshold would be exceeded, our obligation to satisfy the Deferred Interest Payment (if any) shall be cancelled.

### **Limitations**

- (a) We may only utilise the Ordinary Share Settlement to the extent that the number of Payment Shares used in any 12-month period (including the maximum number of shares issued or issuable pursuant to all Qualifying Mandatory Convertibles as of their respective date of issuance) for this purpose does not exceed 2.0% of our outstanding share capital, provided that for the purpose of determining whether or not this limitation has been exceeded, no account shall be taken of any mandatorily deferred interest that was settled within 30 days of being deferred. Calculation of such percentage will apply solely and exclusively to the use of Ordinary Share Settlement where deferral was triggered by the occurrence or the continuation of a Mandatory Deferral Event.
- (b) We may only utilise Parity Security Settlement and/or PIK to the extent the aggregate principal amount of qualifying non-cumulative Placement Securities to be issued and other Placement Securities (together with any Placement Securities previously issued) and any PIK Amount (together with any previous PIK Amounts) would not exceed 25% (the "Threshold") of the initial aggregate principal amount of the Loan Notes, provided that the aggregate principal amount of Placement Securities which are not qualifying non-cumulative Placement Securities (together with any such Placement Securities previously issued) and/or the PIK Amount (together with any previous PIK Amounts) may not exceed 15% (the "Sub-Threshold") of the initial aggregate principal amount of the Loan Notes. Calculation of the Threshold and/or Sub-Threshold will apply solely and exclusively to the use of Parity Security Settlement and/or PIK, as the case may be, where deferral was triggered by the occurrence or the continuation of a Mandatory Deferral Event.

Ordinary Share Settlement Covenant .... We will, from time to time, use our best efforts to keep available for issue or sale such number of Payment Shares as we reasonably consider would be required to be issued or sold in order to satisfy all interest payments on the Loan Notes for a 12-month period using the Ordinary Share Settlement.

No damages will be payable for breach of this covenant but, in the event of breach by us, our Board of Directors may put before the next general meeting of our shareholders a proposal for a resolution to remedy the breach.

Market Disruption Event .....	If there exists, in our reasonable opinion, a Market Disruption Event (as defined in the Conditions), then the two-year period described under “Settlement of Deferred Interest Payments” shall be extended by a period equal to the time during which the Market Disruption Event exists, plus 60 Business Days. We will give notice of both the occurrence of a Market Disruption Event and the date on which, in our opinion, the Market Disruption Event no longer exists. No amount will be payable by way of interest as a result of the occurrence of a Market Disruption Event.
Governing Law .....	The Loan Notes will be governed by the laws of England (except the subordination provisions which will be governed by the laws of Switzerland).

*The Loan Notes will form part of our capital resources and, as such, it is our intention to redeem the Loan Notes only to the extent that we or any of our subsidiaries have, in the period of six months preceding such redemption, raised funds in an amount at least equal to the aggregate principal amount of the Loan Notes by the external issuance and sale of any ordinary shares or any securities that have equal or greater equity characteristics relative to the Loan Notes.*

### Ratings

In connection with the issuance of the Loan Notes, Standard & Poor’s Rating Group (“S&P”) has assigned a rating of “A” and Moody’s Investors Service, Inc. (“Moody’s”) has assigned a rating of “A2.”

An explanation of the significance of the ratings may be obtained from the rating agencies. Generally, rating agencies base their ratings on such material and information, and such of their own investigations, studies and assumptions, as they deem appropriate. A credit rating of a security is not a recommendation to buy, sell or hold securities. There is no assurance that any rating will apply for any given period of time or that a rating may not be adjusted or withdrawn.

## SUMMARY CONSOLIDATED FINANCIAL DATA

You should read the following summary consolidated financial data with our consolidated financial statements, the notes to those consolidated financial statements and the information under "Operating and Financial Review." We derived the summary consolidated financial data as of and for the years ended December 31, 2005 and 2006 from our consolidated financial statements as of and for the year ended December 31, 2006, which have been audited by our independent auditors, and have been prepared and presented in accordance with U.S. GAAP.

We have included a translation of the data at and for the year ended December 31, 2006 from Swiss francs into U.S. dollars, solely for your convenience. This translation is at the rate of CHF 1.2190 = \$1.00, the Bloomberg Rate on December 29, 2006. On March 21, 2007 the Bloomberg Rate was CHF 1.2097 = \$1.00. See "Exchange Rate Information."

	Year Ended December 31,		
	2005	2006	2006
	CHF	CHF	USD
(in millions, except per share data and ratios)			
<b>Income Statement Data:</b>			
<b>Revenues</b>			
<b>Premiums earned</b>			
Property & Casualty .....	16,346	17,441	14,308
Life & Health .....	9,638	10,974	9,002
Financial Services .....	907	1,100	902
<b>Total premiums earned</b> .....	<u>26,891</u>	<u>29,515</u>	<u>24,212</u>
Fee income .....	881	879	721
Net investment income .....	6,137	6,990	5,734
Net realised investment gains .....	3,474	1,948	1,598
Trading revenues .....	346	654	537
Other revenues .....	283	280	230
<b>Total revenues</b> .....	<u>38,012</u>	<u>40,266</u>	<u>33,032</u>
<b>Expenses</b>			
Claims and claim adjustment expenses .....	(14,758)	(11,799)	(9,679)
Life and health benefits .....	(8,668)	(9,594)	(7,870)
Interest credited to policy holders .....	(3,019)	(2,827)	(2,319)
Acquisition costs .....	(5,927)	(6,079)	(4,987)
Other operating costs and expenses .....	(3,081)	(4,111)	(3,372)
<b>Total expenses</b> .....	<u>(35,453)</u>	<u>(34,410)</u>	<u>(28,228)</u>
Income before income tax expense .....	2,559	5,856	4,804
Income tax expense .....	(255)	(1,296)	(1,063)
<b>Net income</b> .....	<u>2,304</u>	<u>4,560</u>	<u>3,741</u>
<b>Per share data</b>			
Earnings per share, basic .....	7.44	13.49	11.07
Earnings per share, diluted .....	7.14	12.53	10.28
<b>Balance Sheet Data (at period end):</b>			
Total investments .....	130,601	172,507	141,515
Total assets .....	221,299	291,300	238,966
Total liabilities .....	196,906	260,416	213,631
Unpaid claims and claim adjustment expenses .....	71,759	95,011	77,942
Liabilities for life and health policy benefits .....	31,081	44,899	36,833
Policyholder account balances .....	34,115	42,834	35,139
Total shareholders' equity .....	24,393	30,884	25,335
<b>Other Data</b>			
Property & Casualty operating ratios (traditional business) <sup>(a)</sup>			
Claims ratio .....	89.3	63.3 <sup>(e)</sup>	
Acquisition cost ratio <sup>(b)</sup> .....	19.8	18.7	
Administration expense ratio <sup>(b)</sup> .....	5.0	7.6	
Property & Casualty combined ratio .....	114.1	89.6 <sup>(e)</sup>	
Life & Health return on operating revenues <sup>(c)</sup> .....	9.6	10.0	
Life & Health management expense ratio <sup>(d)</sup> .....	5.5	6.3	

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- (a) Excludes the non-traditional business of our Property & Casualty (including Risk Solutions) business, which encompasses certain large commercial lines and certain structured reinsurance products, and for which we believe the combined ratio is not a suitable measure as the source of profits under applicable contracts typically arises from a combination of investment performance and underwriting performance.
- (b) Unaudited ratios (calculated based on information extracted from our accounting records/management accounts).
- (c) Represents annual Life & Health business operating result (operating income less non-participating net realised investment gains and losses) divided by total annual Life & Health business operating revenues (which include premiums earned, fee income, net investment income excluding unit-linked investment income, and participating net realised investment gains and losses, excluding unit-linked realised gains and losses).
- (d) Represents annual Life & Health business other operating costs and expenses divided by Life & Health business operating revenues (which include premiums earned, fee income, net investment income excluding unit-linked investment income, and participating net realised investment gains and losses, excluding unit-linked realised gains and losses).
- (e) Under purchase GAAP, acquired assets and liabilities are required to be stated at fair value, which means that property and casualty reserves must be adjusted to reflect fair value. The discount (net of capital cost) unwinds over the estimated average duration of the reserves. For ease of comparability, the combined ratio is shown excluding the unwind of the discount.

## RISK FACTORS

*An investment in the Loan Notes involves risks. You should carefully consider the following risk factors and the other information in this Offering Memorandum before making an investment decision. Any of the risk factors could impact our business, financial conditions or operating results. Some of the statements in "Risk Factors" are forward-looking statements. For more information about forward-looking statements, see "Forward-Looking Statements."*

### Risks Related to Our Business

#### ***Our investment returns are subject to fluctuations in both the fixed income and equity markets***

Investments are an important part of our overall profitability, and fluctuations in the fixed income or equity markets have had, and could continue to have, an adverse effect on our consolidated financial condition, results of operations and cash flows. We follow an absolute return approach, seeking to maximise shareholder return on a risk-adjusted basis that takes the liability structure into account. Fluctuations in interest rates affect our returns on fixed-income investments, as well as the market values of, and corresponding levels of capital gains or losses on, the fixed income securities in our investment portfolio. Generally, investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed income securities are called, mature or are sold and the proceeds reinvested at lower rates. During periods of rising interest rates, prices of fixed income securities tend to fall and realised gains upon their sale are reduced. Our investment returns are also susceptible to changes in general economic conditions, including changes that impact the general creditworthiness of the issuers of debt securities held in our portfolio or the value of equity securities held in our portfolio. We are also exposed to changes in the level or volatility of equity prices that affect the value of securities or instruments that derive their value from a particular equity security, a basket of equity securities or a stock index. Our efforts to reposition the portfolio from time to time, as needed, and to reduce risk and fluctuations through the use of portfolio diversification, derivatives and other risk management tools designed to reduce our exposure to adverse price movements may not be successful, which in turn could have a materially adverse effect on our financial condition and results of operations.

#### ***Our reserves may not adequately cover future claims and benefits***

Our reserves may prove to be inadequate to cover our actual claims and benefits experience. We maintain reserves in our Property & Casualty lines to cover our estimated ultimate liability for claims and claim adjustment expenses for reported and unreported claims incurred as of the end of each accounting period. We also maintain reserves for future policy benefits for our Life & Health lines and we maintain reserves against insurance and reinsurance contracts written by the units of our Financial Services business. Reserves do not represent an exact calculation of liability, but rather are estimates of the expected cost of the ultimate settlement of claims. These estimates are based on actuarial and statistical projections of facts and circumstances known at a given time and estimates of trends in claims severity and other variable factors, including new bases of liability and general economic conditions.

Changes in trends or other variable factors underlying our reserve estimates could result in claims in excess of reserves. For example, our assumptions concerning future claims cost inflation could prove to be too low at a time of rising interest rates, resulting in higher claims combined with a reduction in fixed income asset values in our investment portfolio to meet these claims. For some types of claims, most significantly asbestos-related, environmental pollution and health hazard claims and certain liability claims, it has been necessary, and may over time continue to be necessary, to revise estimated potential claims exposure and, therefore, the related claims reserves. Consequently, actual claims, benefits and related expenses paid may differ from estimates reflected in the reserves in our consolidated financial statements. Premium rates in our Life & Health business are often guaranteed for the life of a contract, which could be 30 years or more. If premium rates prove to be inadequate, we would make provision for the shortfall for the remaining lifetime of the business. In addition, morbidity benefits are often payable over many years and there is uncertainty in the estimate of the number of years over which benefits will be paid. Additional claims, including claims arising from changes in the legal and regulatory environment, the type or magnitude of which we cannot foresee, may emerge in the future. Additional claims could also arise from changes in general economic conditions that impact companies whose obligations are backed by credit insurance or reinsurance, financial guarantees or similar commitments provided as part of our alternative risk transfer business.

In 2006, prior years generated a profit from adverse development of CHF 502 million. For 1998 and prior years, the development was broadly neutral, while years 1999 to 2001 are still experiencing adverse development

for U.S. liability lines, in particular directors and officers liability covers. Adverse development in liability was partially offset by continuing positive developments in property, marine, aviation and engineering. Furthermore, with respect to asbestos-related claims, our asbestos & environmental (“A&E”) reserves (which represent 1.8% of our total reserves) will be analyzed during 2007 by an independent third-party to determine if the assumptions we have applied and amounts we have reserved for such claims are reasonable. This is a study that is performed every four years, and we do not expect any significant change to our reserves as a result. To the extent we determine that we have underestimated the potential liability under our A&E policies, we may have to strengthen reserves to account for any such differences.

Prior to the Insurance Solutions Acquisition, the Insurance Solutions business was separately affected by many of the market risks and other categories of risk that we face. This included the risk of inadequate reserves. Although Insurance Solutions had strengthened its reserves by \$9.8 billion for years 2002-2005, including \$3.8 billion in 2005 (of which \$3.2 billion was in the fourth quarter), the reserves underlying the business they wrote may prove to be inadequate to cover its actual claims and benefits experience, and to the extent reserves are insufficient to cover actual claims, claim adjustment expenses or future policy benefits, we will have to add to these reserves and incur a charge to our earnings. These insufficiencies in reserves could have material adverse effects on our future consolidated financial condition, results of operations and cash flows.

There can be no assurance that going forward we will not experience further adverse development. To the extent reserves are insufficient to cover actual claims, claim adjustment expenses or future policy benefits, we would have to add to these reserves and incur a charge to our earnings. These insufficiencies in reserves could have material adverse effects on our future consolidated financial condition, results of operations and cash flows.

#### ***Catastrophic events expose us to the risk of unexpected large losses***

A catastrophic event or multiple catastrophic events may cause unexpected large losses and could have a material adverse effect on our consolidated financial condition, results of operations and cash flows. Catastrophic events, such as hurricanes, windstorms, earthquakes, explosions, fires and pandemics, are inherently unpredictable in terms of both their frequency and severity. We have generally believed that one or more catastrophic events that produce significant losses eventually would occur and there can be no assurances that our efforts to protect ourselves against catastrophic losses, such as the diversification of business written, the use of selective underwriting practices, the use of quantitative models, prudent reserving, the monitoring of risk accumulations and risk protection arrangements, will prove to be adequate.

**Natural Catastrophes.** Over the past decade, insured losses for catastrophes have shown a rising trend, due principally to weather-related catastrophes. The increasing concentration of economic activities and people living and working in areas exposed to natural catastrophes has resulted in increased financial risk and complexity. Hurricane Katrina, which devastated the Gulf Coast of the Southern United States in September 2005, resulted in an estimated insurance market loss of \$45 billion, significantly contributing to estimated industry losses for natural catastrophes of \$78 billion and estimated total catastrophe losses (including man-made losses) of \$83 billion in 2005. Hurricanes Rita and Wilma triggered estimated insurance market claims of \$10 billion each and Hurricane Dennis triggered estimated insurance claims of \$1 billion. More recently, in January 2007, winter storm Kyrill caused, we estimate, €3.5 billion in industry losses. As for the impact on us, in 2005, claims exceeding CHF 20 million from natural perils reached a record CHF 3.0 billion. As a result, our combined ratio deteriorated by 11.7 percentage points from 2004 (on a Swiss GAAP FER basis). Going forward, we expect that the effects of global warming are likely to aggravate potential loss scenarios. Shifting climate could lead to weather events that heretofore have been restricted to regions with extreme weather conditions, spreading to other parts of the world.

High severity, low frequency events, such as Hurricane Katrina, are an integral part of our business, and providing cover for these natural catastrophes will remain fundamental to our value proposition. Like us, prior to the Insurance Solutions Acquisition, the Insurance Solutions business was exposed to catastrophic events. Insurance Solutions had claims of approximately \$830 million on a net basis in respect of the 2005 hurricanes.

**Terrorism.** The September 11, 2001 terrorist attack on the United States and the threat of future terrorist acts, including bio terrorism, had a significant impact on economic, political and market conditions around the world. The climate of uncertainty could continue for the foreseeable future and may worsen if additional attacks occur. These conditions could increase the risk of, and have a continuing adverse effect on, our business. The prospect of future substantial terrorist attacks (including those that are intended to cause maximum strain on financial infrastructures), as well as the prospect of an increasing frequency of smaller attacks, poses a challenge for risk managers and underwriters alike, and highlights the need for innovative solutions, including joint approaches involving the private sector and governments.

**Mortality and morbidity.** We have significant exposure to mortality and morbidity risk through our Life & Health business, and consequently an influenza pandemic is a material risk as it has the potential to impact all markets across the world. In the past one hundred years, there have been three influenza pandemics, with greatly varying mortality rates, typically among the more vulnerable and concentrated in the very young and old. We believe that a pandemic has the potential to affect a significant percentage of the world's population, causing a high level of sickness and an increase in mortality. The worst of these three pandemics caused an estimated 20-50 million deaths in 1918-1919. Recent attention has focused on the likelihood and severity of a new influenza pandemic arising from the H5N1 virus and the risk that a new subtype of virus could emerge, which could be transmitted between humans and against which there is little, or no, immunity, that could trigger a new influenza pandemic.

**Global mitigation.** Industry experts have recently noted that rare, but potentially disastrous risks, such as an outbreak of an influenza pandemic, severe oil-price shock or the acceleration of global warming, are still underestimated by both businesses and governments. In a report we recently released together with various other industry participants, we highlighted various core global risks (that have the potential to cause major systemic disruptions due to the interconnectedness of risks in a globalised economy reflecting the potential real time response of securities, property and foreign currency markets to natural catastrophes, terrorist attacks and the like) and the disconnect between the risks and the ability to mitigate them. In addition to terrorism and pandemics, the report also cites climate change, energy supply interruptions and oil price shocks, the fall in the U.S. dollar, fiscal crises caused by demographic changes, proliferation of weapons of mass destruction, geopolitical instability and civil wars, and breakdowns of critical information infrastructures, as well as other risks that the occurrence of one or more of these risks could trigger. The potential impact of these global risks will be a function of the extent to which mitigation strategies can be implemented on a systemic, global basis. There can be no assurance that such strategies can be effectively implemented.

***We may face difficulties in pursuing some of our risk transfer strategies***

The 2005 record hurricane losses had a dramatic impact on the insurance and reinsurance markets. The industry faced rising premiums and a significant contraction in capacity concurrently with tightening of capital requirements as models were adjusted and rating agencies changed their methodologies. We have turned to the capital markets as a new source of capital capacity and have become a market leader in insurance-linked securities, both to meet our own needs for reinsurance capacity and to structure and place insurance-linked securities for our clients, and expect to continue to do so at increasing levels, both to manage peak risks and address earnings volatility. Were capital markets investors to turn away from products designed to transfer risk to the capital markets, our ability to grow our business, address earnings volatility and manage peak risks would be adversely affected, which in turn could have a material adverse effect on our financial condition and results of operations.

***Cyclical of the reinsurance industry may cause fluctuations in our results***

The insurance and reinsurance industries, particularly the property and casualty market, are cyclical. Historically, operating results of reinsurer's have fluctuated significantly because of volatile and sometimes unpredictable developments, many of which are beyond the direct control of reinsurers. These developments include:

- price competition;
- frequency of occurrence and/or severity of catastrophic events;
- capital markets volatility;
- underwriting capacity; and
- general economic conditions.

Underwriting results and underwriting capacity of insurers and prevailing general economic conditions significantly influence demand for property and casualty reinsurance. The supply of reinsurance is primarily related to prevailing reinsurance premiums, levels of insured claims, levels of reinsurance industry surplus and use of underwriting capacity which, in turn, may fluctuate in response to changes in rates of return on investments earned in the reinsurance industry. We expect to continue to experience the effects of this cyclical, including changes in premium rates, which could have a material adverse effect on our results of operations.

***Competitive conditions in the reinsurance industry could impact our results***

Consolidation in the worldwide insurance industry has created a smaller group of larger companies that are retaining an increasing portion of their business and relying less on reinsurance to mitigate their risk exposure. In recent years, the competitive landscape has been marked by the increased convergence of banking, reinsurance and capital markets businesses. Competition in the types of reinsurance we provide is based on many factors, including the overall financial strength of the reinsurer, expertise, local presence, reputation, experience and

qualifications of employees, client relationships, geographic scope of business, products and services offered, premiums charged, contract terms and conditions and speed of claims payment. We compete for reinsurance business in the European, U.S. and other international reinsurance markets with numerous reinsurance and insurance companies, some of which have substantial financial resources and are highly rated.

As part of our growth in recent years, we have significantly expanded our Admin Re<sup>SM</sup> platform. In December 2006, we acquired for a cash purchase price of £465 million, including £260 million for statutory net assets, the GE Life business from GE. The transaction was our largest Admin Re<sup>SM</sup> transaction to date, and is expected to provide scale and infrastructure for business in the United Kingdom. Our ability to continue to grow this business will be influenced in part by competitive factors.

In a period of lower premium growth of our underlying business, our focus is on maintaining strict underwriting terms. Although the absence of large natural catastrophe and man-made claims in 2006 following the catastrophe losses of 2005 has led to increased profitability, thereby facilitating maintenance of strict underwriting terms, the reinsurance market has also recently been characterised by a significant increase in capacity with new entrants. To the extent that there is a move to less strict underwriting terms, our underwriting terms could face greater competitive pressure.

***We could be subject to unexpected needs for liquidity***

In addition to premiums from our reinsurance operations, our principal sources of funds are our investments and the funds we raise from time to time through the issuance of securities or through borrowings. Our uses of funds include our obligations arising in our reinsurance business, which may include large and unpredictable claims (including catastrophe claims), funding of capital requirements, payment of principal and interest on outstanding debt and funding of acquisitions. We also enter into contracts that could give rise to significant short-term funding obligations. Meeting the liquidity needs of these contracts may force us to raise cash by liquidating investments unexpectedly and in unfavourable market conditions, which would adversely affect the results of our investment operations and, in turn, our results of operations and financial conditions.

***Regulatory actions may have an adverse impact on the industry in general and on our business, results of operations and financial condition***

Various regulatory authorities, including the SEC and State Attorneys General in the United States, including the Attorney General of the State of New York, State Insurance Commissioners in the United States and the U.K. Financial Services Authority, as well as law enforcement agencies, have in the past few years conducted investigations of non-traditional, or loss mitigation insurance, products. We were among the companies that received subpoenas to produce documents relating to “non-traditional” products as part of these investigations. We announced that we are cooperating fully with all requests for documents addressed to us. GE also received similar subpoenas in respect of the Insurance Solutions operations and agreed to indemnify us for losses arising from certain investigations commenced within one year after the June 2006 closing of the acquisition.

It is unclear at this point what the ultimate scope of these investigations will be, in terms of the products, parties or practices under review, particularly given the potentially broad range of products that could be characterised as “non-traditional.” Consequently, it is unclear at this point what the direct or indirect consequences of such investigations will be. The scope of the investigations could expand and other regulators and law enforcement agencies may initiate their own investigations. The consequences of these investigations could include, for example, but are not limited to, criminal or civil actions by regulators or lawsuits arising from practices under review, changes in the scope and nature of regulatory oversight of the insurance and reinsurance industries, changes to applicable accounting rules, adoption of new reporting rules, restatement of financial statements, changes to the range of non-traditional products that are available and a reduction in the use of non-traditional products, changes in the criteria used by ratings agencies and changes to practices in respect of a range of non-traditional products by both providers and users of such products. The investigations could also adversely affect the levels of business, and the stock prices, of industry participants. To date, certain industry participants have restated their financial statements to reflect reassessments of accounting for certain non-traditional products. We are not currently in a position to give any assurances as to the consequences for us or the insurance and reinsurance industries of the foregoing investigations or related developments. Any of the foregoing could adversely affect our business, results of operations and financial condition.

***Changes in foreign exchange rates may impact our results***

We publish our consolidated financial statements in Swiss francs. Therefore, fluctuations in exchange rates used to translate other currencies into Swiss francs will impact our reported consolidated financial condition, results of operations and statement of cash flow from year to year. These fluctuations in exchange rates will also impact the Swiss franc value of our investments and the return on our investments. These impacts can be

material. For a discussion of the impact of changes in foreign exchange rates on our results of operations and balance sheet, see “Operating and Financial Review—Exchange Rate Fluctuations,” “—Impact of Change to U.S. GAAP—Foreign Exchange,” and “—Quantitative and Qualitative Disclosures about Financial Market Risk.”

***A decline in the financial strength and credit ratings assigned to us and our businesses by various rating agencies could materially adversely affect our potential to write business and could increase our costs of borrowing***

Third-party rating agencies assess and rate the financial strength of reinsurer’s and insurers, such as Swiss Re. These ratings are based upon criteria established by the rating agencies. The rating agencies continuously evaluate us to confirm that we continue to meet the criteria of the rating assigned to us. The financial strength ratings assigned by rating agencies to reinsurance or insurance companies are based upon factors relevant to cedants. Financial strength ratings by rating agencies are not ratings of securities or recommendations to buy, hold or sell any security. We currently are rated “AA-” (stable) by S&P, “Aa2” (negative outlook) by Moody’s and “A+” (stable) by A.M. Best.

We can provide no assurance that one or more of these or other rating agencies will not downgrade or withdraw their ratings in the future. As claims paying and financial strength ratings are a key factor in establishing the competitive position of reinsurers, a decline in just our rating could make reinsurance provided by us less attractive relative to reinsurance from our competitors with similar or stronger ratings. A decline in rating could also cause our clients to prefer our competitors and could cause the loss of clients who are required by either policy or regulation to purchase reinsurance only from reinsurer’s with certain ratings. Any rating downgrades could also materially adversely affect our cost of borrowing.

***Constraints on collateral capacity could have an adverse impact on our business***

A substantial part of our business is conducted with ceding companies in the United States. Some of this business is channelled to non-U.S. subsidiaries, which triggers collateralisation requirements of the full U.S. statutory reserves in order for the U.S. ceding company to receive credit for reinsurance by the relevant regulator. The bulk of our reinsurance collateral requirements are currently being met with bank letters of credit obtained through a number of syndicated and bilateral letter of credit facilities, including a syndicated \$2.0 billion five-year letter of credit facility entered into in June 2004 and a syndicated \$2.5 billion six-year letter of credit facility entered into in October 2004. Subsequent to the closing of the Insurance Solutions Acquisition, we increased our letter of credit capacity by approximately \$1.6 billion to accommodate the Insurance Solutions business. In addition, in the future, we may need to extend the maturity of our letters of credit in response to rating agency reassessments of their treatment of shorter duration facilities. Should we be unable to retain access to sufficient collateral capacity to meet our collateral requirements, our financial condition and results could be materially impacted. In addition, the letter of credit facilities are subject to repricing risk upon renewal. Significant increases in the costs of letters of credit (including by reason of a substantial downgrading by major rating agencies) could require us to reduce our activities and adversely impact our financial condition.

***Regulatory or legal changes, including recent proposals by the European Commission, as well as other government or judicial action or trends, could adversely affect our business***

Regulations and policies currently governing us and our clients may change at any time in ways which may adversely affect our business. We are subject to applicable regulation in each of the jurisdictions in which we conduct business, particularly Switzerland, the United States, the United Kingdom and Germany. We cannot predict the future impact of changing law or regulation on our operations and any changes could have a material adverse effect on our financial condition, results of operations or cash flows. See “Regulation.”

We welcome a number of legislative initiatives, notably the introduction of risk-based prudential regimes in Switzerland (Swiss Solvency Test) and in the EU (Solvency II). We also support recent efforts to forge greater private-public partnerships to address solutions for terrorism risk. However, other trends could have an adverse impact on our reinsurance business activities, such as recent legislation in the State of Florida to expand government-run insurance/reinsurance funds, as well as possible similar initiatives in other States. In response to the emergence of potential class action litigation in Europe, as well as recent court cases in France and the United Kingdom, we are developing new products and maintaining our focus on strict underwriting terms.

***The Insurance Solutions Acquisition exposed us to certain additional risks that we had not been subject to before***

While many of the risks faced by the Insurance Solutions business were similar to the risks we face, in certain areas we became subject to new risks as a result of the Insurance Solutions Acquisition. For example, in

contrast to our business, the Insurance Solutions business historically relied to a significant degree on retrocession arrangements, the level of which we expect we will reduce over time. To the extent we retained retrocession arrangements of the Insurance Solutions business, those arrangements are subject to the credit risk of the retrocessionaires.

Additionally, the Insurance Solutions business has a primary U.S. insurance business and is therefore subject to other potential risks arising from a primary insurance business, including, without limitation, loss of distribution channels (brokers and agents to the extent the Insurance Solutions companies rely on agents to write their business), poor quality of third party reinsurance receivables for primary companies, significant competition in certain lines of business, regulatory restrictions on exiting (through cancellation or non-renewal) certain lines of business, long-tail exposures including asbestos and pollution and insufficiency of reserves for such exposures, and inadequate rates (premiums).

***We may experience difficulties as we continue to integrate the Insurance Solutions business into our business and could be subject to contingent liabilities relating to its business***

Our ability to achieve the anticipated short and long-term benefits of the Insurance Solutions Acquisition, including achieving the expected synergies, has depended and will continue to depend in large part upon whether we successfully integrate the historical businesses of Swiss Re and the Insurance Solutions business in an efficient and effective manner. The integration process may take longer than expected, and although the integration of units and personnel is substantially complete, we continue to integrate information technology and financial reporting systems. If we are unable to successfully complete the integration of our operations with the Insurance Solutions business, we may be unable to realise the cross-selling, cost savings, revenue growth and other anticipated benefits we expect to achieve as a result of the Insurance Solutions Acquisition and our business and results of operations could be adversely affected. In certain cases, the integration will be phased-in over time. For example, investment management services for the assets of Employers Reinsurance Company and its affiliates that were provided by GE Asset Management (“GEAM”) prior to the Insurance Solutions Acquisition continue to be provided (for a three-year period) by GEAM pursuant to a management services agreement.

Beginning with fiscal 2008, we expect to achieve estimated pre-tax annual cost synergies of CHF 460 million. We incurred one-time restructuring costs of CHF 210 million in 2006 and expect to incur an additional CHF 50 million in 2007. Among other things, we achieved CHF 42 million of information technology cost savings, and have consolidated 133 offices into 93 at the beginning of 2007 and expect to reduce to 74 offices at the beginning of 2008.

In addition, as we acquired shares as well as assets of Insurance Solutions subsidiaries, we could be liable for unknown and contingent liabilities. We benefit from indemnification from GE, but that indemnification is limited in scope and time and might not cover certain such liabilities were they to arise.

**Risks Related to the Loan Notes and the Loan Notes Offering**

An investment in the Loan Notes involves certain risks that would not be associated with an investment in typical debt securities. Such risks could result in principal or interest not being repaid or paid by us and/or a material impairment of the market price of the Loan Notes. The following is a description of risk factors in relation to the Loan Notes.

***The Loan Notes have no scheduled maturity, and you do not have the right to accelerate the payment of the principal amount of the Loan Notes or otherwise call a default in respect of the Loan Notes***

The Loan Notes have an indefinite term. We are under no obligation to redeem the Loan Notes at any time, and you have no right to call for their redemption. As there is an indefinite term, there is no fixed date for the payment of principal on the Loan Notes. You do not have the right to accelerate the payment of the principal amount of the Loan Notes if we default under the Loan Notes or to otherwise declare the Loan Notes due and payable.

***We may redeem the Loan Notes under certain circumstances and such redemption might occur when prevailing interest rates are low***

The Loan Notes are redeemable in whole but not in part at our option at their principal amount on the First Optional Redemption Date and on each Interest Payment Date thereafter. We may also redeem the Loan Notes in whole but not in part at their principal amount together with any accrued interest at any time following the occurrence of a Par Redemption Event (which could be triggered by a Recalculation of Interest Event or a Special Tax Event), and at the Make Whole Redemption Amount, following the occurrence of a Make Whole

Redemption Event (which could be triggered by an Accounting Event, a Regular Tax Event, a Capital Event or a Regulatory Event). In any case, we may call and redeem the Loan Notes only if the FOPI or any Successor Authority has given (and has not subsequently withdrawn) its consent to the redemption, to the extent such consent is required, or otherwise has not objected to the redemption, all as more fully described in the Conditions. If we call and redeem the Loan Notes in any of the circumstances mentioned above, you may only be able to reinvest the redemption proceeds in securities with a lower yield.

***We are not subject to limits on the issuance of securities or other obligations, which may reduce the amount recoverable by you in certain circumstances***

There is no restriction on the amount of securities that we may issue or guarantee that rank senior to the Loan Notes or on the amount of securities that we may issue or guarantee that rank pari passu with the Loan Notes. The issuance of such securities may reduce the amount recoverable by you on liquidation, dissolution, insolvency or other proceeding for the avoidance of insolvency of, or against, us or may increase the likelihood that we may elect or be required to defer payments of interest under the Loan Notes.

***Your right to receive payment on the Loan Notes is subordinated in right of payment to existing and future senior creditors***

The Loan Notes will be our perpetual, subordinated obligations. In the event of the liquidation, dissolution, insolvency or other proceedings for the avoidance of insolvency of, or against, us, our obligations under the Loan Notes will be subordinated to the claims of all holders of Senior Securities, so that in any such event no amounts shall be payable in respect of the Loan Notes until the claims of all holders of Senior Securities shall have first been satisfied in full. In such liquidation, dissolution, insolvency or other proceeding for the avoidance of insolvency of, or against, us, you may recover proportionately less than the holders of our unsubordinated and dated subordinated liabilities.

***We may decide to defer interest payments on the Loan Notes***

We may, with respect to any Interest Payment Date, elect in our discretion to defer in whole or in part the payment of interest on the Loan Notes, if no dividend, other distribution or payment was declared or made by us or any of our subsidiaries (except where such dividend, other distribution or payment was made intra-Group) in respect of any Parity Security (except where such parity payment is itself required on a pro rata basis) or Junior Security during the 12 months preceding the Calculation Date in respect of such Interest Payment Date and no redemption, repurchase or acquisition of Junior Securities or Parity Securities has been made by us (except where such redemption, repurchase or acquisition is made intra-group or is in respect of shares to satisfy exercises of options or warrants that were issued to employees for compensatory purposes), either directly or indirectly during the 12 months preceding the Calculation Date in respect of such Interest Payment Date.

Deferred interest payments will not themselves bear interest and may only be settled by way of the ACSM. ACSM could include an Ordinary Share Settlement, a Parity Security Settlement or a Payment-in-Kind (PIK), in each case, subject to the limitations described in the Conditions. Our obligations with respect to such Deferred Interest Payments will be cancelled if we are unable to raise sufficient proceeds via ACSM to settle such Deferred Interest Payments. Although we intend to assess the extent to which Deferred Interest Payments (if any) are due prior to each Interest Payment Date and to satisfy such Deferred Interest Payments in accordance with Ordinary Share Settlement or Parity Security Settlement, where we are unable to satisfy the Deferred Interest Payments that are due and payable by Ordinary Share Settlement or Parity Security Settlement, we intend to use PIK up to the Sub-Threshold described in the Conditions.

You will not receive any additional interest or compensation for the optional deferral of the payment of interest.

***We may be required to defer interest payments on the Loan Notes***

If on an Interest Payment Date a Solvency Event has occurred, we will be required to defer the Interest Amount as described in the Conditions. In the case where payment of the Interest Amount would itself cause a Solvency Event to occur, we will be required to defer the Solvency Shortfall. If on an Interest Payment Date a Mandatory Deferral Event has occurred, we will be required to defer any Mandatory Shortfall. If we are required to defer a payment of interest following the occurrence of a Mandatory Deferral Event on an Interest Payment Date, we will also be required to defer on one or more subsequent Interest Payment Dates the interest that would otherwise be due on such Interest Payment Dates until the Mandatory Deferral Event has been cured. After one

or more Mandatory Deferral Events have occurred, we may only begin to pay interest on the Loan Notes on any Interest Payment Date if on that Interest Payment Date (i) no new Mandatory Deferral Event has occurred and (ii) all of the previous Mandatory Deferral Events have been cured.

Deferred Interest Payments will not themselves bear interest and may only be settled by way of the ACSM. ACSM could include an Ordinary Share Settlement, a Parity Security Settlement or a Payment-in-Kind (PIK), in each case subject to the limitations described in the Conditions. Our obligations with respect to such Deferred Interest Payments will be cancelled if we are unable to raise sufficient proceeds via ACSM to settle such Deferred Interest Payments. Although we intend to assess the extent to which Deferred Interest Payments (if any) are due prior to each Interest Payment Date and to satisfy such Deferred Interest Payments in accordance with Ordinary Share Settlement or Parity Security Settlement, where we are unable to satisfy the Deferred Interest Payments that are due and payable by Ordinary Share Settlement or Parity Security Settlement, we intend to use PIK up to the Sub-Threshold described in the Conditions. Although it is our intention that in the unlikely event of a mandatory deferral in respect of the Loan Notes (other than in circumstances where we are deferring interest or distributions on all our outstanding hybrid securities) we would use our best endeavours to arrange for the issue or sale of our shares or such other securities so as to raise cash to enable us to settle interest, no later than 30 days after its original due date for payment, there can be no assurance that we will be able to do so.

You will not receive any additional interest or compensation for the mandatory deferral of the payment of interest.

***You may not receive any interest payments that have been deferred and interest payments may be cancelled if we are unable to sell shares or other securities ranking junior to or pari passu with the Loan Notes***

Our obligation to pay Deferred Interest Payments is subject to the condition that these payments can only be settled by way of the ACSM, which means that we can use only cash proceeds of an Ordinary Share Settlement (that is, from the issuance or sale of Payment Shares, which are existing or newly issued shares of ours or our existing or newly issued Qualifying Mandatory Convertibles), a Parity Security Settlement (that is, from the issuance of Placement Securities, which are securities or other instruments that receive equal or greater equity credit from the rating agencies relative to the Loan Notes) or, to the extent permitted under prevailing regulatory criteria governing the Loan Notes, a PIK (that is, through the increase of the outstanding aggregate principal amount of the Loan Notes by an amount equal to all of the outstanding Deferred Interest Payments). There are limitations on using the ACSM, including that in the case of delivery of cash from the issuance of Payment Shares or Parity Securities, such shares or securities must have been issued within two years of the relevant Deferred Settlement Date (that is, the date on which the Deferred Interest Payment becomes due). In addition, under Swiss law the issuance of new shares must be approved by the shareholders upon recommendation of the board of directors; shareholders are not bound by the recommendation of the board of directors. We may only use the Ordinary Share Settlement to the extent that the number of Payment Shares (including the maximum number of shares issued or issuable pursuant to all Qualifying Mandatory Convertibles as of their respective date of issuance) used in any 12-month period for this purpose does not exceed 2.0% of our outstanding share capital, provided that for the purpose of determining whether or not this limitation has been exceeded, no account shall be taken of any mandatorily deferred interest that was settled within 30 days of being deferred. Calculation of such percentage will apply solely and exclusively to the use of the Ordinary Share Settlement where deferral was triggered by the occurrence or the continuation of a Mandatory Deferral Event as described in the Conditions. We may only use Parity Security Settlement and/or PIK to the extent that the aggregate principal amount of the qualifying non-cumulative Placement Securities to be issued and other Placement Securities (together with any Placement Securities previously issued) and any PIK Amount (together with any previous PIK Amounts) would not exceed the Threshold (that is, 25% of the initial aggregate principal amount of the Loan Notes) and provided that the aggregate principal amount of Placement Securities which are not qualifying non-cumulative Placement Securities (together with any such Placement Securities previously issued) and/or the PIK Amount (together with any previous PIK Amounts) may not exceed the Sub-Threshold (that is, 15% of the initial aggregate principal amount of the Loan Notes). Calculation of the Threshold and/or the Sub-Threshold will apply solely and exclusively to the use of Parity Security Settlement and/or PIK, as the case may be, where deferral was triggered by the occurrence or the continuation of a Mandatory Deferral Event, as described in the Conditions.

We intend to assess the amount of Deferred Interest Payments (if any) prior to each Interest Payment Date and, although we are not under an obligation to do so, we intend to pay such deferred interest when due by means of Ordinary Share Settlement or Parity Security Settlement. Where we are unable to satisfy the payments that are due and payable by Ordinary Share Settlement or Parity Security Settlement, we intend to use PIK up to the Sub-Threshold. If we are unable to do the foregoing within the time limits provided, our obligation to make such Deferred Interest Payment (if any) would be cancelled.

If in the event of the liquidation, dissolution, insolvency or other proceedings for the avoidance of insolvency of, or against, us we are unable to apply the ACSM, then our obligations in respect of such unsettled amount shall rank *pari passu* with our obligations in respect of the principal amount of the Loan Notes in an amount up to the Threshold; to the extent the Threshold would be exceeded, our obligation to satisfy the Deferred Interest Payment (if any) would be cancelled.

***The Loan Notes are subject to interest rate risk***

Initially, the Loan Notes will carry fixed interest. A holder of a security with a fixed interest rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital market (the “Market Interest Rate”). While the normal interest rate of a bond or note with a fixed interest rate is fixed during the life of such security or during a certain period of time, the Market Interest Rate typically changes on a daily basis. As the Market Interest Rate changes, the price of such security changes in the opposite direction. If the Market Interest Rate increases, the price of such security typically falls. If the Market Interest Rate falls, the price of a security with a fixed interest rate typically increases. Movements of the Market Interest Rate can adversely affect the market price of the Loan Notes and could lead to losses for you if you were to sell the Loan Notes.

After the First Optional Redemption Date, unless the Loan Notes have been redeemed, they will bear interest at a floating rate. A holder of a security with a floating rate of interest is exposed to the risk of fluctuating compensation rate levels and uncertain compensation income. Fluctuating compensation rate levels make it difficult to determine the yield of the instrument.

***The ratings assigned in connection with the issuance of the Loan Notes could be lowered***

In connection with the issuance of the Loan Notes, S&P has assigned a rating of “A” and Moody’s has assigned a rating of “A2”. In addition, other rating agencies may assign credit ratings with or without any solicitation from us and without any provision of information from us. A downgrade or potential downgrade in these ratings, the assignment of a new rating that is lower than existing ratings, or a downgrade or potential downgrade in the ratings assigned to us, our subsidiaries or any of our securities could adversely affect the price and liquidity of the Loan Notes.

***The Loan Notes do not contain covenants governing our operations and do not limit our ability to merge, effect asset sales or otherwise effect significant transactions that may have a material and adverse effect on the Loan Notes and the Loan Noteholders***

The Loan Notes do not contain covenants governing our operations and do not limit our ability to enter into a merger, asset sale or other significant transaction that could materially alter our existence, jurisdiction of organisation or regulatory regime and/or the composition and business of the Group. In the event we were to enter into such a transaction, you could be materially and adversely affected.

## TERMS AND CONDITIONS OF THE LOAN NOTES

### Terms and Conditions of the Loan Notes (the “Conditions”)

#### 1. Form and Denomination

(a) We will issue the Loan Notes in the aggregate principal amount of £500,000,000 on or about March 27, 2007 (the “Issue Date”). Initially, only one Loan Note will be issued.

(b) The Loan Notes will be represented by definitive certificates in registered form. The Loan Notes shall each bear the manual or facsimile signatures of two of our duly authorised officers as well as the manual signature of an authentication officer of the Registrar. The Bank of New York, Brussels Branch (the “Registrar,” which definition shall include any duly appointed successor registrar) will maintain a register (the “Register”) of Loan Noteholders reflecting the ownership of the Loan Notes. Transfers (as defined in Condition 9) of Loan Notes shall be made in accordance with Condition 9.

#### 2. Status

##### (a) *Status*

Our obligations under the Loan Notes constitute unsecured and subordinated obligations ranking junior to Senior Securities, pari passu among themselves and with Parity Securities, and senior to Junior Securities. In the event of the liquidation, dissolution, insolvency or other proceeding for the avoidance of insolvency of, or against, us, our obligations under the Loan Notes will be subordinated to the claims of all holders of Senior Securities, so that in any such event no amounts shall be payable in respect of the Loan Notes until the claims of all holders of our Senior Securities shall have first been satisfied in full.

The subordination provisions of this Condition 2 are governed by the laws of Switzerland and such provisions are irrevocable.

“Junior Securities” means any of our securities or our other relevant obligations expressly subordinated to the Loan Notes and, in case such securities may be issued or granted by us in the future, any of our securities or other relevant obligations, ranking or expressed to rank junior to the Loan Notes, including a guarantee or support (or any similar) agreement issued or entered into by us which ranks or is expressed to rank junior to the Loan Notes and, for the avoidance of doubt but without limitation, including all classes of our shares.

“Parity Securities” means any of our securities or our other relevant obligations, ranking or expressed to rank pari passu with the Loan Notes including a guarantee or support (or any similar) agreement issued or entered into by us which ranks or is expressed to rank pari passu with the Loan Notes and including our obligations under the subordinated guarantee issued by us in relation to the 6.854% perpetual subordinated step-up preferred securities issued by Swiss Re Capital I LP in May 2006 and under the 5.252% perpetual subordinated step-up loan notes issued by us in May 2006 (together the “Existing Parity Securities”).

“Senior Securities” means (i) any of our securities or our other relevant obligations, except those ranking or expressed to rank junior to or pari passu with the Loan Notes, including a guarantee or support (or any similar) agreement issued or entered into by us which ranks or is expressed to rank junior to or pari passu with the Loan Notes and, (ii) for the avoidance of doubt but without limitation, including obligations in respect of policies of insurance or reinsurance, trade accounts payable, any liability for income, franchise, real estate or other taxes owed or owing, unsubordinated and/or dated subordinated creditors and existing undated subordinated creditors, except those ranking or expressed to rank junior to or pari passu with the Loan Notes.

##### (b) *No security*

No security of whatever kind is, or will at any time be, provided by us or any other person in our Group securing rights of the Loan Noteholders. No subsequent agreement may limit the subordination pursuant to the provisions set out in this Condition 2 or shorten any applicable notice period in respect of the Loan Notes.

##### (c) *No right to set-off*

No Loan Noteholder may set off any claims arising under the Loan Notes against any claims that we may have against the Loan Noteholder. We may not set off any claims we may have against any Loan Noteholder against any of our obligations under the Loan Notes.

### 3. Interest

#### 3.1 Fixed and Floating Interest

(a) Subject to Condition 3.2, the Loan Notes will bear interest (the “Rate of Interest”) on their aggregate principal amount at:

- (i) a fixed rate of 6.3024% per annum from (and including) March 27, 2007 until (and excluding) the First Optional Redemption Date (as defined in Condition 4.3) (the “Fixed Rate Period”); and
- (ii) a floating rate equal to the sum of Six Month Sterling LIBOR for such coupon period and 2.12% per annum (*which includes a 100 basis point step-up above the original issue margin*) from (and including) the First Optional Redemption Date and thereafter (the “Floating Rate Period”).

Subject to Condition 3.2, interest will be payable semi-annually in arrears on May 25 and November 25 in each year, commencing on November 25, 2007 (each such date on or prior to the First Optional Redemption Date, a “Fixed Rate Interest Payment Date” and each such date thereafter a “Floating Rate Interest Payment Date” and together with each Fixed Rate Interest Payment Date, an “Interest Payment Date”). If any Floating Rate Interest Payment Date would otherwise fall on a day which is not a Business Day it shall be postponed to the next day which is a Business Day unless it would then fall into the next calendar month in which event it shall be brought forward to the immediately preceding Business Day. Each period beginning on (and including) the Issue Date and ending on (but excluding) the next succeeding Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called an “Interest Period.”

(b) Interest shall be calculated (x) during the Fixed Rate Period on the basis of the Fixed Rate Day Count Fraction and (y) during the Floating Rate Period on the basis of the Floating Rate Day Count Fraction.

(c) If Six Month Sterling LIBOR does not appear on the Relevant Screen Page on the relevant Interest Determination Date, the Calculation Agent will:

(i) Request the principal London office of each of four major banks in the London interbank market (the “Reference Banks”) to provide a quotation of the rate at which deposits in pounds sterling are offered by it at approximately 11:00 a.m. (London time) on the Interest Determination Date to prime banks in the London interbank market for a period of six months commencing on the first day of the relevant Interest Period and in an amount that is representative for a single transaction in the market at that time; and determine the arithmetic mean of such quotations to the nearest 5 decimal places (with 0.00005 being rounded upwards).

(ii) If fewer than two quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates quoted by major banks in London selected by the Calculation Agent at approximately 11:00 a.m. (London time) on such Interest Determination Date for loans in pounds sterling to leading European banks for a period of six months commencing on the first day of the relevant Interest Period and in an amount that is representative for a single transaction in the relevant market at that time.

(iii) If the Calculation Agent is unable to determine an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Loan Notes during such Interest Period will be the Rate of Interest in effect for the last preceding Interest Period to which one of the preceding determinations of this Condition 3.1(c) shall have applied or if none the Rate of Interest that applied in the Fixed Rate Period.

(d) During the Floating Rate Period, the Calculation Agent will, as soon as practicable after the Interest Determination Date in relation to each Interest Period, calculate the Interest Amount (as defined in Condition 3.2(c)) payable in respect of each Loan Note for the relevant Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the principal amount of such Loan Note, multiplying the product by the Floating Rate Day Count Fraction and rounding the resulting figure to the nearest pence (half a pence being rounded upwards).

(e) During the Floating Rate Period, the Calculation Agent will cause the Rate of Interest and the Interest Amount for each Interest Period together with the relevant Interest Payment Date to be notified to the Loan Noteholders, each of the Paying Agents and any stock exchange on which the Loan Notes are at the time being listed as soon as practicable after their determination but in no event later than the fourth Business Day thereafter (or such earlier day as the rules of the stock exchange (if any) require). The Interest Amount and Interest Payment Date so published may subsequently be amended without notice in the event of an extension or shortening of the Interest Period.

(f) We will procure that, so long as any Loan Note is outstanding, there will at all times be the number of Reference Banks provided above (where the Rate of Interest is to be calculated by reference to them) and a Calculation Agent (where the Rate of Interest is to be calculated by it) for the purposes of the Loan Notes. If any such bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank or the Calculation Agent or if the Calculation Agent fails duly to establish the Rate of Interest for any Interest Period or to calculate the Interest Amount, we will appoint some other leading bank engaged in the London interbank market (acting through its principal London office) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been so appointed.

(g) All notifications, opinions, determinations, certificates, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on us, the Paying Agents and the Loan Noteholders and (subject as aforesaid) no liability to any such person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(h) If a tax deduction or withholding (collectively, a "Tax Deduction") is required by law to be made by us in respect of any interest payable in respect of the Loan Notes and should paragraph (a) of Condition 6 be unlawful for any reason, the applicable interest rate in relation to interest amounts payable for the period ending on that Interest Payment Date will be the interest rate which would have otherwise been payable for the period ending on that Interest Payment Date divided by 1 minus the rate (as a fraction of 1) at which the relevant Tax Deduction is required to be made and we will (i) be obligated to pay the relevant interest amount on that Interest Payment Date at the adjusted rate in accordance with this Condition 3.1(h) and (ii) make the Tax Deduction on the recalculated interest amount. Without prejudice to the foregoing, all references to a rate of interest in the Conditions shall be construed accordingly and all provisions in Condition 6 (other than Condition 6(a)) shall apply to the Tax Deduction on the recalculated interest payment (such recalculation is referred to herein as a "Recalculation of Interest").

(i) The Loan Notes shall cease to bear interest from the end of the day preceding the day on which they become due for redemption. If we fail to redeem the Loan Notes when due, interest shall continue to accrue (both before and after judgment) on the outstanding principal amount of the Loan Notes beyond the due date until the end of the day preceding the day of the actual redemption of the Loan Notes. The applicable rate of interest will be the rate of interest that was in effect for the last preceding Interest Period.

Where:

"Fixed Rate Day Count Fraction" means:

(i) if the Accrual Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(ii) if the Accrual Period is longer than one Determination Period, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year.

"Accrual Period" means the relevant period for which interest is to be calculated (from and including the first such day to but excluding the last).

"Determination Period" means each period from and including a Determination Date to but excluding the next Determination Date.

"Determination Date" means the Issue Date and each successive Interest Payment Date.

"Floating Rate Day Count Fraction" means the actual number of days in such Interest Period divided by 365 or, in the case of an Interest Payment Date falling on a leap year, 366.

"Interest Determination Date" means, during the Floating Rate Period, the first day of each Interest Period.

“Relevant Screen Page” means (A) Reuters LIBOR01 Screen Page; (B) such other page as may replace that page on that service for the purpose of displaying such information; or (C) if that service ceases to display such information, such page as displays such information on such service (or if more than one, that one selected at the discretion of the Calculation Agent) as may replace the Reuters LIBOR01 Screen Page.

“Six Month Sterling LIBOR” means the offered rate for deposits in sterling with a designated maturity of six months which appears on the Relevant Screen Page as of 11:00 a.m. (London time) on the relevant Interest Determination Date.

### **3.2 Payment and deferral of interest payments**

#### *(a) Compulsory interest payments*

Interest which accrues during an interest period to but excluding an Interest Payment Date will be payable in cash on that Interest Payment Date, save that if on the Interest Payment Date (x) a Required Deferral Event has occurred, the provisions of Condition 3.2(c) shall apply or (y) an optional deferral of interest has been elected pursuant to Condition 3.2(b), the provisions of Condition 3.2(b) shall apply.

#### *(b) Optional deferral of interest payments*

(i) Save to the extent that a Required Deferral Event has occurred, with respect to any Interest Payment Date if (1) no dividend, other distribution or payment was declared or made by us or any of our subsidiaries (except where such dividend, other distribution or payment is made intra-Group) in respect of any Parity Security (except where such parity payment is itself required on a pro rata basis) or Junior Security during the 12 months preceding the Calculation Date in respect of such Interest Payment Date and (2) no redemption, repurchase or acquisition of Junior Securities or Parity Securities has been made by us (except where such redemption, repurchase or acquisition is made Intra-Group or is in respect of shares to satisfy exercises of options or warrants that were issued to employees for compensatory purposes), either directly or indirectly during the 12 months preceding the Calculation Date in respect of such Interest Payment Date, we may elect in our discretion:

(A) either to pay on such Interest Payment Date the interest which accrued during the interest period to but excluding such Interest Payment Date, in cash, or

(B) to defer in whole or in part the payment of interest which accrued during the interest period to but excluding such Interest Payment Date by giving notice in accordance with Condition 13 not less than 3 Business Days prior to such Interest Payment Date (which notice will be irrevocable); in this case, such interest will constitute an “Optionally Deferred Interest Payment.”

(ii) If we elect to defer an interest payment pursuant to Condition 3.2(b)(i)(B), we will not have any obligation to make such interest payment on the relevant Interest Payment Date and the failure to pay such interest will not constitute a default by us or any other breach of obligations under the Loan Notes or for any other purpose.

In the event of a partial payment of interest, interest will be paid on a pro rata basis with Parity Securities.

“Business Day” means a day (other than a Saturday or Sunday) on which commercial banks in London, England and Zurich, Switzerland are open for business.

“Calculation Date” means the 10<sup>th</sup> Business Day preceding the relevant Interest Payment Date or redemption date, as the case may be.

#### *(c) Required deferral of interest payments*

We will be required to defer payment of (i) any Interest Amount or Solvency Shortfall (each as defined below), as applicable, if in respect of an Interest Payment Date or a redemption date a Solvency Event (as defined below) has occurred or would occur or (ii) any Mandatory Shortfall (as defined in Condition 3.2(c)(ii)) if in respect of an Interest Payment Date a Mandatory Deferral Event (as defined in Condition 3.2(c)(ii)) has occurred (collectively referred to herein as a “Required Deferral Event”).

(i) If on an Interest Payment Date or redemption date a Solvency Event has occurred, we will be required to defer payment of any Interest Amount; provided that in the case where the payment of such Interest Amount would itself cause a Solvency Event to occur, we will only be required to defer the Solvency Shortfall (as defined below).

A “Solvency Event” shall have occurred if up to the end of the Calculation Date:

(A) we or the Group do not have appropriate funds to cover the required minimum solvency margin (or a comparable term in case of a change in applicable rules) in accordance with the provisions of applicable regulatory capital requirements (including but not limited to Swiss insurance regulatory law for group solvency or single solvency purposes or the solvency pursuant to the regulation for financial conglomerates) or a generally recognised administrative practice, if any, of the FOPI, any successor authority to FOPI or any authority or successor authority that has primary supervisory authority over the Group (any such domestic or foreign successor primary supervisory authority to FOPI or otherwise, a “Successor Authority”) applicable at that time, or the amount of such funds would, as a result of a full or partial interest payment or redemption payment, respectively, that would otherwise be due on such Interest Payment Date or date of redemption, respectively, be or become less than the required minimum solvency margin, or

(B) we are unable to pay our debts owed to our Senior Creditors (as defined below) as they fall due, or

(C) our Assets (as defined below) do not exceed our Liabilities (as defined below) (other than liabilities to persons who are not Senior Creditors).

Where:

“Assets” means our unconsolidated total assets, as shown in our latest annual audited balance sheet, but adjusted for all subsequent events, as reasonably determined by us, or if we are being liquidated, our liquidator.

“Interest Amount” means, with respect to any Interest Payment Date, the amount of interest which would be payable on the aggregate principal amount of Loan Notes outstanding on such Interest Payment Date.

“Liabilities” means our unconsolidated total liabilities, as shown in our latest annual audited balance sheet, but adjusted for all subsequent events, as reasonably determined by us, or if we are being liquidated, our liquidator.

“Senior Creditors” means our creditors (a) who are our unsubordinated creditors or (b) whose claims are subordinated but senior to the claims of our other subordinated creditors, being those claims that rank *pari passu* with, or junior to, the claims of the Loan Noteholders.

“Solvency Shortfall” means the portion of the Interest Amount that would cause a Solvency Event to occur or be continuing.

(ii) If on an Interest Payment Date a Mandatory Deferral Event has occurred, then we will be required to defer payment of any Mandatory Shortfall (as defined below).

A “Mandatory Deferral Event” shall have occurred in respect of an Interest Payment Date if the following conditions are satisfied on the Test Date (as defined below) immediately preceding such Interest Payment Date:

(A) the consolidated net income of the Group, as determined in accordance with Applicable Accounting Standards, for the 12 month period comprising two consecutive Reporting Periods ending on the Lagged Reporting Date is less than zero, and

(B) our Adjusted Equity Amount as at the Lagged Reporting Date has declined by more than 10% as compared to the Adjusted Equity Amount as at the Reporting Date that is 24 months prior to such Lagged Reporting Date (the “Benchmark Adjusted Equity Amount”), and

(C) our Adjusted Capital Amount at the Current Reporting Date has declined by more than 10% as compared to the Benchmark Adjusted Equity Amount.

As a result of the provisions described herein, if the above conditions are satisfied on any Test Date, scheduled interest payments on the Loan Notes during the 12-month period following the Test Date to but excluding the subsequent Test Date will be wholly or, as the case may be, partially subject to mandatory deferral.

Where:

“Adjusted Equity Amount” means, for the relevant period, published total shareholders’ equity as shown in the consolidated balance sheet of the Group, as at the end of any Reporting Period, minus foreign currency translation adjustments and minus net unrealised gains/ losses, net of deferred tax.

“Adjusted Capital Amount” means the Adjusted Equity Amount plus Qualifying Mandatory Convertibles.

“Applicable Accounting Standards” means the accounting standards applied by us for the published accounts of the Group as applicable at the relevant dates and for the relevant periods.

“Current Reporting Date” means the most recent Reporting Date.

“Lagged Reporting Date” means the Reporting Date immediately prior to the Current Reporting Date.

“Mandatory Shortfall” is the amount by which the Interest Amount exceeds the New Capital Amount.

“New Capital Amount” means 100% of the net proceeds received by us or any other member of the Group between the Lagged Reporting Date and the relevant Interest Payment Date from any external issuance or sale of ordinary shares or Qualifying Mandatory Convertibles.

“Qualifying Mandatory Convertible” means, to the extent permitted under prevailing applicable regulatory criteria, a convertible instrument issued directly or indirectly by us that mandatorily converts into an amount or a maximum amount of our share capital (as pre-defined at the date of issuance of the relevant convertible instrument) on or prior to the third anniversary of the date of its issuance and in respect of which claims by holders rank pari passu with the claims of holders of our shares in the event of bankruptcy.

“Reporting Date” means June 30 or December 31.

“Reporting Period” means a six-month period ending on a Reporting Date.

“Test Date” means the 10<sup>th</sup> Business Day preceding every Interest Payment Date that falls on each May 25, starting on May 25, 2008.

(iii) If we are required to defer wholly or, as the case may be, partially a payment of interest following the occurrence of a Mandatory Deferral Event in accordance with Condition 3.2(c)(ii) on an Interest Payment Date, then we will also be required to defer the payment of interest that would otherwise be due without application of this Condition 3.2(c)(iii) on one or more subsequent Interest Payment Dates until the Mandatory Deferral Event has been cured. After one or more Mandatory Deferral Events have occurred or are continuing, we may only begin to pay interest on the Loan Notes on any Interest Payment Date if on that Interest Payment Date (A) no new Mandatory Deferral Event has occurred and (B) all of the previous Mandatory Deferral Events have been cured.

A Mandatory Deferral Event that was triggered has been cured if our Adjusted Capital Amount is more than 90% of the Benchmark Adjusted Equity Amount when the Mandatory Deferral Event was triggered.

(iv) We may elect in our discretion to satisfy on the relevant Interest Payment Date the interest that would otherwise have been due on such Interest Payment Date without application of Condition 3.2(c)(ii) or Condition 3.2(c)(iii) with funds raised prior to the Interest Payment Date by way of the ACSM.

(v) In case of an optional deferral pursuant to Condition 3.2(b) or Required Deferral Event we will give notice in accordance with Condition 13 not less than three Business Days prior to such Interest Payment Date either:

(A) of the amount of the relevant interest payment that shall be deferred (any such amount of deferred interest together with any Optionally Deferred Interest Payment shall be referred to herein as a “Deferred Interest Payments”), or

(B) that in the case of Conditions 3.2(b) and 3.2(c)(i), (ii) or (iii) we will satisfy such interest payment; in each such case we will be required to state in such notice that we will satisfy such interest payment by way of the ACSM.

(vi) If an interest payment is deferred pursuant to Conditions 3.2(b) and 3.2(c)(i), (ii) or (iii), we will not have any obligation to make such interest payment on the relevant Interest Payment Date and the failure to pay such interest shall not constitute a default by us or any other breach of our obligations under the Loan Notes or for any other purpose.

Deferred Interest Payments will not themselves bear interest.

### **3.3 Settlement of Deferred Interest Payments**

(a) We may at any time upon giving prior notice in accordance with Condition 13 elect to satisfy in whole or in part any Deferred Interest Payment on the date specified in such notice as being the date upon which such Deferred Interest Payment becomes due only by way of the ACSM.

(b) We will be required to satisfy any outstanding Deferred Interest Payment only by way of the ACSM in accordance with Condition 3.4:

(i) on the date on which the Loan Notes are called for redemption;

(ii) on the next subsequent Interest Payment Date:

(A) on which we are not permitted to optionally defer interest (pursuant to Condition 3.2(b)), but irrespective of whether there is a Required Deferral Event; or

(B) on a pro rata basis following a partial payment of current or deferred interest by us on any Parity Security, in which case the proportion shall be equal to the result from the division of the amount of the payment actually paid on the Parity Security by the outstanding amount (current or deferred) of the payment to which such partial payment relates;

(iii) on the date on which a reason for our dissolution exists pursuant to Article 736 of the Swiss Code of Obligations (other than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent, where the continuing entity assumes substantially all of our assets and obligations); or

(iv) if none of the events referred to in Condition 3.3(b)(i), (ii) or (iii) have already occurred, on the fifth anniversary of the date upon which deferral of such Deferred Interest Payment commenced.

(c) If a relevant Deferred Interest Payment is to be made in accordance with Condition 3.3(a) or Condition 3.3(b), we:

(i) may choose to do so pursuant to Ordinary Share Settlement and/or Parity Security Settlement (each as defined below) through the issuance and/or sale of Payment Shares or Placement Securities (each as defined below); and

(ii) will use our best efforts to effect such issuance and/or sale of Payment Shares or Placement Securities on or about the relevant date on which the Deferred Interest Payment becomes due (the “Deferred Settlement Date”). If reasonably practicable, we will initiate this process during the six months prior to the relevant Deferred Settlement Date.

If we are unable to raise the required amount to settle the Deferred Interest Payment by the relevant Deferred Settlement Date, we must continue to use our best efforts to raise sufficient proceeds for such settlement for up to two years following such Deferred Settlement Date.

If we are unable to consummate (i) the issuance and/or sale of such Payment Shares or Placement Securities or (ii) utilise PIK (as defined in Condition 3.4) within the time period outlined above, our obligation with respect to such Deferred Interest Payment will be cancelled.

If we make any deferred payment on any Parity Security (including the Existing Parity Securities), we will satisfy any Deferred Interest Payment in the same proportion on the concurrent or the next subsequent Interest Payment Date following the date on which such payment was made. In this case the proportion shall be equal to the result from the division of the amount of the deferred payment actually paid by the outstanding amount of the deferred payment.

In the case of Condition 3.3(b)(i), (ii), (iii) or (iv), we will give notice in accordance with Condition 13 not less than three Business Days prior to the Deferred Settlement Date of our application of the Deferred Interest Payment by way of the ACSM in accordance with Condition 3.4.

#### **3.4 Alternative coupon settlement mechanism (ACSM)**

(a) Subject to Conditions 3.4(b) through (g), we may only satisfy our obligations in respect of any Deferred Interest Payment by way of the alternative coupon settlement mechanism (referred to herein as “ACSM”) by one (or a combination) of the following:

(i) We may raise the funds required for the satisfaction of the relevant Deferred Interest Payment by issuing or selling Payment Shares (as defined below) for cash proceeds (the “Ordinary Share Settlement”).

(ii) We (or any other member of the Group) may raise funds for the satisfaction of the relevant Deferred Interest Payment from the receipt of cash proceeds from the issuance of Placement Securities (as defined below) (the “Parity Security Settlement”).

(iii) We may, to the extent permitted under prevailing regulatory criteria governing the Loan Notes, increase the outstanding aggregate principal amount of the Loan Notes by an amount equal to all of the outstanding Deferred Interest Payments (the “PIK Amount”) (such increase is herein referred to as

“Payment in Kind” or “PIK”), and the outstanding principal amount of each Loan Note will be so increased proportionately. For the avoidance of doubt, if we elect to satisfy the relevant Deferred Interest Payment by utilising PIK, we may only do so on an Interest Payment Date.

Where:

“Payment Shares” means our existing or newly issued ordinary shares or Qualifying Mandatory Convertibles.

“Placement Securities” means any securities or other instruments that have substantially the same terms and conditions as the Loan Notes.

*We intend to assess the extent to which Deferred Interest Payments (if any) are due prior to each Interest Payment Date, and to satisfy such Deferred Interest Payments in accordance with Ordinary Share Settlement or Parity Security Settlement. Where we are unable to satisfy the Deferred Interest Payments that are due and payable by Ordinary Share Settlement or Parity Security Settlement, we intend to utilise PIK up to the Sub-Threshold (as defined below). It is our intention that in the unlikely event of a mandatory deferral in respect of the Loan Notes (other than in circumstances where we are deferring interest or distributions on all our hybrid issues) we would use our best endeavours to arrange for the issue or sale of our shares or such other securities so as to raise cash to enable us to settle interest, no later than 30 days after its original due date for payment.*

(b) If we elect to satisfy the relevant Deferred Interest Payment pursuant to Condition 3.4(a)(i), we may only utilise the Ordinary Share Settlement to the extent that the number of Payment Shares used in any 12-month period (including the maximum number of shares issued or issuable pursuant to all Qualifying Mandatory Convertibles as of their respective date of issuance) for this purpose does not exceed 2.0% of our outstanding share capital, provided that for the purpose of determining whether or not this limitation has been exceeded, no account shall be taken of any mandatorily deferred interest that was settled within 30 days months of being deferred. Calculation of the percentage in this Condition 3.4(b) will apply solely and exclusively to use of Ordinary Share Settlement where deferral was triggered by the occurrence or the continuation of a Mandatory Deferral Event pursuant to Condition 3.2(c)(ii).

(c) If we elect to satisfy the relevant Deferred Interest Payment pursuant to Condition 3.4(a)(ii) and/or Condition 3.4(a)(iii), we may utilise Parity Security Settlement and/or PIK to the extent that the aggregate principal amount of qualifying non-cumulative Placement Securities to be issued and other Placement Securities (together with any Placement Securities previously issued) and any PIK Amount (together with any previous PIK Amounts) would not exceed 25% (the “Threshold”) of the initial aggregate principal amount of the Loan Notes, provided that the aggregate principal amount of Placement Securities which are not qualifying non-cumulative Placement Securities (together with any such Placement Securities previously issued) and/or the PIK Amount (together with any previous PIK Amounts) may not exceed 15% (the “Sub-Threshold”) of the initial aggregate principal amount of the Loan Notes. Calculation of the Threshold and/or the Sub-Threshold will apply solely and exclusively to the use of Parity Security Settlement and/or PIK, as the case may be, where deferral was triggered by the occurrence or the continuation of a Mandatory Deferral Event pursuant to Condition 3.2(c)(ii).

(d) If in the event of the liquidation, dissolution, insolvency or other proceedings for the avoidance of insolvency of, or against, us, we are unable to apply the ACSM, then our obligations in respect of such unsettled amount shall rank pari passu with our obligations in respect of the principal amount of the Loan Notes in an amount up to the Threshold; to the extent the Threshold would be exceeded, our obligation to satisfy the Deferred Interest Payment (if any) shall be cancelled.

(e) We will without undue delay give notice in accordance with Condition 13:

(i) whether and to what extent we will satisfy the Deferred Interest Payment pursuant to Condition 3.3 for the relevant interest period pursuant to the ACSM in accordance with Condition 3.4(a)(i); and/or

(ii) whether and to what extent we will satisfy the Deferred Interest Payment pursuant to Condition 3.3 for the relevant interest period pursuant to the ACSM in accordance with Condition 3.4(a)(ii); and/or

(iii) whether and to what extent we will satisfy the Deferred Interest Payment pursuant to Condition 3.3 by way of the ACSM in accordance with Condition 3.4(a)(iii).

(f) If there exists, in our reasonable opinion, a Market Disruption Event (as defined below), then the two-year period described in Condition 3.3(c) shall be extended by a period equal to the time during which the

Market Disruption Event exists plus 60 Business Days. We will give notice pursuant to Condition 13 of both the occurrence of a Market Disruption Event and the date on which, in our opinion, the Market Disruption Event no longer exists. No amount will be payable by way of interest due to the occurrence of a Market Disruption Event.

“Market Disruption Event” means the occurrence or existence of any of the following events or sets of circumstances:

- (i) the trading in our shares or Placement Securities generally on any internationally recognised exchange on which the securities issued by the Group are traded has been suspended or the settlement of such trading generally shall have been materially disrupted;
- (ii) a general moratorium shall have been declared on commercial banking activities or securities settlement systems in Switzerland, the U.S., the U.K. or the region comprised of member states of the European Union that adopted the euro in accordance with the Treaty establishing the European Community of March 25, 1957, as amended, as a result of which trading in our shares or Placement Securities has been materially disrupted;
- (iii) there shall have occurred a change, event or circumstance that could be expected to result in a prospective change in Swiss taxation materially and adversely affecting us, our ordinary shares, or the imposition of exchange controls by Switzerland; or
- (iv) there shall have occurred an outbreak or escalation of hostilities, any terrorist attacks or calamity or crisis, or any change or development involving or likely to involve a prospective change in national or international financial, political or economic conditions in any country, as a result of which trading in our shares or Placement Securities has been materially disrupted .

(g) With respect to Condition 3.4(a)(i), we will, from time to time, use our best efforts to keep available for issue or sale such number of Payment Shares as we reasonably consider would be required to be issued or sold in order to satisfy all interest payments on the Loan Notes for a 12-month period using the Ordinary Share Settlement. We will not be responsible to pay damages for breach of this covenant.

*In the event that we breach this covenant, our Board of Directors may be required to put before the next general meeting of our shareholders a proposal recommending for a resolution to remedy the breach.*

#### **4. Redemption**

##### **4.1 No scheduled redemption**

The Loan Notes have no final maturity date, are not redeemable at the option of the Loan Noteholders and will not otherwise be redeemed except at our option and in accordance with the provisions set out in Conditions 4.2 through 4.6.

##### **4.2 Early redemption events**

(a) Subject to Condition 4.6, we may redeem the Loan Notes in whole but not in part upon the occurrence of a Par Redemption Event (as defined below) pursuant to Condition 4.2(a)(i) or upon the occurrence of a Make Whole Redemption Event pursuant to Condition 4.2(a)(ii).

(i) Any redemption by us pursuant to this Condition 4.2(a)(i) shall be referred to as a “Par Redemption Event.”

(A) If at any time after the issue of the Loan Notes a Recalculation of Interest Event (as defined below) or a Special Tax Event (as defined below) occurs, we may call and redeem the Loan Notes at their principal amounts plus accrued interest at any time on giving not less than 30 nor more than 60 days’ irrevocable notice to the Loan Noteholders in accordance with Condition 13, provided that:

(B) no such notice of redemption may be given earlier than 90 days prior to the earliest date on which we would be for the first time obligated to pay the Additional Amounts (as defined in Condition 6) or to pay an amount in respect of which there has been a Recalculation of Interest or, as applicable, the date on which the Special Tax Event becomes effective; and

(C) prior to the giving of any such notice of redemption, we will deliver or procure that there is delivered to the Fiscal Agent:

(I) a certificate signed by us stating that we are entitled to effect that redemption and setting out a statement of facts showing that the conditions precedent to our right so to redeem have occurred; and

(II) an opinion of an independent legal advisor of recognised standing to the effect that we have or will become subject to the Par Redemption Event in question as a result of the relevant change or amendment.

Where:

A “Recalculation of Interest Event” means the occurrence of a Recalculation of Interest or a payment of Additional Amounts in respect of the Loan Notes and this cannot be avoided by us taking such reasonable measures as we (acting in good faith) deem appropriate. With respect to the occurrence of a Recalculation of Interest Event, we will deliver to the Fiscal Agent an opinion of a recognised independent tax counsel which confirms such occurrence.

A “Special Tax Event” means that due to a change in law, ruling or interpretation we no longer obtain a tax deduction for the purposes of Swiss corporation tax for any payment of interest on the Loan Notes and this cannot be avoided by us taking such reasonable measures as we (acting in good faith) deem appropriate. With respect to the occurrence of a Special Tax Event, we will deliver to the Fiscal Agent an opinion of a recognised independent tax counsel which confirms such occurrence.

We may redeem the Loan Notes pursuant to this Condition 4.2(a)(i) only in accordance with Condition 4.6 and subject to no Solvency Event having occurred.

Upon the occurrence of any of the events set forth above that give rise to a Par Redemption Event, we must deliver to the Fiscal Agent a notice bearing the manual signature of two of its duly authorised officers stating that such Recalculation of Interest Event or Special Tax Event, as the case may be, has occurred as well as a copy of any related opinions of other instruments or documents.

(ii) Any redemption by us pursuant to this Condition 4.2(a)(ii) shall be referred to as a “Make Whole Redemption Event”.

If at any time after the issue of the Loan Notes to but excluding the First Optional Redemption Date an Accounting Event (as defined below), a Regular Tax Event (as defined below), a Capital Event (as defined below) or a Regulatory Event (as defined below) occurs, we may call and redeem the Loan Notes (in whole but not in part) at their Make Whole Redemption Amount (pursuant to Condition 4.7) at any time on giving not less than 30 nor more than 60 days’ irrevocable notice to the Loan Noteholders in accordance with Condition 13; provided that no such notice of redemption may be given earlier than 90 days prior to the date on which the applicable Make Whole Redemption Event becomes effective.

Where:

“Accounting Event” means that an opinion of a recognised accounting firm has been delivered to us, stating that our obligations in respect of securities arising out of this transaction must not or must no longer be recorded as liabilities on our balance sheet prepared in accordance with Applicable Accounting Standards (as defined in Condition 3.2(c)(ii)) for purposes of the published annual financial statements of the Group and this cannot be avoided by us taking such reasonable measures as we (acting in good faith) deem appropriate. With respect to an Accounting Event we will deliver the applicable opinion to the Fiscal Agent.

“Capital Event” means a change by a nationally recognised statistical rating organisation to its equity credit criteria, or the interpretation or application thereof, for securities such as the Loan Notes, as such criteria are in effect on the date hereof (the “current criteria”), which change results in a lower equity credit being given to the Loan Notes as of the date of such change than the equity credit that would have been assigned to the Loan Notes as of the date of such change by such nationally recognised statistical rating organisation pursuant to its current criteria.

“Regular Tax Event” means that we no longer obtain a tax deduction (other than due to a change in law, ruling or interpretation) for the purposes of Swiss corporation tax for any payment of interest on the Loan Notes and this cannot be avoided by it taking such reasonable measures as we (acting in good faith) deem appropriate. With respect to the occurrence of a Regular Tax Event, we will deliver to the Fiscal Agent an opinion of a recognised independent tax counsel which confirms such occurrence.

“Regulatory Event” means the occurrence of any of the following events which occurrence cannot be avoided by us taking such reasonable measures as we (acting in good faith) deem appropriate:

(1) the FOPI or any Successor Authority has stated that the Loan Notes are no longer eligible to qualify as Upper Additional Capital (“*oberes ergänzendes Kapital*”), and no longer fulfill the requirements for such category, or equivalent thereof, for group or solo solvency purposes (other than through the Loan Notes exceeding the then applicable quantitative limits on such capital issuance); or

(2) the FOPI or any Successor Authority issues further guidance in relation to Tier 1 Capital (“*Kernkapital*”) qualifying instruments for group or solo solvency purposes (by way of law, ordinance, regulation or a published interpretation thereof), and following which the FOPI or any Successor Authority states that the Loan Notes do not fulfill the requirements of Tier 1 Capital (“*Kernkapital*”); or

(3) the FOPI or any Successor Authority issues further guidance in relation to Tier 1 Capital (“*Kernkapital*”) qualifying instruments for group or solo solvency purposes (by way of law, ordinance, regulation or a published interpretation thereof), and the FOPI or any Successor Authority affords the Loan Notes recognition as Tier 1 Capital (“*Kernkapital*”) for group or solo solvency purposes, and at a subsequent time the FOPI or any Successor Authority states that the Loan Notes no longer fulfill the requirements of Tier 1 Capital (“*Kernkapital*”).

Upon the occurrence of any of the events set forth above that give rise to a Make Whole Redemption Event, we must deliver to the Fiscal Agent a notice bearing the manual signature of two of its duly authorised officers stating that such Accounting Event, Regular Tax Event or Regulatory Event, as the case may be, has occurred and in which respect as well as a copy of any related opinions of other instruments or documents.

We may redeem the Loan Notes pursuant to this Condition 4.2(a)(ii) only in accordance with Condition 4.6 and subject to no Solvency Event having occurred.

#### **4.3 Early redemption at our option**

(a) Subject to Condition 4.6 and subject to no Solvency Event having occurred, we may at our option, upon giving not less than 30 nor more than 60 days’ notice in accordance with Condition 4.3(b), redeem in whole but not in part the Loan Notes at their principal amount together with any accrued interest on May 25, 2019 (the “First Optional Redemption Date”) and on each subsequent Interest Payment Date thereafter (each, an Optional Redemption Date”).

(b) The appropriate redemption notice is a notice given to the Loan Noteholders in accordance with Condition 13. The notice shall be irrevocable and shall specify:

- the Loan Notes subject to redemption;
- that such Loan Notes are to be redeemed in whole;
- the Interest Payment Date on which the Loan Notes are to be redeemed; and
- the amount at which such Loan Notes are to be redeemed.

(c) We will inform, if required by any stock exchange on which the Loan Notes are then listed, such stock exchange, and the Principal Paying Agent as soon as possible of such optional redemption or of any Par or Make Whole Redemption.

#### **4.4 No early redemption at the option of the Loan Noteholders**

The Loan Noteholders shall not be entitled to put the Loan Notes for redemption at any time.

#### **4.5 Purchase of Loan Notes**

We or any other member of the Group may at any time (subject to mandatory provisions of law) purchase Loan Notes in the open market or otherwise and at any price. Such acquired Loan Notes may be cancelled, held or resold.

The aforementioned persons may purchase the Loan Notes in accordance with this Condition 4.5 only in accordance with Condition 4.6 (and subject to no Solvency Event having occurred).

#### **4.6 Limitation of termination rights and purchase**

(a) We may call and redeem the Loan Notes in accordance with Condition 4.2 or Condition 4.3 only if the FOPI or any Successor Authority has given (and not subsequently withdrawn) its consent to the redemption to the extent such consent is required or otherwise has not objected to such redemption.

(b) The persons mentioned in Condition 4.5 may, subject to mandatory provisions of law, purchase the Loan Notes in accordance with Condition 4.5 only if the FOPI or any Successor Authority has given (and not subsequently withdrawn) its consent to the redemption to the extent such consent is required or otherwise has not objected to such purchase.

(c) If the Loan Notes are repaid in circumstances other than as described in this Condition 4, then, irrespective of any agreement to the contrary, the amount so repaid must be repaid to us.

#### **4.7 Make Whole Redemption Amount**

The “Make Whole Redemption Amount” of the Loan Notes will in the case of a Make Whole Redemption Event pursuant to Condition 4.2(a)(ii) equal the Make Whole Redemption Price in respect of the aggregate principal amount of the Loan Notes, together with any accrued and unpaid interest to but excluding the redemption date.

“Calculation Agent” means an independent investment bank or financial institution selected by us for the purposes of performing any of the functions expressed to be performed by it under these Conditions.

“Gross Redemption Yield” means, with respect to the Loan Notes, the gross redemption yield on the Loan Notes (as calculated by the Calculation Agent on the basis set out in the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields” page 4, Section One: Price/Yield Formulae “Conventional Gilts; Double dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi Coupon Date” (published on 8 June 1998 and updated on 15 January 2002 and as further updated or amended) on a semi annual compounding basis (converted on an annualised yield and rounded up (if necessary) to four decimal places)).

“Make Whole Redemption Price” means, in respect of each Loan Note, the higher of (a) the principal amount of such Loan Note and (b) the price expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards), at which the Gross Redemption Yield on such Loan Note on the Reference Date (assuming for this purpose that the Loan Note is to be redeemed at its principal amount on the First Optional Redemption Date) is equal to the Gross Redemption Yield (determined by reference to the middle market price) at 11.00 a.m. (London time) on the Reference Date of the Reference Bond plus 0.70 per cent.

“Reference Bond” means the 4.75 per cent. Treasury Stock due 7 March 2020, or if such stock is no longer in issue such other United Kingdom government stock with a maturity date as near as possible to the First Optional Redemption Date, as the Calculation Agent may, with the advice of the Reference Market Makers, determine to be appropriate by way of substitution for the 4.75 per cent. Treasury Stock due 7 March 2020.

“Reference Date” means the date which is three Business Days prior to the date fixed for redemption pursuant to Condition 4.2(a)(ii) by us.

“Reference Market Makers” means three brokers or market makers of gilts selected by the Calculation Agent or such other three persons operating in the gilt edged market as are selected by the Calculation Agent in consultation with us.

### **5. Payments**

(a) We undertake to pay, as and when due, principal and interest on the Loan Notes in pounds sterling. Payment of principal and interest on the Loan Notes shall be made to the Fiscal Agent or to its order for credit to the relevant account holders of the Fiscal Agent as of the relevant Record Date (as defined below).

(b) We shall be discharged by payment to the Fiscal Agent.

(c) If the due date for payment of any amount in respect of the Loan Notes is not a Payment Business Day then the Loan Noteholder shall not be entitled to payment until the next such day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay.

For these purposes, “Payment Business Day” means a day which is a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London and Zurich.

(d) Reference in these Conditions to principal in respect of the Loan Notes shall be deemed to include the Make Whole Redemption Amount of the Loan Notes. Any reference in these Conditions to principal or interest will be deemed to include any Additional Amounts in respect of principal or interest (as the case may be) which may be payable under Condition 6.

“Record Date” means the date that is 5 Business Days prior to the relevant Interest Payment Date, Optional Redemption Date or date of early redemption pursuant to Condition 4.2.

## 6. Taxation

(a) All payments of principal and interest in respect of the Loan Notes will be made free and clear of, and without Tax Deduction for, any taxes, duties, assessments or governmental charges of whatever nature (“Taxes”), unless we are compelled by law to make such Tax Deduction. In the event of such Tax Deduction, we will pay such additional amounts (the “Additional Amounts”) as will result (after such Tax Deduction) in receipt by the Loan Noteholders of such sums as the Loan Noteholders would have received if no Tax Deduction had been required.

(b) However, no such Additional Amounts or interest recalculated pursuant to Condition 3.1(h) shall be payable with respect to such Taxes in respect of any Loan Noteholder:

(i) if the Loan Note is presented for payment by or on behalf of a Loan Noteholder which is liable to such taxes, duties, assessments or governmental charges in respect of that Loan Note by reason of it having some connection with Switzerland other than the mere holding of that Loan Note;

(ii) if the Loan Note is presented for payment more than 30 days after the Relevant Date (as defined below), except to the extent that the relevant holder would have been entitled to payment of such Additional Amounts or interest recalculated pursuant to Condition 3.1(h) if it had presented its Loan Note for payment on the 30th day after the Relevant Date, on the assumption if such is not the case, that such last day is a Business Day;

(iii) where such Tax Deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive;

(iv) if the Loan Note is presented for payment by or on behalf of a Loan Noteholder which would have been able to avoid such Tax Deduction by presenting the Loan Note to a Paying Agent in another Member State of the European Union;

(v) if the payment could have been made to the relevant Loan Noteholder without a Tax Deduction if it was a Qualifying Lender (as defined below), but on that date that Loan Noteholder is not or has ceased to be a Qualifying Lender other than as a result of any change after the date it became a Loan Noteholder under these Conditions in (or in the interpretation, administration, or application of) any law or double taxation treaty, or any published practice or concession of any relevant taxing authority; or

(vi) if the payment could have been made without a Tax Deduction if the Loan Noteholders had complied with Condition 9.

(c) Within 30 days of making either a Tax Deduction or a payment required in connection with a Tax Deduction, we must deliver to the relevant Loan Noteholder evidence satisfactory to that Loan Noteholder (acting reasonably) that the Tax Deduction has been made or (as applicable) the appropriate payment has been paid to the relevant taxing authority.

(d) If we must make a Tax Deduction and the relevant Loan Noteholder (acting in good faith) determines that (i) a Tax refund for such Tax Deduction is available to it and it has retained that Tax refund, that Loan Noteholder shall pay within 10 Business Days after such Tax refund an amount to us which that Loan Noteholder determines (in its sole discretion) will leave it (after that payment) in the same after-tax position as it would have been if the payment of the Additional Amount or a payment at an interest rate recalculated in accordance with paragraph (h) of Clause 3.1 had not been required to be made by us.

Where:

“Guidelines” means, together, the guideline S-01.123 in relation to interbank loans of 22 September 1986 (Merkblatt “Verrechnungssteuer auf Zinsen von Bankguthaben, deren Glaubiger Banken sind (Interbankguthaben)” vom 22. September 1986), guideline S-02.122.1 in relation to bonds of April 1999 (Merkblatt “Obligationen” vom April 1999) and article 4 of the guideline S-02.128 in relation to syndicated

credit facilities of January 2000 (Merkblatt "Steuerliche Behandlung von Konsortialkrediten, Schuldscheindarlehen, Wechseln und Unterbeteiligungen" vom Januar 2000), as issued, and as amended from time to time, by the Swiss Federal Tax Administration.

"Non-Bank Rules" means the Ten Non-Bank Rule and the Twenty Non-Bank Rule (each as defined below).

"Permitted Non-Qualifying Lender" means:

(i) initially ELM B.V, Amsterdam, The Netherlands ("ELM"), and

(ii) a successor of ELM, or any subsequent successor thereof, by way of Transfer (as defined in Condition 9) of all of the Loan Notes, except for Loan Notes held by Qualifying Banks, that is not a Qualifying Bank on the date it becomes a Loan Noteholder, provided that:

(A) such proposed Permitted Non-Qualifying Lender (prior to its becoming a Loan Noteholder) is designated as the Permitted Non-Qualifying Lender in writing by us with at least ten days' notice before such designation notice is intended to become effective;

(B) if we (acting reasonably), on receiving such notification with respect to a proposed Permitted Non-Qualifying Lender, believe such proposed Permitted Non-Qualifying Lender is more than one person for purposes of the Non-Bank Rules, we may during such notice period request from that proposed Permitted Non-Qualifying Lender (at its cost) a tax ruling of the Swiss Federal Tax Administration that such proposed Permitted Non-Qualifying Lender constitutes one person for purposes of the Non-Bank Rules; and

(C) following such a request under subparagraph (B) of this definition, such proposed Permitted Non-Qualifying Lender shall only be a Permitted Non-Qualifying Lender under this paragraph (ii) if (x) we receive from such proposed Permitted Non-Qualifying Lender a certified copy of such tax ruling and such tax ruling confirms, to its reasonable satisfaction, that such proposed Permitted Non-Qualifying Lender constitutes one person for the Non-Bank Rules and (y) such proposed Permitted Non-Qualifying Lender confirms to it that such proposed Permitted Non-Qualifying Lender has disclosed all facts relevant to this determination to us.

We will confirm within ten days of our receipt of any such tax ruling whether or not such ruling is satisfactory for this purpose and, in the absence of such confirmation, we will be deemed to have confirmed that such tax ruling is so satisfactory on the 10<sup>th</sup> day after our receipt of such tax ruling; which (in each case) has not ceased to be a Loan Noteholder in accordance with the terms hereof.

"Qualifying Bank" means any legal entity which is recognised as a bank by the banking laws in force in its jurisdiction of incorporation and, any branch of a legal entity, which is recognised as a bank by the banking laws in force in the jurisdiction where such branch is situated, and which, in each case, exercises as its main purpose a true banking activity, having bank personnel, premises, communication devices of its own and authority of decision making.

"Qualifying Lender" means a Loan Noteholder which is a Qualifying Bank or the Permitted Non-Qualifying Bank Lender.

"Relevant Date" means whichever is the later of the date on which the payment in question first becomes due and, if the full amount payable has not been received by the Principal Paying Agent on or prior to that due date, the date on which notice of receipt of the full amount has been given to the Loan Noteholders in accordance with Condition 13.

"Ten Non-Bank Rule" means the rule that the aggregate number of our Loan Noteholders under the Loan Notes which are not Qualifying Banks must not exceed ten, in each case in accordance with the meaning of the Guidelines.

"Twenty Non-Bank Rule" means the rule that the aggregate number of our lenders (including Loan Noteholders), other than Qualifying Banks, under all outstanding loans (including intra-Group loans), facilities and/or private placements (including under the Loan Notes) must not at any time exceed twenty, in each case in accordance with the meaning of the Guidelines.

## 7. Presentation

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 5 within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

## **8. Fiscal Agent, Principal Paying Agent and Calculation Agent**

(a) The initial Fiscal Agent, Principal Paying Agent and the Calculation Agent for the Loan Notes will be The Bank of New York, which is located at One Canada Square, London E14 5AL United Kingdom.

(b) We reserve the right at any time to vary or terminate the appointment of the Fiscal Agent, the Principal Paying Agent, any Paying Agent and the Calculation Agent and to appoint another Fiscal Agent, Principal Paying Agent or additional or other Paying Agents or other Calculation Agents provided that it will at all times maintain (i) a Fiscal Agent, a Principal Paying Agent and a Calculation Agent and (ii) so long as the Loan Notes are listed on a stock exchange, a Paying Agent (which may be the Principal Paying Agent) with (a) specified office in such city as may be required by the rules of the relevant stock exchange and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive. The Fiscal Agent, the Principal Paying Agent and the Calculation Agent reserve the right at any time to change their respective specified offices to some other specified office in the same city. Notice of all changes in the identities or specified offices of the Fiscal Agent, the Principal Paying Agent, any Paying Agent and the Calculation Agent will be given promptly by us to the Loan Noteholders in accordance with Condition 13.

The Fiscal Agent, the Principal Paying Agent, any Paying Agent and the Calculation Agent act solely as our agents and do not assume any obligations towards or relationship of agency or trust for the Loan Noteholder. The Fiscal Agent, the Principal Paying Agent, any Paying Agent and the Calculation Agent are exempt from the restrictions relating to self-dealing.

## **9. Transfer and Exchange of Notes**

(a) A Loan Note may only be assigned or transferred, including by way of security, (a “Transfer” and “Transferred” shall be construed accordingly), in whole or in part, if the Transfer is to a Qualifying Bank or the Permitted Non-Qualifying Lender. Title to the relevant Loan Note passes only on due registration on the Register. The Loan Note will bear a legend setting forth the applicable transfer restrictions.

(b) A Loan Noteholder may at any time require that we replace such Loan Noteholder’s certificate(s) representing the Loan Notes with certificates in minimum denominations of £50,000. The Fiscal Agent shall accordingly authenticate such replacement certificates and the Registrar shall amend the Register.

(c) Loan Notes may be Transferred in amounts of £50,000 in accordance with the terms of this Condition 9.

(d) Any Transfer of a Loan Note shall be recorded by the Registrar in the Register on production by the transferee at the registered office of the Registrar of:

(i) the relevant certificate representing the Loan Note with the form of transfer endorsed thereon duly executed by the transferor and the transferee and such form of transfer shall include a representation by the transferee that it is a Qualifying Bank or the Permitted Non-Qualifying Lender; and

(ii) such other evidence as we may require to prove the authority of the person signing the form of transfer endorsed on the relevant certificate representing the Loan Note or the transferee’s status as a Qualifying Bank or the Permitted Non-Qualifying Lender.

(e) No Loan Noteholder shall enter into any agreement with another person which is treated as a Sub-Participation. However, no Loan Note will be invalidated by any such agreement having been entered into.

(f) At the date hereof and for so long as the Loan Notes are outstanding we will ensure that we are in compliance with the Non-Bank Rules, provided that we will not be in breach of this paragraph (f) of Condition 9 if either of the Non-Bank Rules are exceeded solely by reason of a failure by one or more Loan Noteholders to comply with their respective obligations under this Condition 9.

Where:

“Sub-Participation” means any agreement of a Loan Noteholder with another person under which such Loan Noteholder makes to such other person payments by reference to any of the Loan Notes and which agreement is treated as sub-participation (*Unterbeteiligung*) in the meaning of the Guidelines.

## **10. Grants of Security**

Any Loan Noteholder may, without our consent, at any time charge or create a security interest in all or any portion of its rights under any Loan Note to secure obligations of such Loan Noteholder; provided that:

(a) no such charge or creation of a security interest shall:

(i) substitute any such chargee or holder of the benefit of such security interest for such Loan Noteholder as Loan Noteholder except in accordance with the provisions of Condition 9; or

(ii) require any payments to be made by us other than as required by the Loan Notes. A copy of any notice of charge or creation of security interest as envisaged in this paragraph shall be delivered to the Fiscal Agent and the Fiscal Agent shall not be obligated to take any action in regard to such notice; and

(b) such charge or security interest shall in each case provide that upon any assignment or transfer of the interest in the Loan Note or enforcement of such charge or security interest, any resulting assignment or transfer shall be in accordance with Condition 9; and

(c) the Loan Noteholder promptly notifies the Fiscal Agent of any such charge or security interest and the secured party's identity and status by delivering to the Fiscal Agent a respective notification.

## **11. Substitution/Modification**

### **11.1 Substitution**

Subject to Condition 11.2, 11.3 and 11.4, we may at any time, without the consent or approval of the Loan Noteholders, substitute all (but not less than all) of the Loan Notes, or modify the terms of the Loan Notes:

(a) if an Accounting Event occurs, so that no Accounting Event exists after such substitution or modification; or

(b) if a Regular Tax Event occurs, so that no Regular Tax Event exists after such substitution or modification; or

(c) if a Special Tax Event occurs, so that no Special Tax Event exists after such substitution or modification; or

(d) if a Recalculation of Interest Event occurs, so that no Recalculation of Interest Event exists after such substitution or modification; or

(e) if a Regulatory Event occurs, so that no Regulatory Event would exist after such substitution or modification.

### **11.2 Requirements of Substitution or Modification**

(a) Any substitution or modification of the Loan Notes is conditional on the substituted Loan Notes or the modified Loan Notes:

(i) having terms that are not less favourable to an investor than the terms of the Loan Notes; and

(ii) being issued by us or being issued by another member of the Group (a "New Issuer") with a guarantee by us, such that investors have the same material rights and claims as provided by the Loan Notes; and

(iii) ranking at least equal to the Loan Notes and featuring the same tenor, principal amount, interest rate (including applicable margins and step-up), interest payment dates and first call date as the Loan Notes; and

(iv) being listed on an internationally recognised stock exchange as selected by us (provided the Loan Notes were so listed at such time).

(b) In addition, any substitution or modification is subject to:

(i) all interest amounts accrued and due on the relevant Interest Payment Date and all Deferred Interest Payments (if any) being satisfied in full on or prior to the date thereof;

(ii) our giving prior written notice (if such notice is required to be given) to, and receiving no objection from, the FOPI or any Successor Authority;

- (iii) the substitution or modification not itself giving rise to a change in any published rating of the Loan Notes in effect at such time;
- (iv) the substitution or modification not triggering the right to effectuate a Par Redemption Event or a Make Whole Redemption Event; and
- (v) certification by two of our executive officers that these conditions have been complied with.

(c) In connection with any substitution or modification as indicated above, we will comply with the rules of any stock exchange or other relevant authority on which the Loan Notes are then listed or admitted to trading.

### **11.3 References**

In the event of a substitution pursuant to paragraph 11.2 (a)(ii), any reference in these Conditions to us shall be a reference to the New Issuer and any reference to Switzerland shall be a reference to the New Issuer's country of domicile for tax purposes.

### **11.4 Notice and Effectiveness of Substitution**

Notice of any substitution of us shall be given by publication in accordance with Condition 13. Upon such publication, the substitution shall become effective, and we, and in the event of a repeated application of this Condition 11, any previous New Issuer, shall be discharged from any and all obligations under the Loan Notes. In the case of such substitution, the stock exchange(s), if any, on which the Loan Notes are then listed will be notified and a supplemental prospectus describing the New Issuer will be prepared.

## **12. Meetings and Amendments**

### **(a) Single Loan Noteholder**

For so long as there is no more than one Loan Noteholder registered in the Register (x) no amendment, waiver, variation of the Loan Notes, the Fiscal Agency Agreement or the Conditions may be made without the prior written consent of such Loan Noteholder and (y) the meeting, quorum and voting provisions of Conditions 12(b) and (c) shall not apply.

### **(b) Meetings of Loan Noteholders**

The Fiscal Agency Agreement contains provisions for convening meetings of Loan Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Fiscal Agency Agreement. Such a meeting may be convened by Loan Noteholders holding not less than 10 per cent, in principal amount of the Loan Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Loan Notes for the time being outstanding, or at any adjourned meeting, two or more persons being or representing Loan Noteholders whatever the principal amount of the Loan Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Loan Notes or the dates on which interest is payable in respect of the Loan Notes, (ii) to reduce or cancel the principal amount of, any premium payable on redemption of, or interest on or to vary the method of calculating the rate of interest on the Loan Notes, (iii) to change the currency of payment of the Loan Notes, (iv) to vary, amend or grant a waiver in relation to Condition 2 or 3 or (v) to modify the provisions concerning the quorum required at any meeting of Loan Noteholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Loan Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Loan Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Loan Noteholders.

### **(c) Modification and Waiver**

The parties to the Fiscal Agency Agreement may agree, without the consent of the Loan Noteholders, to (i) any modification of any of the provisions of the Fiscal Agency Agreement which is of a formal, minor or technical nature or which is made to correct a manifest error and (ii) any other modification and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Fiscal Agency Agreement which is in the opinion of such parties not materially prejudicial to the interests of the Loan Noteholders. Any such modification, authorisation or waiver shall be binding on the Loan Noteholders and such modification shall be notified to the Loan Noteholders as soon as practicable.

### **13. Notices**

(a) Notices to the Loan Noteholders will be valid if published in a national newspaper designated for exchange notices by any stock exchange (if any) where the Loan Notes are then listed, and if the Loan Notes are unlisted we will deliver such notice to the Registrar for communication by the Registrar to the Loan Noteholders. Any notice so given will be deemed to have been validly given on the third day after the date of the first such publication.

(b) Provided this complies with the rules of the stock exchange on which the Loan Notes are listed (if any), we may replace any newspaper notice pursuant to Condition 13(a) by delivering the notice to the Registrar for communication by the Registrar to the Loan Noteholders. Any such notice shall be deemed to have been given to the Loan Noteholders on the seventh day after the day on which the said notice was given to the Registrar.

### **14. Further Issues**

We reserve the right from time to time, without the consent of the Loan Noteholders to issue additional securities with identical terms and conditions as the Loan Notes in all respects (or in all respects except for the issue date, the first payment of interest, if any, and the issue price on them) so as to be consolidated and form a single series with such Loan Notes. The term “Loan Notes” shall, in the event of such further issue, also comprise such further securities.

### **15. Applicable Law, Place of Performance and Jurisdiction**

#### *(a) Governing Law*

The Fiscal Agency Agreement and the Loan Notes will be governed by, and shall be construed in accordance with, English law (except for the subordination provisions (Condition 2) which are governed by the laws of Switzerland). The place of performance is London, England.

#### *(b) Jurisdiction*

(i) Subject to Condition 15(b)(ii), we have irrevocably agreed that the English courts shall have exclusive jurisdiction in relation to any legal action or proceedings arising out of or in connection with the Fiscal Agency Agreement or the Loan Notes (“Proceedings”) and have waived any objection to Proceedings in such courts on the grounds of venue or on the grounds that Proceedings have been brought in an inappropriate forum.

(ii) Condition 15(b)(i) operates for the benefit of the Loan Noteholders and accordingly the Loan Noteholders shall be entitled to take Proceedings in any other court or courts having jurisdiction.

#### *(c) Service of Process*

(i) We irrevocably appoint Swiss Re Services Ltd. of 30 St. Mary Axe, London, England, as its process agent to receive on our behalf service of process of any Proceedings in England.

(ii) Service of process upon any process agent appointed by or in accordance with this Condition 15(c) shall be good service upon us whether or not it is forwarded to and received by it. We irrevocably agree that if, for any reason, any such process agent ceases to be able to act as process agent on our behalf or no longer has an address in England, it will within 30 days thereof appoint a substitute process agent with an address in England acceptable to the Fiscal Agent and deliver to the Fiscal Agent a copy of the substitute process agent’s acceptance of that appointment. In the event that we fail to appoint a substitute process agent, it shall be effective service for the Fiscal Agent to serve the process upon the last address in England known to the Fiscal Agent of the process agent for us notified to the Fiscal Agent notwithstanding that such process agent is no longer found at such address or has ceased to act. As used in this Condition 15(c), the expression “process agent” includes, where the context so admits, a substitute process agent.

(iii) In addition to the methods of service set out in the foregoing provisions of this Condition 15(c), process may be served upon us in any other manner permitted by law.

#### *(d) Waiver of Immunity*

To the extent that we may be entitled in any jurisdiction to claim for ourselves or our assets immunity from any suit, execution, attachment (whether provisional or final, in aid of execution, before judgment or otherwise)

or other legal process or to the extent that in any jurisdiction such immunity (whether or not claimed) may be attributed to us or our assets, we irrevocably agree not to claim and irrevocably waive such immunity to the fullest extent permitted by the laws of such jurisdiction.

(e) Any Loan Noteholder may in any proceedings against us protect and enforce in its own name its rights arising under its Loan Notes by submitting the following documents: (a) a certificate issued by its depositary bank (i) stating the full name and address of the Loan Noteholder, (ii) specifying an aggregate principal amount of Loan Notes credited on the date of such certificate to such Loan Noteholder's securities account maintained with such depositary bank and (iii) confirming that the depositary bank has given a written notice to the Registrar as well as to the Paying Agent containing the information pursuant to (i) and (ii) and bearing acknowledgements of the Registrar and the relevant Registrar account holder as well as (b) a copy of the Loan Certificate certified by a duly authorised officer of the Registrar or the Paying Agent as being a true copy.

#### **16. Contracts (Rights of Third Parties) Act 1999**

No person shall have any rights to enforce any term or condition of the Loan Notes under the Contracts (Rights of Third Parties) Act 1999 but this does not affect any right or remedy of a third party which exists or is available apart from that act.

## **USE OF PROCEEDS**

We expect to use the net proceeds from this Loan Notes Offering of approximately £496.9 million for general corporate purposes.

## CAPITALISATION

The table below presents our capitalisation as of December 31, 2006 and as adjusted for this Loan Notes Offering.

You should read this table together with our audited consolidated financial statements as of and for the year ended December 31, 2006 and the notes to those consolidated financial statements, as well as the information under “Operating and Financial Review—Liquidity and Capital Resources.” We have included a translation of the actual and as adjusted data as of December 31, 2006 from Swiss francs into U.S. dollars, solely for your convenience. This translation is at the rate of CHF 1.2190 = \$1.00, the Bloomberg Rate on December 29, 2006. On March 21, 2007, the Bloomberg Rate was CHF 1.2097 = \$1.00. See “Exchange Rate Information.”

None of our long-term debt is secured. None of our long-term debt is guaranteed by third parties; however, except in the case of debt assumed in two previous acquisitions, the Life Re acquisition and the Insurance Solutions Acquisition, all of our long-term debt has been guaranteed either directly, or indirectly through blanket corporate guarantees that have been issued in favour of various of our financing subsidiaries, by Swiss Reinsurance Company.

Since December 31, 2006, except as set forth below and except for our March 6, 2006 repurchase of 16,650,479 of our shares from GE for an aggregate purchase price of approximately CHF 1.7 billion, there has been no material change in our capitalisation taken as a whole. The repurchase from GE is a first step in the share buyback programme of up to CHF 6.0 billion that we announced March 1, 2007. The second step of our announced buyback programme contemplates share repurchases of up to CHF 4.2 billion over the next three years. As cancellation of the shares repurchased from GE would have adverse tax implications for us, we plan to use these shares for conversions of our existing mandatory convertible securities. As a consequence, we plan to obtain approval at our upcoming annual general meeting to cancel existing shares and reduce and/or cancel existing conditional capital in corresponding amounts.

	Actual		As Adjusted	
	CHF (in millions)	USD	CHF (in millions)	USD
Long-term senior and subordinated debt <sup>(a)</sup> .....	7,973	6,541	9,167 <sup>(b)</sup>	7,521
Shareholders' equity:				
Registered shares (nominal value				
CHF 0.10 per share; 374,440,378 shares authorised and issued) .....	37	30	37	30
Additional paid-in capital .....	11,136	9,135	11,136	9,135
Treasury shares .....	(272)	(223)	(272)	(223)
Accumulated other comprehensive income:				
Net unrealised investment gains, net of deferred taxes .....	2,230	1,829	2,230	1,829
Foreign currency translation .....	(205)	(168)	(205)	(168)
Accumulated adjustment for pension and post-retirement benefits .....	(724)	(594)	(724)	(594)
Total accumulated other comprehensive income .....	1,301	1,067	1,301	1,067
Retained earnings .....	18,682	15,326	18,682	15,326
Total shareholders' equity .....	30,884	25,336	30,884	25,336
Total capitalisation .....	<u>38,857</u>	<u>31,877</u>	<u>40,051</u>	<u>32,857</u>

(a) The long-term debt that we report in our financial statements includes senior financial debt and subordinated financial debt, but does not include operational debt, which is used for funded business (that is, to fund “financial services assets and liabilities” that are structured to create assets and liabilities that generate offsetting market risks such as foreign exchange, interest rate, equity and credit risks) and is included on our balance sheet within “financial services liabilities.” The December 31, 2006 historical figure represents CHF 2,482 million of senior financial debt and CHF 5,491 million of subordinated financial debt, but does not include CHF 6,765 million of operational debt.

(b) Reflects the issuance of £500 million principal amount of Loan Notes, converted at the December 29, 2006 Bloomberg Rate. Using March 21, 2007 Bloomberg Rates, the amount issued in Swiss francs would be CHF 1,190 million (\$984 million).

## EXCHANGE RATE INFORMATION

We publish our consolidated financial statements in Swiss francs. Because substantial portions of our revenues and expenses, and of our assets and liabilities, are denominated in other currencies, our reported financial condition, results of operations and statement of cash flow can be influenced by fluctuations in the value of those other currencies against the Swiss franc and, in some of our operations, against other currencies as well. For information about the effects of currency fluctuations on our results of operations, see “Risk Factors—Risks Related to Our Business—Changes in foreign exchange rates may impact our results” and “Operating and Financial Review—Exchange Rate Fluctuations” and “—Quantitative and Qualitative Disclosures about Financial Market Risk.”

The table below presents the Bloomberg Rate at the end of the periods indicated, the average of the Bloomberg Rates on the last business day of each full month during the periods indicated and the high and low Bloomberg Rates during the periods indicated. The Bloomberg Rates are expressed in Swiss francs per \$1.00. We do not use these rates in the preparation of our consolidated financial statements. See “Operating and Financial Review—Exchange Rate Fluctuations” for information about exchange rates used for financial statement purposes. On March 21, 2007, the Bloomberg Rate was CHF 1.2097 per \$1.00.

Year Ended December 31,	At Period End	Average Rate (CHF per \$1)	High	Low
2000 .....	1.6202	1.6904	1.8250	1.5526
2001 .....	1.6598	1.6900	1.8185	1.5858
2002 .....	1.3833	1.5567	1.7190	1.3833
2003 .....	1.2380	1.3450	1.4181	1.2380
2004 .....	1.1412	1.2428	1.3202	1.1338
2005 .....	1.3148	1.2459	1.3255	1.1466
2006 .....	1.2190	1.2529	1.3228	1.1924
2007 (through March 21) .....	1.2097	1.2349	1.2536	1.2069

## SELECTED CONSOLIDATED FINANCIAL DATA

You should read the following selected consolidated financial data with our consolidated financial statements, the notes to those consolidated financial statements and the information under "Operating and Financial Review." We derived the selected consolidated financial data as of and for the years ended December 31, 2005 and 2006 from our consolidated financial statements as of and for the year ended December 31, 2006, which have been audited by our independent auditors, and have been prepared and presented in accordance with U.S. GAAP.

	Year Ended December 31,		
	2005	2006	2006
	CHF	CHF	USD
(in millions, except per share data and ratios)			
<b>Income Statement Data:</b>			
<b>Revenues</b>			
<b>Premiums earned</b>			
Property & Casualty .....	16,346	17,441	14,308
Life & Health .....	9,638	10,974	9,002
Financial Services .....	907	1,100	902
<b>Total premiums earned</b> .....	<u>26,891</u>	<u>29,515</u>	<u>24,212</u>
Fee income .....	881	879	721
Net investment income .....	6,137	6,990	5,734
Net realised investment gains .....	3,474	1,948	1,598
Trading revenues .....	346	654	537
Other revenues .....	283	280	230
<b>Total revenues</b> .....	<u>38,012</u>	<u>40,266</u>	<u>33,032</u>
<b>Expenses</b>			
Claims and claim adjustment expenses .....	(14,758)	(11,799)	(9,679)
Life and health benefits .....	(8,668)	(9,594)	(7,870)
Interest credited to policyholders .....	(3,019)	(2,827)	(2,319)
Acquisition costs .....	(5,927)	(6,079)	(4,987)
Other operating costs and expenses .....	(3,081)	(4,111)	(3,373)
<b>Total expenses</b> .....	<u>(35,453)</u>	<u>(34,410)</u>	<u>(28,228)</u>
Income before income tax expense .....	2,559	5,856	4,804
Income tax expense .....	(255)	(1,296)	(1,063)
<b>Net income</b> .....	<u>2,304</u>	<u>4,560</u>	<u>3,741</u>
<b>Per share data</b>			
Earnings per share, basic .....	7.44	13.49	11.07
Earnings per share, diluted .....	7.14	12.53	10.28
<b>Balance Sheet Data (at period end):</b>			
Total investments .....	130,601	172,507	141,515
Total assets .....	221,299	291,300	238,966
Total liabilities .....	196,906	260,416	213,631
Unpaid claims and claim adjustment expenses .....	71,759	95,011	77,942
Liabilities for life and health policy benefits .....	31,081	44,899	36,833
Policyholder account balances .....	34,115	42,834	35,139
Total shareholders' equity .....	24,393	30,884	25,335
<b>Other Data</b>			
Property & Casualty operating ratios (traditional business) <sup>(a)</sup>			
Claims ratio .....	89.3	63.3 <sup>(c)</sup>	
Acquisition cost ratio <sup>(b)</sup> .....	19.8	18.7	
Administration expense ratio <sup>(b)</sup> .....	5.0	7.6	
Property & Casualty combined ratio .....	114.1	89.6 <sup>(c)</sup>	
Life & Health return on operating revenues <sup>(c)</sup> .....	9.6	10.0	
Life & Health management expense ratio <sup>(d)</sup> .....	5.5	6.3	

- (a) Excludes the non-traditional business of our Property & Casualty (including Risk Solutions) business, which encompasses certain large commercial lines and certain structured reinsurance products, and for which we believe the combined ratio is not a suitable measure as the source of profits under applicable contracts typically arises from a combination of investment performance and underwriting performance.
- (b) Unaudited ratios (calculated based on information extracted from our accounting records/management accounts).
- (c) Represents annual Life & Health business operating result (operating income less non-participating net realised investment gains and losses) divided by total annual Life & Health business operating revenues (which include premiums earned, fee income, net investment income excluding unit-linked investment income, and participating net realised investment gains and losses, excluding unit-linked realised gains and losses).
- (d) Represents annual Life & Health business other operating costs and expenses divided by Life & Health business operating revenues (which include premiums earned, fee income, net investment income excluding unit-linked investment income, and participating net realised investment gains and losses, excluding unit-linked realised gains and losses).
- (e) Under purchase GAAP, acquired assets and liabilities are required to be stated at fair value, which means that property and casualty reserves must be adjusted to reflect fair value. The discount (net of capital cost) unwinds over the estimated average duration of the reserves. For ease of comparability, the combined ratio is shown excluding the unwind of the discount.

## OPERATING AND FINANCIAL REVIEW

*You should read the following together with our consolidated financial statements and the notes to those consolidated financial statements. See “—Segment Results” for an explanation of our business segment and “—Segment Reconciliation to our Consolidated Financial Statements” for a reconciliation of business segment results to our consolidated results appearing in our consolidated financial statements. Some of the statements in this section are “forward-looking statements.” You should read the information under “Forward-Looking Statements” for special information about our presentation of forward-looking information.*

### Overview

We are the world’s leading global reinsurer, based on premiums earned. We operate through more than 90 offices in over 25 countries. We have been engaged in the reinsurance business since our founding in Zurich, Switzerland in 1863.

We offer a wide range of products to manage capital and risk, including reinsurance, insurance-based corporate finance solutions and supplementary services for comprehensive risk management. Our traditional reinsurance products include a wide range of property and casualty covers, life and health covers and related services. Our insurance-based corporate finance solutions include securitisation of insurance risks and run-off services. Our financial services operations include our proprietary investment activities in traded securities and alternative investments, our minority holdings, our private equity investment and advisory activities, and our third-party asset management activities. As a result of the Insurance Solutions Acquisition, we added a direct insurance business.

Following the September 2005 re-alignment of our management structure to more closely follow our strategic priorities, we operate through Client Markets, Products and Financial Services business functions (with corporate support functions globalised to manage common resources). We believe that our re-alignment has allowed us to bring the organisation closer to our customers, deepen our focus on product skills and further enhance our financial strengths. In addition, following our 2005 re-alignment, our Risk Solutions unit is included as part of our Property & Casualty business.

We derive our revenues principally from reinsurance premiums and the return on our investments. A variety of market and other factors affect our results of operations. These factors include insurance and reinsurance industry conditions, exchange rate fluctuations, changes in interest rates, fluctuations in the equity markets and the general economic environment, which we highlight below. See “Our Business—Competition” for additional factors.

### Economic Conditions—Generally

The global economy continued to see solid growth in 2006, at an average rate of approximately 5%. The broad-based expansion reached Western Europe in 2006, fuelling growth rates of 2.5% to 3%. In spite of a slowdown in the second half of 2006, the United States still achieved an average annual growth rate above 3%, and Japan continued its expansion in excess of 2%. Emerging markets grew by more than 7%. China’s 10.7% growth was a significant contributor to global expansion, although it also sparked shortages and price increases in many commodities markets. Oil prices, whose recent high levels had been perceived as the most important threat to the global business cycle, peaked at close to \$75 per barrel, and then eased to \$61 by year-end.

Interest rates increased moderately during 2006, with year-end rates between 30 and 60 basis points higher than at the beginning of the year. Inflation and credit spreads between government and corporate bonds remained stable at low levels in 2006 generally, with some narrowing in credit spreads during the first half of 2006. Stock markets developed well during the year, with most of the largest markets posting double digit growth rates.

The three-year slide in the value of the U.S. dollar between 2002 and 2005 reversed at the beginning of 2005 and it rose against all other major currencies during 2005 and the first half of 2006. During the second half of 2006, the value of the U.S. dollar again fell.

### Industry Conditions—Property and Casualty Reinsurance

Demand for property and casualty reinsurance is influenced significantly by underwriting results and underwriting capacity of insurers, as well as by prevailing general economic conditions. The supply of reinsurance is primarily related to prevailing reinsurance rates, levels of insured claims, levels of reinsurance

industry surplus and use of underwriting capacity, which, in turn, may fluctuate in response to changes in rates of return on investments earned in the reinsurance industry. As a result, the property and casualty reinsurance business historically has been a cyclical industry characterised by periods of excess underwriting capacity and strong price competition as well as periods of reduced underwriting capacity and favourable rates and premium levels. The frequency and severity of losses suffered by insurers can significantly affect these cycles. The absence of severe or frequent catastrophes and other loss events can result in declining premium rates in the global market. The effects of these underwriting cycles can be reduced if the reinsurer has a widely diversified global business.

Volatile and unpredictable developments, including natural catastrophes such as hurricanes, windstorms and earthquakes and man-made disasters such as explosions, fires and events arising from terrorist attacks, can also significantly affect the property and casualty reinsurance industry's profitability. The frequency and severity of such events are inherently unpredictable. Changes in the propensity of courts to expand insurance coverage and grant larger damage awards in product liability cases, trends in professional liability claims and plaintiff class actions, particularly in the United States, that have become more pronounced following the financial scandals of the past few years and have culminated in a series of large settlements by public reporting companies and financial institutions, fluctuations in interest rates and other changes in the economic environment that affect market prices and returns on investments, and inflationary pressures also affect the cyclical and profitability of the property and casualty reinsurance business.

During the periods under review, property and casualty claims levels were impacted by natural catastrophes and man-made events, including the following:

- **2005:** Catastrophes during 2005 led to total estimated industry losses of approximately \$83 billion, of which natural catastrophes losses reached approximately \$78 billion—almost double the previous year's record—of which reinsurers, we estimate, will pay roughly half. As a result, 2005 was an uneven underwriting year for both insurers and reinsurers. An estimated \$45 billion of the industry losses stem from Hurricane Katrina, which devastated the New Orleans area as well as oil production facilities in the Gulf of Mexico. Hurricanes Rita and Wilma triggered estimated industry losses of \$10 billion each, and Hurricane Dennis triggered estimated industry losses of \$1 billion. Approximately 90% of the total claims for natural catastrophes in 2005 were caused by storms and floods, both from the North Atlantic hurricanes and also the heavy August rains that caused widespread flooding in Switzerland, Germany and Austria. In addition, the market experienced a number of significant man-made property losses, including a fire at an oil sands plant in Canada in January and an explosion at a U.K. fuel storage tank facility in December, which accelerated price increases in the energy sector.
- **2006:** The most notable development in the property and casualty market in 2006 was the far lower level of industry losses in 2006 from catastrophes than in 2004 and 2005 given the low instance of hurricanes in the United States and the surrounding areas, as well as the absence of large catastrophes in Europe. Property insurers fared well in 2006, with only three events in the billion-dollar range (two tornadoes in the United States in April and a typhoon in Japan in September) and total insured catastrophe claims of \$15.9 billion (approximately \$11.8 billion for natural catastrophes and approximately \$4.0 billion for man-made disasters). These losses were the third lowest in the past 20 years.

2006 was a strong year for property, engineering, marine and aviation lines. Continued economic growth and development trends, combined with heightened awareness of weather-related risks, generally kept demand and prices for natural catastrophe exposures at high levels. These high prices, combined with below-average claims frequency and severity, allowed property insurers and reinsurers generally to achieve strong results. The increased demand attracted additional capacity to the market and price levels began to stabilise towards the end of 2006. For 2006, natural catastrophe claims had less than an approximate 4 percentage point negative impact on the combined ratio for our entire non-life business, compared to the 19 percentage point impact such claims had in 2005. We continue to manage our natural catastrophe exposure using various hedging instruments to reduce year-to-year volatility.

Airline aviation facultative accounts, many of which renew in the fourth quarter, saw significant price reductions. Treaty reinsurance and smaller general aviation accounts on the other hand experienced only modest reductions. We responded to the price reductions in the airline aviation facultative accounts by reducing our capacity by 30%.

Premium growth in the United States throughout 2006 demonstrated good cycle management with attractive rates, terms and conditions. Terrorism remained an important issue, despite the absence of a single significant insurance event related to terrorism during 2006. In the United States, the Terrorism Risk Insurance Act (“TRIA”) was extended through December 2007, while the industry continues to pursue a permanent private-

public partnership solution. We support permanent market solutions based on partnerships between insurers, insureds, reinsurers, the capital markets and governments. In Europe, both Belgium and France made legislative enhancements to terrorism coverage. In France the private-public partnership solution was enhanced when state participation was extended to include mid-sized and small risks, in addition to large industrial risks.

During 2006, the casualty segment reached a challenging point in the business cycle. Price competition increased in 2006 and there was a noticeable trend towards higher client net retentions. Rate levels were mostly flat or, in some instances, decreased slightly. We sought to maintain strong underwriting discipline to ensure that we achieved our overall profit margins and to deploy our capital to areas that add the most economic value.

There have been recent positive developments in the U.S. legal landscape, which suggests a promising trend for the liability environment. These reforms include legislative changes and court rulings in respect of third party liability, products liability and professional indemnity cases. We will continue to actively monitor the U.S. landscape. Some areas of U.S. insurance have seen recent premium reductions, for example in workers' compensation, which we believe may be premature. We continue to monitor the effects of these recent trends to gauge their sustainability.

In Europe, compensation levels for bodily injury claims continue to rise and European class action legislation is emerging. Recent cases of this type include the November 2006 decision in the Thompson v. Tameside and Glossop Acute Services NHS Trust case in the UK, in which the court ordered earnings-linked (based on an occupation group) periodic payments (rather than linking periodic payments to price inflation), and the recent French experience, where courts reopened old claims and insurance companies had to consider late reserving adjustments. As a result of these types of cases, we are maintaining strict underwriting and have implemented certain price adjustments and developing new products.

In emerging Asian markets, legal and social changes have continued to increase liability awareness, leading we expect to a greater demand for liability insurance products.

Overall, although improvements in general economic activity led to higher demand for insurance products, stable or declining primary rates in most lines of business meant that premium growth for insurers was sluggish. Reinsurers also experienced low premium growth as clients increased their own retentions of business, reflecting their improved financial condition.

Since year-end, winter storm Kyrill, which affected Europe in January 2007, resulted in damage that could cost the insurance industry between €3.5 billion to €8 billion. We expect to receive claims of up to €220 million from primary insurers in connection with Kyrill, but to reduce the net cost to us to approximately €140 million before tax.

In the United States, natural catastrophes have focused legislative and industry attention on how to best finance such risk in the future. Florida enacted legislation in early 2007 that expands the government-run insurer and reinsurance fund (the Florida Hurricane Catastrophe Fund), which could have a material impact on the insurance and reinsurance markets. Other Gulf states, including Louisiana and South Carolina are considering what action to take to protect their residents.

Generally, we expect underwriting results for property and casualty insurance to remain strong in most segments in 2007.

## **Industry Conditions—Life and Health Reinsurance**

Life and health reinsurance business focuses mainly on providing financial support to insurers, and providing risk assessment and risk assumption for mortality and morbidity risks. Life and health reinsurance business tends to be less volatile than property and casualty reinsurance business because the claims rate is generally more predictable.

In the U.S. and U.K. markets, consolidation has continued as companies seek the capital and cost efficiencies of increased scale. In the U.S. market in particular, life insurers have improved substantially their capital position over the past few years and have a record-high level of capital. Strong competitive pressures in the direct market are expected to persist, driven by moderating demand and ample capital capacity. The availability of excess capital has driven consolidation as companies seek the capital and cost efficiencies of increased scale, and this capacity is expected to further accelerate m&a activity in the next years. Large investment banks have become active in the market for hedging guarantees and reinsuring variable annuities.

Primary insurers have redesigned their products, often using reinsurance to reduce both earnings volatility and capital requirements. More established insurers, which have increasingly focused on distribution and asset management, have elected and will continue to elect to outsource their risk management requirements, looking to reinsurers for the underwriting and pricing capability needed in competitive risk markets. The extension of primary market distribution channels, especially through banks, creates new reinsurance opportunities as these institutions are generally less willing to retain significant underwriting risk.

Primary insurance continued to expand in 2006 with growth in all major regions. Early estimates suggest that developed markets grew between 5% and 10%, with the global average around 7%. Average growth has not regained the high levels experienced in the late 1990s. New business sales in the largest markets showed a mixed picture in 2006, with growth reaching double digits in the United Kingdom and Germany, and close to 10% in the United States, while growth in Spain, Italy and Japan was slow or negative. Annuity and pension business achieved particularly high growth rates as private customers focused on the old age protection gap. Term insurance sales were sluggish in the United States and the United Kingdom, but strong in Southern Europe, where mortgage-related products benefited from the continued buoyancy of the housing market.

In 2006, premium income in the life and health reinsurance market developed only moderately. The principal reasons for this were lower cession rates in the United States, with a shift from quota share to excess of loss covers, as well as the increased use of alternative solutions (such as securitisations) due to higher reinsurance prices and the slowing of term sales in the United States and the United Kingdom. The U.S. and U.K. markets collectively account for close to 70% of global life and health reinsurance volume.

Generally, we expect global life reinsurance premiums to decline, particularly due to lower cession rates in the United States and the United Kingdom, while other markets are expected to grow in line with primary market growth.

### **Industry Conditions—Financial Services**

The results of our Financial Services business are impacted not only by factors that affect the types of insurance underwritten by the group and factors that affect investing activities, but also by factors that affect the volumes of fee-generating services offered by the group. As a writer of coverage for credit risk, the results of our Financial Services business are also affected by the credit cycle. Financial market fluctuations impact not just the investment performance of the reinsurance written by the business group, but they also impact the amount of fee-generating services we offer, such as third-party asset management services, and the volume of risk-related financial market transactions we are able to undertake.

In 2006, the credit environment in the financial services sector was favourable and provided revenue growth.

Globally, the insurance-linked securities market has grown significantly over the past few years and 2006 was another year of strong growth for the market. For example, we believe that the issuance of catastrophic bonds increased by 139% in 2006, with respect to life bonds. CMA retained its lead underwriter position in this market with respect to both our own risks (e.g. Crystal Credit, Successor and Australis programmes) and third-party risks (e.g. Mystic Re, Calabash Re and the OSIRIS Capital (launched by the reinsurance arm of AXA) programmes). As of December 2006, we estimated that the total volume of insurance-linked securities outstanding had grown three-fold over the past five years, and was close to \$25 billion, consisting of approximately two-thirds, or \$17 billion, of life bonds, with the remaining \$8 billion covering non-life risks. In 2006, investors continued generally to demonstrate confidence in the insurance-linked securities sector. As the total outstanding amount is a small fraction of the potential market, we expect growth in issuances going forward.

### **Industry Conditions—Investments**

During 2006, bond yields rose in the major bond markets, as the central banks continued to withdraw global liquidity, which were offset in part by the interest rate increases initiated by the central banks during 2006. The United States reached a yield high in June 2006, when fears over growth-related inflation forced investors to reduce risk.

We successfully captured market movements by actively managing the duration in this environment. The Group also liquidated the large municipal bond portfolio acquired with Insurance Solutions. The average running yield on our portfolio increased from 4.6% in 2005 to 4.8% in 2006.

Credit spreads were little changed as of the end of 2006 despite market adjustments in May and June, when equity markets weakened and volatility rose.

After strong performance during the first four months of 2006, equity markets corrected in May and June before resuming their upward trend for the rest of 2006.

### **Increased Regulation and Disclosure in the Reinsurance Industry**

Although the reinsurance industry managed the financial challenges between 2001 and 2003, outside observers still raised concerns about its financial stability. The reinsurers' capital base was materially affected by significant events during that period, such as the bursting of the stock market bubble in 2000, the September 11, 2001 terrorist attacks and adverse claim developments in U.S. liability business written between 1997 and 2001.

These concerns led to a multitude of regulatory initiatives. At a variety of levels, the debate has focused on disclosure in the reinsurance sector and the need to maintain and build confidence in the financial stability of the sector. On the national and regional level, especially in Europe, the trend towards stricter reinsurance regulation continues. The European Union is introducing the so called "fast track" Reinsurance Directive which defines minimum regulatory standards for reinsurers in EU member states. The Swiss Federal Insurance Supervisory Act (the "Swiss FISA"), which became effective January 1, 2006, has also strengthened supervision in reinsurance. The insurance industry has expressed its support for these initiatives and emphasised that solvency requirements should reflect reinsurers' risk profiles. See "Regulation" for a description of the principal regulatory regimes that impact our operations.

In the wake of major corporate failures and breakdowns, corporate governance, as well as legislative and regulatory developments, have been increasingly in the spotlight worldwide in recent years. We take a proactive approach to aligning investors' expectations and interests with our own, and continue to conduct benchmarking with best practice standards. We are committed to meeting the highest standards of corporate governance and fully endorse transparency towards shareholders and other stakeholders.

In order to comply with the Sarbanes-Oxley Act of 2002, U.S. companies and foreign companies listed on U.S. stock exchanges have been required to evaluate and enhance their internal control over financial reporting. Several European jurisdictions are also introducing regulation that specifically oversees and monitors risk management practices as a basis for capital solvency requirements. These trends directly impact the insurance and reinsurance industry. The challenge for companies lies in introducing consistent governance models and control processes that address insurance-specific risk management processes and the increased requirements for internal control over financial reporting.

Beginning in late 2004, the New York Attorney General, the SEC, State insurance commissioners in the United States, the FSA and other regulators challenged certain practices in the insurance and reinsurance sectors, notably in relation to broker commissions and so-called non-traditional products. We received requests from regulatory authorities for information relating to so-called non-traditional products. We have responded fully to all such requests and will continue to do so. See "Risk Factors—Risks Related to Our Business—Regulatory actions may have an adverse impact on the industry in general and on our business, results of operations and financial condition."

### **Other Recent Developments**

**The Insurance Solutions Acquisition.** In June 2006, we completed the Insurance Solutions Acquisition, for a total cost of \$8.8 billion, including the reimbursement of capital injected since November 2005 of \$1.2 billion and purchase price adjustments. The Insurance Solutions Acquisition was financed through a combination of cash, an at-market rights issue and global offering of equity, mandatory convertible securities (including the proceeds of a December 2005 CHF 1.0 billion offering and \$500 million issued to GE at closing) and hybrid debt (U.S.\$752 million of 6.854% Perpetual Subordinated Step-Up Preferred Securities and €1.0 billion of 5.252% Perpetual Subordinated Step-Up Loan Notes). The financing also included the issuance of \$2.4 billion in new Swiss Re shares to GE, resulting in GE holding an 8.9% stake in our share capital. See note 4 to our consolidated financial statements for an estimated allocation of purchase price for the Insurance Solutions Acquisition. On March 6, 2007, GE settled the sale of its entire equity stake, and we repurchased 16,650,479 of those shares.

Among other things, the Insurance Solutions Acquisition allowed us to further diversify our business, particularly the U.S. regional property & casualty business. In life & health, we were able through the acquisition to expand our product range and geographic reach, particularly in Europe. With more than 97% of Insurance Solutions' life & health business retained since June 2006, we were able to increase our presence in living lines. We capitalised on Insurance Solutions' leading position as a reinsurer in the UK guaranteed critical illness market to return to that market.

The results of operations of Insurance Solutions have been included in our results of operations since June 9, 2006. In terms of premiums earned, Insurance Solutions contributed CHF 3,548 million in 2006, and on a stand-alone basis its combined ratio was 98.2% (excluding the unwind of discount) for the period June 9 – December 31, 2006.

**Admin Re<sup>SM</sup> Transactions.** The acquisition of Life Re in 1998 added administrative reinsurance, or Admin Re<sup>SM</sup>, to our product lines. Since then, we have acquired over 4.5 million policies, and over CHF 50 billion of assets under management. We have invested over CHF 5.0 billion in Admin Re<sup>SM</sup> transactions, with CHF 1.4 billion invested in 2004 alone and an additional £465 million invested in 2006 for the GE Life Acquisition. Because Admin Re<sup>SM</sup> transactions involve closed blocks of business for which no new policies are being written and may have a higher proportion of savings contracts, these transactions can have a more significant impact on net investment income than premiums relative to our traditional life and health reinsurance business. Accordingly, with the growth in Admin Re<sup>SM</sup>, we use operating revenues (which include premiums earned, fee income, net investment income excluding unit-linked investment income, and participating net realised investment gains and losses, excluding unit-linked realised gains and losses) and operating results (operating income less non-participating net realised investment gains) as the key measures when evaluating our Life & Health business results.

During 2005, we completed the successful integration of our two large 2004 Admin Re<sup>SM</sup> acquisitions of Life Assurance Holding Corporation Ltd (“LAHC”), including its life insurance subsidiary Windsor Life Assurance Company Ltd, and the CNA Financial’s individual life business. This included the consolidation of more than 2 million policies.

In late 2006, we acquired, for £465 million, including £260 million for statutory net assets, GE’s direct UK life operations. Through the GE Life Acquisition, we acquired approximately 400,000 policies, consisting primarily of savings and income retirement planning products and the National Mutual Fund acquired by GE Life in 2002. The transaction was our largest Admin Re<sup>SM</sup> transaction to date, increasing assets acquired by over CHF 20 billion (£8 billion), and is expected to provide scale and infrastructure for ongoing business in the United Kingdom.

In March 2007, we announced that we had agreed to assume the administration of 3 million additional insurance policies of The Norwich Union Life unit of Aviva PLC, in a transaction in which Norwich Union is in effect outsourcing administration as opposed to selling the block of business.

**Securitisations.** In January 2005, we securitised, through our Queensgate securitisation transaction, the expected future profits from five blocks of life insurance business previously acquired by us through Admin Re<sup>SM</sup> transactions. We issued \$245 million of asset backed securities in this transaction. In December 2005, we completed our second securitisation of insurance and investment risks from U.S. life portfolios. In the ALPS Capital transaction, through which we securitised the expected future profits from four blocks of Admin Re<sup>SM</sup> business, we issued \$370 million of securities, which brought our 2005 total for life-related insurance-linked securities issuances to \$615 million. Through securitisation, we expect to continue to convert risks from insurance and investment portfolios of life portfolios into tradeable securities, thereby securitising the present value of future profits, monetising intangible assets and enabling us to more efficiently use our capital. These securitisations are in the form of retrocession arrangements, which result in a decrease in premiums earned and fees.

**Other.** In June 2006, we completed the sale of Fox-Pitt, Kelton. In January 2007, we transferred a further \$705 million of extreme mortality risk to the capital markets through the third tranche of our Vita securitisation programme. Part of the issuance was used to replace cover provided by Vita I, which expired at the end of 2006, with the balance providing additional protection against extreme mortality risk. In February 2007, we sold our London headquarters for £600 million. As of December 1, 2006, we combined our private equity fund of funds business with Horizon 21, a Swiss investment manager that specialises in alternative investments including insurance-linked securities, contributing CHF 3.1 billion of assets to the partnership and becoming a strategic shareholder of Horizon 21 Private Equity Holdings with a 30% stake.

### **Exchange Rate Fluctuations**

We publish our consolidated financial statements in Swiss francs, the currency of the country in which Swiss Re Zurich is incorporated. Because substantial portions of our revenues and expenses and of our assets and liabilities are denominated in currencies other than the Swiss franc, our reported financial condition, results of operations and statement of cash flow can be influenced by fluctuations in the values of those currencies against the Swiss franc and, in some of our operations, against other currencies as well. Our operations are transacted

primarily in U.S. dollars, euros, British pounds, Canadian dollars, Australian dollars, Swiss francs and Japanese yen. All exchange rate fluctuations involving these or other currencies have an impact on our reported financial condition, results of operations and statement of cash flow from year to year and are expected to continue to do so in the future. We seek to mitigate these effects by investing a portion of our portfolio in investments denominated in the same currency as the corresponding liabilities.

Under Financial Accounting Standards Board Statement No. 52 ("FAS 52"), transactions denominated in foreign currencies are re-measured to the respective subsidiary's functional currency at average exchange rates. Monetary assets and liabilities are re-measured to the functional currency at closing exchange rates, while non-monetary assets and liabilities are re-measured to the functional currency at historical rates. Re-measurement gains and losses on monetary assets and liabilities as well as on trading securities are reported in earnings. Re-measurement 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 the Swiss franc are translated from the functional currency to the Swiss franc at closing rates. Revenues and expenses are translated at average exchange rates. Translation adjustments are reported in shareholders' equity.

The exchange rates, expressed as the amount of Swiss francs per one hundred units of listed currency, used to translate the balance sheet items are:

	Year ended December 31,	
	2005	2006
	(CHF per one hundred units of listed currency)	
Australian dollar .....	96.68	96.22
British pound .....	226.26	238.92
Canadian dollar .....	112.82	104.90
Euro .....	155.46	160.98
Japanese yen .....	1.12	1.02
South African rand .....	20.78	17.31
U.S. dollar .....	131.80	122.08

The exchange rates, expressed as the amount of Swiss francs per one hundred units of listed currency, used to translate the income statement items are:

	Year ended December 31,	
	2005	2006
	(CHF per one hundred units of listed currency)	
Australian dollar .....	94.91	94.33
British pound .....	226.40	230.48
Canadian dollar .....	102.61	110.68
Euro .....	154.82	157.20
Japanese yen .....	1.13	1.08
South African rand .....	19.54	18.70
U.S. dollar .....	124.37	125.46

During 2006, the Swiss franc remained relatively stable against the U.S. dollar (2006: +0.9%), the Euro (2006: +1.5%) and the British pound (2006: +1.8%) compared to 2005 average rates.

### Interest Rate and Equity Market Fluctuations

Movements in short-term and long-term interest rates, as well as fluctuations in the value of equity securities, affect the level and timing of recognition of gains and losses on securities we hold, causing changes in realised and unrealised gains and losses. Generally, our investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed-income securities are called, mature or are sold and the proceeds are reinvested at lower rates. However, declining interest rates result in unrealised gains in the value of fixed-income securities we continue to hold, as well as realised gains to the extent the relevant securities are sold. During periods of rising interest rates, prices of fixed-income securities tend to fall and realised gains upon their sale are reduced. Changes in interest rates also affect interest rate sensitive liabilities. Declining interest rates result in increased liabilities for some of our lines of business based on their accounting classification.

### Our Performance Measures

We evaluate our operations by monitoring key measures of growth and profitability. Our key measures include:

- *Premiums earned.* Premiums earned are the portion of premiums written that is recognised for accounting purposes as income during a period.

- *Investment Result.* Investment result is the combination of net investment income and net realised investment gains.
- *Return on equity.* Return on equity is net income as a percentage of time-weighted shareholders' equity.
- *Return on investments.* Return on investments is our investment result (excluding the result from assets held for linked liabilities) 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. Return on investments is calculated using average foreign exchange rates during the period.

## Property & Casualty

- *Claims ratio.* Claims ratio is the sum of claims paid, change in the provisions for unpaid claims and claims adjustment expenses in relation to premiums earned.
- *Acquisition cost ratio.* Acquisition cost represents the cost of obtaining, maintaining and renewing the business; it includes intermediaries' commission, our sales expense and other related expenses, in relation to premiums earned.
- *Administration expense ratio.* The administration expense ratio is the sum of administration expenses, in relation to premiums earned.
- *Combined ratio.* The combined ratio is the combination of the claims ratio and the acquisition cost and administration expense ratios. We use our combined ratio (which we apply to our entire non-life business as well as to our traditional Property & Casualty business) in evaluating overall underwriting profitability. We believe the combined ratio is not a suitable measure for non-traditional business as the source of profits typically arises from a combination of investment performance and underwriting performance. A combined ratio under 100% indicates underwriting profitability, as the total of claims paid, change in the provisions for unpaid claims and claims adjustment expenses, acquisition costs and administration expenses are less than premiums earned on the business. With a combined ratio at or above 100%, our profitability depends on investment income.

## Life & Health

- *Operating result.* The operating result represents annual Life & Health operating income less non-participating net realised investment gains and losses.
- *Return on operating revenues.* The return on operating revenues represents annual Life & Health business operating result (operating income less non-participating net realised investment gains and losses) divided by total annual Life & Health business operating revenues (which include premiums earned, fee income, net investment income excluding unit-linked investment income, and participating net realised investment gains and losses, excluding unit-linked realised gains and losses).
- *Management expense ratio.* The management expense ratio represents annual Life & Health business other operating costs and expenses divided by Life & Health business operating revenues (which include premiums earned, fee income, net investment income excluding unit-linked investment income, and participating net realised investment gains and losses, excluding unit-linked realised gains and losses).

## Financial Services

- *Premium business—Combined ratio, traditional business.* The combined ratio for our Credit Solutions business.
- *Fee business—Return on total revenues excluding proprietary asset management.* The return on total revenues for our fee business excluding proprietary asset management represents operating income divided by operating revenues.

## Critical Accounting Policies

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. We discuss below the accounting policies that our management considers are the most critical to our operations and require the most subjective judgments. This discussion should be read in conjunction with the notes to our consolidated financial statements.

## **Claims and Claim Adjustment Expenses and Life and Health Benefits**

As discussed under “Our Business—Reserves for Claims,” significant periods of time can elapse between our assumption of risk, the occurrence of a loss event, the reporting of the event to the ceding company, the subsequent reporting to us, and the ultimate payment by us. To recognise liabilities for unpaid claims, claim adjustment expenses and future policy benefits, we establish reserves, which are balance sheet liabilities representing estimates of future amounts needed to pay reported and not yet reported claims and related expenses arising from insured losses that have already occurred.

Reserves are estimates that involve actuarial and statistical projections of the expected cost of the ultimate settlement and administration of claims. These estimates are based on facts and circumstances then known, predictions of future developments, estimates of future trends in claims frequency and severity and other variable factors such as inflation. The amount of time that elapses before a claim is reported to the cedant and then subsequently reported to the reinsurer is commonly referred to in the industry as the reporting tail. Lines of business for which claims are reported quickly are commonly referred to as short-tail lines; and lines of business for which a longer period of time elapses before claims are reported to the reinsurer are commonly referred to as long-tail lines. In general, for reinsurance, the time lags are longer than for primary business due to the delay that occurs between the cedant becoming aware of a loss and reporting the information to its reinsurers. The delay varies by reinsurance market, type of treaty, whether losses are paid by the cedant and the size of the loss. The delay could vary from a few weeks to a year or sometimes longer.

We typically establish case reserves under proportional treaties by taking into account standard reserving methodologies and practices. Generally, the ceding company establishes a case reserve for the estimated amount of the ultimate payment for a reported claim. This estimate is based on the reserving practices and experience and knowledge of the ceding company regarding the nature and value of the specific types of claims. We generally establish reserve levels using reports and individual case estimates received from ceding companies. We maintain claims and claim adjustment expense reserves to cover our estimated liability for both reported and unreported claims. Our internal actuaries review our reserving assumptions and our methodologies on a regular basis.

In the case of facultative and non-proportional business, we generally evaluate the ceding company’s reserves taking into consideration coverage, liability, severity of injury or damage, jurisdiction, an assessment of the ceding company’s ability to evaluate and handle the claims and the amount of reserves recommended by the ceding company. If we determine that the reserves established by the ceding company may be insufficient to cover the ultimate cost of particular claims, additional case reserves are established either per treaty or per facultative acceptance.

We also establish claims reserves for claims incurred but not reported (“IBNR”) which provide for payments for incurred claims that have not yet been reported to us. In calculating our IBNR reserves, we generally use accepted actuarial reserving techniques that take into account quantitative loss experience data, together with, where appropriate, qualitative factors. IBNR reserves are based on claims experience and are grouped both by line of business and by accident year. IBNR reserves are also adjusted to take into account such factors as changes in the volume of business written, reinsurance contract terms and conditions, the mix of business, claims processing and inflation that can be expected to affect our liability for claims over time.

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 claims reserves currently established.

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 and 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. 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.

Determining the amount of risk transfer in a contract is a matter of judgment after evaluating all the facts, both qualitative and quantitative. Contracts which do not meet risk transfer requirements, defined as transferring a reasonable possibility of a significant loss to the reinsurer, are accounted for as deposit contracts. Deposit amounts are adjusted for payments received and made, as well as for amortisation or accretion of interest, and for reserve development, if applicable.

### **Premiums**

Management must make judgments about the ultimate premiums written and earned by us. Reported premiums written and earned are based upon reports received from cedants, supplemented by our own estimates of premiums written for which ceding company reports have not been received. The determinations of estimates require a review of our experience with cedants, familiarity with each geographic market, a thorough understanding of the characteristics of each line of business written and ceded to us. Premium estimates are updated when new information is received. Differences between such estimates and actual amounts are recorded in the period in which estimates are changed or the actual amounts are determined.

### **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.

### **Deferred Acquisition Costs**

Acquisition costs, which vary with, and are primarily related to, the production of new 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 on property and casualty business. Deferred acquisition costs for long-duration contracts are amortised over the life of the underlying contracts. Deferred acquisition costs for universal life-type contracts are amortised in relation to the present value of estimated gross profits.

### **Goodwill**

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

### **Financial Instruments**

We use certain financial instruments and invest in securities of certain entities for which exchange trading does not exist. The fair value of financial instruments for which exchange trading does not exist is estimated based on the quoted market prices of financial instruments with similar characteristics or on various valuation techniques. Because of the limited liquidity of some of these instruments, the recorded amounts may be different from the proceeds that might be realised if the financial instruments were sold at the balance sheet date.

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

## **Impact of Change to U.S. GAAP**

The following highlight the principal impact of our conversion from Swiss GAAP FER to U.S. GAAP:

**Marked to market of available-for-sale fixed income securities.** Under Swiss GAAP FER, available-for-sale fixed income securities (as opposed to those classified as “trading” securities) are carried at amortised cost. Under U.S. GAAP, available-for-sale fixed income securities are carried at fair value with changes in fair value recognised in shareholders’ equity. (Unrealised gains/losses on trading securities are reflected in earnings.)

**Shadow PVFP adjustment recognised on fixed income securities.** U.S. GAAP requires adjustment to unrealised gains and losses which, when realised, would be credited to policyholders. The adjustment affects the PVFP balance, policyholder liabilities and unrealised gains/losses in shareholders’ equity. Under Swiss GAAP FER, shadow PVFP adjustments are not recognised because available-for-sale fixed income securities are carried at amortised cost.

**Amortisation and other adjustments to goodwill.** Under Swiss GAAP FER, goodwill is amortised using the straight-line method over periods that correspond to the benefits expected to be derived from the related acquisitions. Under U.S. GAAP, effective 1 January 2002, goodwill is no longer amortised but is tested for impairment annually. We reversed amortisation of goodwill in 2005 through earnings and reversed amortisation of goodwill in 2002 through 2004 through retained earnings in the 2005 opening balance sheet.

**Equalisation reserve.** Under Swiss GAAP FER, equalization reserves prescribed by local regulatory authorities for future claims fluctuations and for large and catastrophic losses are established and included in the unpaid claims and claim adjustment expenses liability. Under U.S. GAAP, equalisation reserves are not recognised as a liability. We reversed the release of such reserves in 2005 through earnings (claims and claim adjustment expenses) and transferred the balance from liabilities to retained earnings in the 2005 opening balance sheet.

**Discounting of certain property & casualty reserves.** Under Swiss GAAP FER, we discounted certain property and casualty reserves, principally provisions that are discounted under U.S. statutory accounting policies. This approach is permitted but not required under U.S. GAAP, and we have adopted a policy of not discounting property and casualty reserves under U.S. GAAP. Purchase GAAP accounting is not affected by this policy and requires acquired assets and liabilities to be recognised at fair value. We reversed the 2005 discount through earnings (claims and claim adjustment expenses) and reversed the previously recognized discount through retained earnings in the 2005 opening balance sheet.

**Trading gains/losses.** With the adoption of U.S. GAAP, we designated certain fixed income securities as trading securities. Trading securities are remeasured through earnings rather than shareholders’ equity, including the associated foreign exchange effect. Future mark- to-market movements on such trading securities will be reflected in earnings.

**Foreign exchange.** Under Swiss GAAP FER, entities generally treated foreign currencies as functional, and foreign exchange re-measurements of assets and liabilities were reflected in shareholders equity with little impact on the income statement.

Under U.S. GAAP, certain entities have now changed to a single functional currency. Non-monetary assets and liabilities, except for those carried at fair value, are re-measured at historical rates. Monetary assets and liabilities are re-measured to the functional currency at closing exchange rates. Re-measurement gains and losses on monetary assets and liabilities as well as on trading securities are reported in earnings. Re-measurement 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. Translation adjustments (that is, the conversion to Swiss francs for consolidation/reporting purposes) continue to be recognised under US GAAP in shareholders’ equity, as was the case under Swiss GAAP FER.

To reduce the impact of foreign currency movements on earnings, we have designated as trading securities certain investment portfolios which are currency matched to monetary liabilities. Foreign exchange remeasurement gains/losses on trading securities are recognised in earnings rather than through shareholders’ equity. This results in consistent treatment of foreign exchange movements on monetary reinsurance liabilities and currency matched investments backing those liabilities.

To further mitigate the impact of foreign currency movements on our income statement, we have designated non-derivative monetary financial instruments as hedging part or all of the foreign currency exposure of our net

investment in certain foreign subsidiaries. As a result, the foreign exchange re-measurement gains/losses on the designated non-derivative financial instruments are recognised as translation gains/losses in shareholders' equity to offset the translation gains/losses on the hedged net investment. The hedge was designated as of our fourth quarter of 2006.

**Taxation.** Our taxation has changed to reflect the effect on income tax expense and deferred tax assets/liabilities based on the adoption of the new accounting basis.

The following table presents a reconciliation of our reported 2005 net income and shareholders' equity in Swiss GAAP FER to U.S. GAAP:

	Net Income (CHF in millions)	Shareholders' Equity
<b>Swiss GAAP FER</b>	1,451	22,929
Fixed income securities marked-to-market		1,912
Shadow adjustment recognised on fixed income securities		(340)
Amortisation and other adjustments to goodwill	274	954
Equalisation reserve reversed	(613)	569
Discounting of certain Property & Casualty reserves reversed	34	(1,030)
Trading losses (excluding foreign exchange)	(17)	
Foreign currency translation	913	(279)
Other impacts	(5)	352
Taxation	267	(674)
<b>U.S. GAAP</b>	<u>2,304</u>	<u>24,393</u>

### Consolidated Results of Operations

The table below presents summary consolidated results of operations for the periods indicated.

	Year Ended December 31,		
	2005 (CHF in millions)	2006 (CHF in millions)	2006 to 2005 % Change
<b>Revenues:</b>			
Premiums earned	26,891	29,515	10
Fee income from policyholders	881	879	—
Net investment income	6,137	6,990	14
Net realised investment gains	3,474	1,948	(44)
Trading revenues	346	654	89
Other revenues	283	280	(1)
<b>Total revenues</b>	<u>38,012</u>	<u>40,266</u>	<u>6</u>
<b>Expenses:</b>			
Claims and claim adjustment expenses	(14,758)	(11,799)	(20)
Life and health benefits	(8,668)	(9,594)	11
Interest credited to policyholders	(3,019)	(2,827)	(6)
Acquisition costs	(5,927)	(6,079)	3
Other operating costs and expenses	(3,081)	(4,111)	33
<b>Total expenses</b>	<u>(35,453)</u>	<u>(34,410)</u>	<u>(3)</u>
Income before income tax expenses	2,559	5,856	129
Income tax expenses	(255)	(1,296)	(408)
<b>Net income</b>	<u><u>2,304</u></u>	<u><u>4,560</u></u>	<u><u>98</u></u>

### Year ended December 31, 2006 compared to year ended December 31, 2005

**Revenues.** Revenues increased CHF 2.3 billion, or 6%, from CHF 38.0 billion in 2005 to CHF 40.3 billion in 2006. Premiums earned in 2006 increased CHF 2.6 billion, or 10%, from CHF 26.9 billion in 2005 to CHF 29.5 billion in 2006. Insurance Solutions contributed CHF 3,548 million of premiums, which was offset by a decrease in premiums for our underlying Property & Casualty business.

Premiums earned in our Property & Casualty business increased CHF 1.1 billion, or 7%, from CHF 16.3 billion in 2005 to CHF 17.4 billion in 2006. This increase, which we recorded notwithstanding our maintaining strict underwriting discipline, was mainly due to the inclusion of the Insurance Solutions business, offset in part by reductions due to higher client retention and lower demand for non-traditional products. Exclusive of the contribution of CHF 2,511 million of Insurance Solutions premiums, our Property & Casualty premiums would have decreased CHF 1,416 million, or 9%, to CHF 14.9 billion in 2006.

Premiums earned and fee income in our Life & Health business increased CHF 1.4 billion, or 13%, from CHF 10.5 billion in 2005 to CHF 11.9 billion in 2006. This increase was mainly due to the inclusion of Insurance Solutions premiums and new business written. Exclusive of Insurance Solutions premiums, the increase would have been 3%.

Premiums earned in the Credit Solutions unit of our Financial Services business increased CHF 0.2 billion, or 21%, from CHF 0.9 billion in 2005 to CHF 1.1 billion in 2006, reflecting successful renewals in 2006.

Net investment income increased CHF 0.9 billion, or 14%, from CHF 6.1 billion in 2005 to CHF 7.0 billion in 2006. This favourable development was due to a combination of the increasingly attractive yields earned on our fixed income securities portfolio and overall growth in invested assets reflecting strong operating cash flows, as well as income generated by the inclusion of Insurance Solutions' investment portfolio in 2006. Net investment income on our fixed income portfolio increased 21% from CHF 4,603 million to CHF 5,582 million, while net investment income on our equity portfolio increased 52% from CHF 164 million to CHF 249 million.

Net realised investment gains decreased CHF 1.5 billion, or 44%, from a gain of CHF 3.5 billion in 2005 to a gain of CHF 1.9 billion in 2006. This decrease was mainly due to lower exchange rate related gains (CHF 214 million in 2006 compared to CHF 913 million in 2005). Excluding the effect of the exchange rate gains in 2005, net realised investment gains would have declined by 32% in 2006, reflecting losses on derivatives used to hedge the equity and corporate bond portfolio and lower realised gains on fixed income securities compared to 2005, which benefited from realised gains on the sale of \$1.0 billion of mostly BBB-rated corporate bonds in North America.

Trading revenue increased CHF 308 million, or 89%, from CHF 346 million in 2005 to CHF 654 million in 2006. This increase reflected our revenue growth in our Financial Services fee business, particularly in Capital Management and Advisory ("CMA").

Other revenue decreased CHF 3 million, or 1%, from CHF 283 million in 2005 to CHF 280 million in 2006.

*Expenses.* Total expenses decreased CHF 1.1 billion, or 3%, from CHF 35.5 billion in 2005 to CHF 34.4 billion in 2006. The total expense ratio in the Property & Casualty business increased from 24.8% to 26.3% from 2005 to 2006 (traditional business), and the management expense ratio increased in the Life & Health business from 5.5% to 6.3% from 2005 to 2006.

Claims and claim adjustment expenses decreased CHF 3.0 billion, or 20%, from CHF 14.8 billion in 2005 to CHF 11.8 billion in 2006. The decrease in claims and claim adjustment expenses reflected our favourable claims experience during 2006. Life and health benefits increased CHF 0.9 billion, or 11%, from CHF 8.7 billion in 2005 to CHF 9.6 billion in 2006, due to the inclusion of Insurance Solutions and growth in the underlying business. Exclusive of Insurance Solutions, life and health benefits increased by 2% to CHF 8.8 billion.

Interest credited to policyholders decreased CHF 192 million, or 6%, from CHF 3.0 billion in 2005 to CHF 2.8 billion in 2006.

Acquisition costs increased CHF 152 million, or 3%, from CHF 5.9 billion in 2005 to CHF 6.1 billion in 2006. Our acquisition cost ratio for our traditional Property & Casualty business decreased slightly from 19.8% in 2005 to 18.7% in 2006, partially due to the purchase GAAP adjustment eliminating the historical deferred acquisition cost of Insurance Solutions, resulting in less amortisation in the year.

Other operating costs and expenses increased CHF 1.0 billion, or 33%, from CHF 3.1 billion in 2005 to CHF 4.1 billion in 2006. This increase was mainly due to the inclusion of Insurance Solutions in 2006, as well as increased variable compensation costs reflecting the much higher business performance in 2006, restructuring costs and financing expenses. Our overall cost ratio was 10.2% in 2006 compared to 8.1% in 2005.

*Income before income tax expenses.* Income before income tax expenses increased CHF 3.3 billion, or 129% from CHF 2.6 billion in 2005 to CHF 5.9 billion in 2006.

*Income tax expense.* Our tax expense increased by CHF 1.0 billion, or 408%, from CHF 255 million in 2005 to CHF 1.3 billion in 2006 and represents an effective tax rate in 2006 of 22%, compared to 10% in 2005. In 2005, the tax rate was impacted by currency exchange remeasurement gains in pre-tax income, and by deferred and current tax expense, including changes in valuation allowances and the tax treatment of goodwill and inter-company dividends.

*Net income.* Net income increased CHF 2.3 billion, or 98%, from CHF 2.3 billion in 2005 to CHF 4.6 billion in 2006, principally reflecting the impact of the large natural catastrophes during 2005 compared to the low level of natural catastrophe claims in 2006, combined with strong underlying performance across all businesses and favourable investment performance. Earnings per share increased 81% to CHF 13.49 in 2006 from CHF 7.44 in 2005, and on a fully diluted basis increased to CHF 12.53 from CHF 7.14.

## Segment Results

Following our September 2005 re-alignment of our management structure (to more closely follow our strategic priorities, and thus bring the organisation closer to our customers, deepen our focus on product skills and further enhance our financial returns, including through risk securitisation), we operate through three business functions—Client Markets, Products (which encompass all of our business lines in Property & Casualty and Life & Health) and Financial Services. This re-alignment included the transfer of our Risk Solutions unit from Financial Services to Property & Casualty. We present in the discussion below our results based on the groupings of our lines of business: Life & Health, Property & Casualty and Financial Services, which is consistent with the segmentation in our U.S. GAAP financial statements covering the same period.

To measure the operating results of these segments, we exclude taxes, net realised gains/losses on certain financial instruments, other income and expenses and Corporate Centre expenses. See “—Segment Reconciliation to our Consolidated Financial Statements” below for a reconciliation of segment income before income tax expenses to consolidated income before income tax expenses as set forth above and in our consolidated financial statements.

### Property & Casualty Business<sup>(a)</sup>

Our Property & Casualty business includes property, liability, motor, accident and specialty lines.

The table below presents summarised financial information for our Property & Casualty business for the periods indicated.

	Year Ended December 31		Changes in %	
	2005	2006		
	(CHF in millions)			
<b>Revenues</b>				
Premiums earned .....	16,346	17,441	7	
Net investment income .....	1,988	2,883	45	
Net realised investment gains .....	1,188	752	(37)	
Trading revenues .....	27	4	(85)	
Fees, commissions and other revenues .....	46	74	61	
<b>Total Revenues</b> .....	<u>19,595</u>	<u>21,154</u>	8	
<b>Expenses</b>				
Claims and claim adjustment expenses .....	(14,430)	(11,306)	(22)	
Acquisition costs .....	(3,411)	(3,459)	1	
Other operating costs and expenses .....	(924)	(1,373)	49	
<b>Total Expenses</b> .....	<u>(18,765)</u>	<u>(16,138)</u>	(14)	
<b>Operating Income</b> .....				
Thereof: Traditional business .....	830	5,016	504	
Non-traditional business .....	639	4,925	671	
	191	91	(52)	
<b>Ratios for Traditional business<sup>(b)</sup></b>				
Claims ratio (in %) <sup>(c)</sup> .....	89.3	63.3		
Expense ratio (in %) .....	24.8	26.3		
Combined ratio (in %) <sup>(c)</sup> .....	<u>114.1</u>	<u>89.6</u>		

(a) Risk Solutions business, which represents our activities with large corporate clients, was formerly part of Financial Services and is now incorporated into Property & Casualty for both periods presented.

- (b) We believe the combined ratio is not a suitable measure for our non-traditional business as the source of profits typically arises from a combination of investment performance and underwriting performance.
- (c) Under Purchase GAAP, acquired assets and liabilities are required to be stated at fair value, which means that property and casualty reserves must be adjusted to reflect fair value. The discount (net of capital cost) unwinds over the estimated average duration of the reserves. For ease of comparability, the combined ratio is shown excluding the unwind of the discount.

The following table presents our Property & Casualty premiums earned and combined ratios by line of business for the periods indicated.

#### Premiums Earned

	Year Ended December 31,	
	2005	2006
	(CHF in millions)	
Property .....	5,095	6,063
Liability .....	4,095	4,563
Motor .....	2,070	1,923
Accident .....	812	1,057
Specialty lines .....	2,785	3,251
Non-traditional .....	1,489	584
<b>Total .....</b>	<b>16,346</b>	<b>17,441</b>

#### Combined Ratios for Traditional Business<sup>(a)</sup>

	Year Ended December 31,	
	2005	2006
	(CHF in millions)	
Property .....	111.2	70.7
Liability .....	133.2	107.4
Motor .....	104.3	103.5
Accident .....	95.3	127.9
Specialty lines .....	104.2	83.4

- (a) We believe the combined ratio is not a suitable measure for our non-traditional business as the source of profits typically arises from a combination of investment performance and underwriting performance.

The following tables present our Property & Casualty expenses and ratios by line of business:

	Year Ended December 31,					
	2005			2006		
	Claims and claim adjustment expenses	Acquisition costs	Other operating costs and expenses	Claims and claim adjustment expenses	Acquisition costs	Other operating costs and expenses
Property .....	4,419	967	282	2,781	1,074	433
Liability .....	4,486	803	166	3,721	794	387
Motor .....	1,648	400	110	1,448	394	148
Accident .....	564	172	38	1,051	216	85
Specialty lines .....	2,153	608	141	1,808	674	231
Non-traditional .....	1,160	461	187	497	307	89
<b>Total .....</b>	<b>14,430</b>	<b>3,411</b>	<b>924</b>	<b>11,306</b>	<b>3,459</b>	<b>1,373</b>

	Year Ended December 31,					
	2005			2006		
	Claims Ratio <sup>(b)</sup>	Expense Ratio <sup>(b)</sup>	Combined Ratio <sup>(b)</sup>	Claims Ratio <sup>(b)</sup>	Expense Ratio <sup>(b)</sup>	Combined Ratio
Property .....	86.7	24.5	111.2	45.3	24.8	70.7
Liability .....	109.5	23.7	133.2	80.0	25.9	107.4
Motor .....	79.6	24.7	104.3	74.6	28.2	103.5
Accident .....	69.4	25.9	95.3	98.1	28.5	127.9
Specialty lines .....	77.3	26.9	104.2	55.4	27.8	83.4
Total traditional <sup>(a)</sup> .....	89.3	24.8	114.1	63.3	26.3	90.4
						89.6

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- (a) We believe the combined ratio is not a suitable measure for our non-traditional business as the source of profits typically arises from a combination of investment performance and underwriting performance.
- (b) Unaudited ratios (calculated based on information extracted from our accounting records/management accounts).
- (c) Under Purchase GAAP, acquired assets and liabilities are required to be stated at fair value, which means that property and casualty reserves that are normally carried undiscounted must be adjusted to reflect fair value. The discount (net of capital cost) unwinds over the estimated average duration of the reserves. For ease of comparability, this column shows the combined ratio excluding the unwind of the discount.

#### **Year ended December 31, 2006 compared to year ended December 31, 2005**

*Premiums earned.* Premiums earned increased CHF 1.1 billion, or 7%, representing an increase of 13% in traditional business (CHF 2 billion) and a decrease of 61% in non-traditional business (CHF 902 million), from CHF 16.3 billion in 2005 to CHF 17.4 billion in 2006. The volume of traditional premiums reflected the contribution from Insurance Solutions which provided CHF 2.5 billion, or 14% of total premiums for 2006 (CHF 2,456 million in our traditional business and CHF 55 million in our non-traditional business), offset in part by a 7% reduction in our facultative and direct corporate business (as we reduced our portfolio, particularly in liability and large property risks, in response to softening rates) and a 4% decline in traditional treaty business. Our treaty renewals during the year were characterised by our actions to reduce liability business and by stable volume in property. The non-traditional portfolio was affected by the non-renewal of certain large quota-share agreements and a general decrease in demand for non-traditional covers. The general shift from proportional to non-proportional solutions continued.

Premiums earned in 2006 by division were as follows: Europe: 51%, Americas: 38% and Asia: 11%. We had significant new business written in the United States but higher retentions by ceding companies in Europe partially offset this increase in volume.

**Property.** The weighting of property business within the portfolio increased from 31.2% of premiums earned in 2005 to 34.8% of premiums earned in 2006. Property premiums increased 19% over 2005, principally due to growth in all divisions. The overall increase is mainly due to the contribution from Insurance Solutions (13% of premiums), increased rates for 2006 renewals and new business written in the United States, partially offset by higher retentions by ceding companies in Europe. In addition to the new business in the United States, the exceptional level of natural catastrophes experienced in the United States in 2005 triggered a rates increase for property lines during the 2006 renewals. New business and 2007 renewals in the United States benefited from the absence of large natural catastrophe claims in 2006. The underwriting result improved in all regions, with a major contribution from the UK property business. The improvement in our property combined ratio (70.1% in 2006 compared to 111.2% in 2005) further reflected the lower incidence and severity of both natural catastrophes and man-made claims.

**Liability.** The weighting of liability in 2006 increased to 26.2% of premiums earned from 25.1% in 2005. Liability premiums increased 11% from 2005 to 2006, mainly due to Insurance Solutions's contribution (17.6% of premiums). Our liability experience improved significantly compared to 2005 and we experienced a 27.3% decrease in the combined ratio—excluding the unwind of the discount (net of capital cost) (2006: 105.9; 2005: 133.2). We undertook a strategic effort to optimise profitability, which led to the discontinuing of significant volumes of U.S. professional cover business. Consistent with industry-wide experience, adverse development continued to drag down the performance of liability business. We continued to experience adverse development for U.S. liability lines for years 1999 to 2001. However, the liability business still achieved operating income of CHF 1.1 billion overall, reflecting the substantial investment income earned on assets backing the claims reserve.

**Motor.** The weighting of motor decreased from 12.7% of premiums earned in 2005 to 11.0% of premiums earned in 2006. Pricing of our motor book remained stable and terms and conditions in general were unchanged. Motor premiums decreased 7% in 2006 compared to 2005 due largely to our disciplined underwriting approach. As in 2005, France reported higher claims as the upward trend in bodily injury awards continued.

**Accident.** Accident increased its proportion from 5.0% of premiums earned in 2005 to 6.0% of premiums earned in 2006. Accident premiums increased significantly by 30% in 2006 compared to 2005. This increase was mainly from Asia and America, as well as the Insurance Solutions contribution of CHF 249 million, mostly in the United States. The combined ratio deteriorated, increasing by 31.3 points to 126.6%, reflecting reserve strengthening in the United States, as well as the negative effect from one larger proportional contract. We

continued to manage this line closely, including shifting to more short-tail lines and further reducing our workers' compensation business. While the underwriting performance was low in 2006, the accident line remained profitable due to the investment income on claims reserves.

**Specialty Lines.** Specialty lines increased its weighting slightly from 17% of premiums in 2005 to 18.6% of premiums earned in 2006. Specialty premiums increased 17%, primarily due to improved performance in marine, aviation and space, with positive overall development, offset by a 30% reduction in our market share for airline facultative accounts, as a result of fourth quarter price reductions in this segment. Due to that offset, excluding the contribution from Insurance Solutions, premium volume would have remained stable at CHF 2.8 billion for 2006. Our marine results benefited from increased rates used during the 2006 renewals, principally as a result of the impact of the U.S. hurricanes during 2005.

**Non-traditional.** Non-traditional lines decreased their weighting from 9.1% of premiums in 2005 to 3.3% of premiums earned in 2006. Non-traditional premiums decreased significantly in all lines by over 60% in 2006 compared to 2005 due to the non-renewal of certain large quota share agreements and a general reduction in demand referred to above. Profitability decreased in 2006, as the 2005 operating income included beneficial development with respect to a major contract and a large favourable commutation, neither of which was repeated for 2006.

*Net investment income.* Net investment income increased CHF 0.9 billion, or 45%, from CHF 2.0 billion in 2005 to CHF 2.9 billion in 2006 reflecting higher interest rates and overall portfolio growth.

*Net realised investment gains.* Net realised investment gains decreased CHF 436 million, or 37%, from CHF 1.2 billion in 2005 to CHF 752 million in 2006.

*Claims and claim adjustment expenses.* Claims and claim adjustment expenses decreased CHF 3.1 billion, or 22%, from CHF 14.4 billion in 2005 to CHF 11.3 billion in 2006. This decrease was primarily due to the impact of extraordinary claims arising from natural catastrophes experienced in prior years.

*Acquisition costs.* Acquisition costs remained stable at CHF 3,459 million compared to CHF 3,411 million in 2005. A purchase GAAP adjustment related to the Insurance Solutions Acquisition eliminated the historical deferred acquisition cost in the Insurance Solutions balance sheet, which in turn eliminated the related amortisation.

*Other operating costs and expenses.* Other operating costs and expenses increased CHF 450 million, or 49% from CHF 924 million in 2005 to CHF 1,373 million in 2006.

*Property & Casualty operating income.* Operating income increased CHF 4.2 billion, or over five times from CHF 830 million in 2005 to CHF 5.0 billion in 2006. The increase principally reflected strong performance across all lines of business, a lower level of natural catastrophe claims in 2006 compared to 2005, and the contribution from Insurance Solutions in the second half of the year. Underlying portfolio profitability increased as a result of attractive rates as well as the tighter underwriting terms and conditions introduced in prior years. Claims from natural catastrophes decreased to CHF 0.7 billion, or 3.8% of premiums in 2006, compared to CHF 3.0 billion, or 17% of premiums in 2005. Insurance Solutions operations accounted for CHF 628 million, or 13%, of 2006 Property & Casualty operating income.

Our combined ratio for traditional business improved from 114.1% in 2005 to 90.4% in 2006 (89.6% excluding the unwind of the discount referred to below). This ratio combines the effects of the claims ratio, which decreased by 26 percentage points; the acquisition cost ratio, which decreased by 1.1 percentage points and the administrative expense ratio, which rose by 2.6% percentage points to 7.6% in 2006, mainly due to an increase in profit sharing, reflecting the higher profitability of the business. This decrease was almost entirely attributable to the absence of exceptional natural catastrophe claims in 2006 (with the lower than expected natural catastrophe claims contributing 2.8 percentage points (CHF 496 million)). In addition, our liability experience improved significantly in 2006 compared to 2005. All lines of business except accident contributed to the decrease in the combined ratio, mainly due to increased rates and the lower level of natural catastrophe and other large losses. Purchase GAAP accounting applied to Insurance Solutions accounts required assets and liabilities to be measured at fair value. Hence property and casualty reserves were adjusted to reflect fair value, and the resulting discount of reserves will unwind over the estimated duration of the reserves. The discount, net of capital cost, had an impact of 0.8 percentage points on our combined ratio. The combined ratio for Insurance Solutions on a stand-alone basis for the balance of 2006 was 98.2% (excluding the unwind of discount).

In 2006, prior year claims generated a profit of CHF 502 million, representing 4% of the 2006 premiums earned from treaty business. For years 1998 and prior, the development was broadly neutral, while years 1999 to 2001 still experienced adverse development for U.S. liability lines, in particular directors and officers liability covers, which had an impact of approximately 7 percentage points on the combined ratio. Adverse development in liability was partially offset by positive developments in other lines of business and regions, was well as in the more recent underwriting years. We are encouraged by the positive developments emerging for years 2002 to 2005, which had a positive impact of approximately 5 percentage points on the combined ratio.

### Life & Health Business

Our Life & Health business includes our life, disability and other health business. The table below presents summarised financial information for our Life & Health business for the years indicated.

	Year Ended December 31,		Change in %	
	2005	2006		
	(CHF in millions)			
<b>Revenues</b>				
Premiums earned .....	9,638	10,974	14	
Fee income .....	881	879	0	
Net investment income .....	4,000	3,946	(1)	
Net realised investment gains .....	1,799	1,521	(15)	
<b>Total revenues</b> .....	16,318	17,320	6	
<b>Expenses</b>				
Claims and claim adjustment expenses; life and health benefits .....	(8,668)	(9,594)	11	
Interest credited to policyholders .....	(3,019)	(2,827)	(6)	
Acquisition costs .....	(2,221)	(2,256)	2	
Other operating costs and expenses .....	(765)	(961)	26	
<b>Total expenses</b> .....	(14,673)	(15,638)	7	
<b>Operating income</b> .....	1,645	1,682	2	
<b>Operating result, excluding non-participating net realised investment gains</b> .....	1,333	1,517	14	
	(percentages)			
Management expense ratio <sup>(a)</sup> .....	5.5	6.3		
Return on operating revenues <sup>(b)</sup> .....	9.6	10.0		

- (a) Represents annual Life & Health business other operating costs and expenses divided by total annual Life & Health business operating revenues (which include premiums earned, fee income, net investment income excluding unit-linked investment income, and participating net realised investment gains and losses, excluding unit-linked realised gains and losses).
- (b) Represents annual Life & Health business operating result (operating income less non-participating net realised investment gains and losses) divided by total annual Life & Health business operating revenues (which include premiums earned, fee income, net investment income excluding unit-linked investment income, and participating net realised investment gains and losses, excluding unit-linked realised gains and losses).

The table below presents the percentage of our Life & Health premiums earned and fee income (CHF 10.5 billion in 2005; CHF 11.9 billion in 2006) by geographic region for the periods indicated.

	Year Ended December 31,		(percentages)
	2005	2006	
North America .....	63.7	61.0	
Europe .....	27.2	31.3	
Rest of World .....	9.1	7.7	
<b>Total</b> .....	100.0	100.0	

### Year ended December 31, 2006 compared to year ended December 31, 2005

*Premiums earned and fees.* Premiums earned and fees increased CHF 1.4 billion, or 13%, from CHF 10.5 billion in 2005 to CHF 11.9 billion in 2006. The increase was mainly due to Insurance Solutions' contribution of

CHF 1.0 billion of premiums and fees in 2006. The Admin Re<sup>SM</sup> securitisations reduced premiums and fees by CHF 384 million in 2006, compared to a reduction of CHF 181 million in 2005, reflecting the full year impact of the ALPS Capital securitisation transaction (securitisations are in the form of retrocession agreements, which have the effect of reducing premiums). Excluding the effect of the Admin Re<sup>SM</sup> securitisation transactions, underlying premium and fee growth was 14%. Traditional life premiums earned and fees increased 12% to CHF 7.9 billion, reflecting new business written in the United States, the United Kingdom and Asia, as well as the European life business acquired as part of the Insurance Solutions Acquisition. Traditional health premiums increased from CHF 1.6 billion in 2005 to CHF 2.2 billion in 2006, mainly due to the contribution from Insurance Solutions. Excluding the impact of the securitisations, Admin Re<sup>SM</sup> premiums and fees remained stable at CHF 2.1 billion.

Our main life and health market continues to be North America, which contributed 61% of total premiums earned and fees in 2006, compared to 64% in 2005. Europe collectively represented 31% of total premiums earned and fees in 2006, compared to 27% in 2005, increasing as a result of Insurance Solutions. The “rest of the world” collectively contributed 8% of total premiums earned and fees in 2006, and includes both growing markets such as Asia and established businesses in South Africa and Australia.

*Operating revenues.* Operating revenues (which include premiums earned, fee income, net investment income excluding unit-linked investment income, and participating net realised investment gains and losses, excluding unit-linked realised gains and losses) increased CHF 1.3 billion, or 9%, from CHF 13.9 billion in 2005 to CHF 15.2 billion in 2006. Insurance Solutions contributed CHF 1.1 billion of the increase. The overall Life & Health return on operating revenues of 10.0% exceeded the previous year’s return of 9.6%, reflecting solid underlying performance in all lines. The following table shows a breakdown in operating revenues and return on operating revenues for traditional life, traditional health and Admin Re<sup>SM</sup>.

	Operating Revenues (CHF in millions)		Return on Operating Revenues <sup>(a)</sup> (percentages)	
	Year Ended December 31,		Year Ended December 31,	
	2005	2006	2005	2006
Traditional life .....	7,930	8,907	9.4	7.7
Traditional health .....	2,202	2,868	9.6	13.7
Admin Re <sup>SM</sup> .....	3,727	3,391	10.2	12.8
<b>Total</b> .....	<b>13,859</b>	<b>15,166</b>		

(a) Represents annual Life & Health business operating result (operating income less non-participating net realised investment gains and losses) divided by total annual Life & Health business operating revenues (which include premiums earned, fee income, net investment income excluding unit-linked investment income, and participating net realised investment gains and losses, excluding unit-linked realised gains and losses).

**Traditional life.** Traditional life operating revenues grew due to new business written in the United States, the United Kingdom and Asia, as well as the European life business that was acquired in the Insurance Solutions Acquisition. Our traditional life operating results decreased CHF 54 million, or 7%, to CHF 688 million in 2006, compared to CHF 742 million in 2005, and our traditional life return on operating revenues declined from 9.4% in 2005 to 7.7% in 2006. The decrease was due to the fact that while 2006 mortality experience was in line with expectations, 2005 benefited from favourable mortality experience as well as the release of the unused 2004 tsunami provision of CHF 52 million.

**Traditional health.** Our traditional health business operating revenues grew by 30%, mainly due to the contribution from Insurance Solutions. Our traditional health result increased by CHF 182 million, or 86%, to CHF 394 million for 2006, compared to CHF 212 million in 2005. Our traditional health business’ return on operating revenues increased from 9.6% in 2005 to 13.7% in 2006, reflecting very favourable claims experience in 2006.

**Admin Re<sup>SM</sup>.** The decrease in Admin Re<sup>SM</sup> operating revenues of 9% was due to the first full year impact of the ALPS Capital securitisation (impact of securitisations: 2006: CHF 630 million; 2005: CHF 292 million). Our Admin Re<sup>SM</sup> operating result increased by CHF 56 million, or 15%, to CHF 435 million for 2006, compared to CHF 379 million for 2005. Our Admin Re<sup>SM</sup> return on operating revenues increased from 10.2% in 2005 to 12.8% in 2006, reflecting good claims experience.

*Net investment income.* Net investment income decreased CHF 54 million, or 1% from CHF 4.0 billion in 2005 to CHF 3.9 billion in 2006. This was primarily due to the fact that the 2006 income generated by investments acquired through the Insurance Solutions Acquisition was more than offset by the impact of Admin

Re<sup>SM</sup> securitisations—Queensgate and ALPS Capital, and principally the full year impact of the latter (2006: CHF 245 million; 2005: CHF 111 million), as well as lower investment income on unit-linked contracts (these contracts have no impact on the operating result as the investment result on such contracts is offset through interest credited to policyholders).

*Net realised investment gains.* Net realised investment gains decreased CHF 278 million, or 15%, from CHF 1,799 million in 2005 to CHF 1,521 million in 2006.

*Claims and benefits.* Claims and benefits increased CHF 926 million, or 11%, from CHF 8.7 billion in 2005 to CHF 9.6 billion in 2006, largely due to the Insurance Solutions Acquisition. Claims and benefits as a percentage of operating revenues remained stable at 63%.

*Acquisition costs.* Acquisition costs increased slightly to 2.3 billion. The amortisation of the present value of future profits was reduced by the Admin Re<sup>SM</sup> securitisations. This reduction was offset by the amortisation of the present value of future profits recognised in the Insurance Solutions Acquisition. As a percentage of operating revenues, acquisition costs decreased slightly from 16% in 2005 to 15% in 2006.

*Other operating costs and expenses.* Other operating costs and expenses increased CHF 196 million, or 26%, from CHF 765 million in 2005 to CHF 961 million in 2006. The management expense ratio increased from 5.5% in 2005 to 6.3% in 2006, partially due to increased variable compensation costs in 2006.

*Life & Health business operating income.* Life & Health business operating income increased CHF 37 million, or 2%, from CHF 1,645 million to CHF 1,682 million. Life & Health business operating result (operating income, excluding non-participating realised gains), increased CHF 0.2 billion, or 14%, from CHF 1.3 billion in 2005 to CHF 1.5 billion in 2006. Insurance Solutions contributed CHF 66 million to the 2006 operating result. The traditional life operating result decreased CHF 54 million, or 7%, to CHF 688 million, due to favourable U.S. mortality experience, as well as the release of the unused 2004 tsunami provision of CHF 52 million, in 2005 that did not recur in 2006. The traditional health result improved CHF 182 million, or 86%, to CHF 394 million, principally due to very favourable claims experience in 2006. The Admin Re<sup>SM</sup> operating result increased CHF 56 million, or 15%, to CHF 435 million, largely due to good claims experience.

## Financial Services Business

Our Financial Services business includes our Credit Solutions, CMA and Asset Management operations.

The table below presents summarised financial information for our Financial Services business for the periods indicated.

	Year Ended December 31,		Change in %	
	2005	2006		
	(CHF in millions)			
<b>Revenues</b>				
Premiums earned .....	907	1,100	21	
Net investment income .....	85	79	(7)	
Net realised investment gains/losses .....	29	27	(7)	
Trading revenues, fees and commissions .....	539	757	40	
<b>Total revenues</b> .....	<b>1,560</b>	<b>1,963</b>	<b>26</b>	
<b>Expenses</b>				
Claims and claim adjustment expenses .....	(328)	(493)	(50)	
Acquisition costs .....	(295)	(364)	(23)	
Operating costs .....	(558)	(646)	(16)	
<b>Total expenses</b> .....	<b>(1,181)</b>	<b>(1,503)</b>	<b>(27)</b>	
<b>Financial Services business operating income</b> .....	<b>379</b>	<b>460</b>	<b>21</b>	
Premium business, traditional				
Combined ratio(in %) .....	81.2	89.9		
Fee business				
Return on total revenues(in %) <sup>(a)</sup> .....	8.1	26.9		

(a) Proprietary asset management is excluded in the ratio calculations.

### **Year ended December 31, 2006 compared to year ended December 31, 2005**

*Revenues.* The Financial Services business' total revenues increased CHF 403 million, or 26%, from CHF 1.6 billion in 2005 to CHF 2.0 billion in 2006. The increase in total revenues was due to higher trading revenues from CMA (where we increased trading revenues across most product lines), premium growth in Credit Solutions and increased fees from our third party asset management business (Conning Asset Management).

*Premiums earned.* Premiums earned increased CHF 193 million, or 21%, from CHF 0.9 billion in 2005 to CHF 1.1 billion in 2006. This increase was mainly due to successful 2006 renewals in Credit Solutions throughout the year, as well as additional premiums generated from Insurance Solutions' bank trade finance portfolio.

*Net investment income.* Net investment income decreased CHF 6 million, or 7%, from CHF 85 million in 2005 to CHF 79 million in 2006.

*Net realised investment gains.* Net realised investment gains decreased CHF 2 million, or 7%, from CHF 29 million in 2005 to CHF 27 million in 2006.

*Trading revenues, fees and commissions.* Trading revenues, fees and commissions increased CHF 218 million, or 40%, from CHF 539 million in 2005 to CHF 757 million in 2006. This increase was mainly due to strong growth in trading revenues in CMA and continued growth in fees from third-party asset management. This growth was accompanied by improved performance, producing a return on total revenues of 26.9% in 2006, compared to 8.1% in 2005.

*Acquisition costs.* Acquisition costs increased CHF 69 million, or 23%, from CHF 295 million in 2005 to CHF 364 million in 2006, reflecting increased premium volume and a rise in profit commissions due to favourable claims experience.

*Claims and claim adjustment expenses.* Claims and claim adjustment expenses increased CHF 165 million, or 50%, from CHF 328 million in 2005 to CHF 493 million in 2006, due to the favourable claims settlement in 2005 that was not repeated in 2006.

*Operating costs.* Operating costs increased CHF 88 million, or 16%, from CHF 558 million in 2005 to CHF 646 million in 2006, mainly due to an increase in variable compensation costs resulting from strong business performance.

*Financial Services Business operating income.* Operating income increased CHF 81 million, or 21%, from CHF 379 million in 2005 to CHF 460 million in 2006. This increase resulted from stronger underwriting performance of Credit Solutions and increased trading revenues in CMA, compared to 2005, which had benefited from a favourable claims settlement agreement.

Credit Solutions' continued to post good performance with a combined ratio for traditional business of 89.9% in 2006 compared to a 81.2% ratio in 2005, mainly due to a favourable claims settlement agreement in 2005.

## Segment Reconciliation to our Consolidated Financial Statements

Our Corporate Centre, which is comprised of three corporate functions: Finance, Risk Management and Operations (which includes the Global Information Technology, Communications and Human Resources, Group Legal, Global Technical Accounting and Services and Group Logistics divisions), set our overall strategic direction for our group. The table below presents a reconciliation of operating income presented in our business segment results to income before income tax expenses presented under “—Consolidated Results of Operations” above and in our consolidated financial statements for the periods indicated.

	Year Ended December 31,		Change in %	
	2005	2006		
	(CHF in millions)			
<b>Operating income:</b>				
Property & Casualty business .....	830	5,016	504	
Life & Health business .....	1,645	1,682	2	
Financial Services business .....	379	460	21	
<b>Total operating income</b> .....	<b>2,854</b>	<b>7,158</b>	<b>151</b>	
Corporate Centre expenses .....	(386)	(324)	(16)	
Items excluded from the segments:				
Net investment income .....	64	82	28	
Net realised investment gains .....	(4)	(297)		
Foreign exchange gains/losses .....	462	(55)		
Financing costs .....	(326)	(520)	60	
Restructuring costs .....	(18)	(117)		
Other income/expenses .....	(87)	(71)	(18)	
<b>Net income before tax</b> .....	<b>2,559</b>	<b>5,856</b>	<b>129</b>	

## Our Investment Portfolio

We generate substantial cash flows that are invested in a diversified portfolio of bonds, stocks, real estate, alternative assets and cash. The diversification of the portfolio is designed in such a way that adverse movements in one market may be mitigated by favourable movements in other markets to reduce the overall risk of the portfolio. Within the overall policy of diversification, we actively manage our portfolio and take into account significant trends in the different investment markets. We seek to continue to improve the diversification of our investments and asset portfolio.

Our overall investment strategy is a combination of meeting our insurance obligations by replicating insurance liabilities and achieving an attractive risk-adjusted return. As a consequence of the former, we mainly match our insurance obligations with fixed income securities, actively managing the currency, duration and credit exposure taking into account the differing requirements of the liabilities. We also manage funds not used to support insurance obligations to generate a positive absolute risk-adjusted return through a variety of investment vehicles. We measure and monitor investment risk in relation to a nominal minimum risk portfolio, which represents the liability profile of our business. We believe that our asset-liability management approach is capital efficient without sacrificing the opportunity to achieve excess returns.

In conjunction with our realignment and our continued emphasis on corporate governance, at the end of 2005 we implemented a new investment governance framework, which was fully implemented as of January 1, 2006. The new framework is intended to improve the efficiency and effectiveness of our investment decision framework, eliminate redundant tasks in various investment committees, streamline processes, better align our investment decision framework with our organisational structure and addresses applicable regulatory and corporate governance requirements. Swiss Re Asset Management (“SRAM”) is responsible for implementing our investment policies.

Under our investment governance framework, our investment oversight is allocated between our Board of Directors and our Finance and Risk Committee. Our Board of Directors approves any investment plan and major investment decisions as part of the overall group plan, the risk framework and limits delegated to SRAM and any major investment decisions exceeding pre-established plan limits. In addition, our Board of Directors reviews the investment performance and the benchmark given to SRAM, as well as the usage of risk limits and significant changes to our organisational structure or investment guidelines. Beginning in 2006, our Board of Directors receives monthly reviews of investment performance that include a discussion of market outlook and tactics for the following period.

Our Finance and Risk Committee approves the performance benchmark given to SRAM, as well as the risk framework and risk limits, within which SRAM may deviate from the established benchmark.

This structure is replicated at the level of our Executive Committee and our Group Capital and Capacity Allocation Committee. Our Executive Committee receives monthly reports on investment performance together with interim updates on market conditions and tactics, as well as changes in usage of risk. Our Group Capital and Capacity Allocation Committee approves the benchmark given to SRAM, as well as our risk framework and risk limits.

SRAM has two new committees: an Investment Committee and a Risk Management Committee. The SRAM Investment Committee discusses investment strategy and tactics, evaluates investment recommendations from the asset classes, and approves those recommendations which exceed the asset class investment decision limits, and reviews risk exposure and investment results. The SRAM Risk Management Committee is responsible for reviewing SRAM's risk limits and discusses modifications to our risk methodology and system. It also approves all new investment products. These committees meet on alternate weeks and its proceedings are formally documented.

In addition, we have three regional finance units. In order to capture the local dimensions (tax, legal, accounting, regulatory) of investment decisions these regional finance units are supported by Regional Finance and Risk Committees that meet on a quarterly basis. The Regional Finance and Risk Committees are responsible for approving local legal entity benchmarks for SRAM, for identifying any local legal entity constraints on investment activity that need to be considered (tax, legal, accounting, regulatory) and ultimately for setting a risk framework and limits for each legal entity.

Within each asset class, there are separate investment committees that approve asset class-specific investment decisions within risk limits set by the SRAM Investment Committee, which in turn will be consistent with the risk limits delegated to SRAM by the Group Capital and Capacity Committee.

The Investment Committee may reduce our exposure through hedging transactions if deemed appropriate and more efficient than establishing offsetting portfolio positions with respect to foreign exchange risk, market risk and interest rate risk. Our diversified investment strategy is designed to earn a spread over the interest-bearing liabilities relating to the life and health business and optimise total returns on the rest of the portfolio. This is done within closely monitored risk limits that combine Value at Risk ("VaR"), shortfall, stress testing and exposure limits.

As noted below under "Operating and Financial Review—Risk Management," financial market risk is measured through a combination of stress tests, VaR and Tail VaR. All VaR and stress test figures are measured on a relative basis against the liability benchmark under our ALM approach. Risks are monitored and measured on a daily/weekly basis. The risk framework has a variety of components:

- an aggregate VaR limit, which is then broken down into risk categories (equity, interest rate, credit spread and foreign exchange), which capture Group-wide exposure regardless of where the exposure arises;
- an aggregate stress test limit, which is then broken down into risk categories (equity, interest rate, credit spread, foreign exchange, real estate and hedge funds), which capture Group-wide exposure regardless of where the exposure arises;
- aggregate financial market risk limits for PAM and CMA (VaR and stress tests);
- an aggregate credit risk limit, which is based upon shortfall that are broken down among our key credit risk-generating business units (Credit Solutions, CMA and PAM);
- single obligor credit limits based on Group exposure;
- aggregate country limits based on a total potential loss contribution methodology

Although the Insurance Solutions investment portfolio is managed by GE Asset Management ("GEAM"), data for the portfolio, including duration, concentration and VaR, are fully integrated within SRAM's systems.

The table below presents our consolidated investment portfolio by category of investment based on estimated fair value, except for investment in real estate and parts of other invested assets, which is based on depreciated cost or cost, as of December 31, 2005 and 2006.

	As of December 31,			
	2005		2006	
	CHF in billions	% of Total <sup>(1)</sup>	CHF in billions	% of Total <sup>(1)</sup>
Fixed-income securities .....	92.8	74	113.4	71
Equity securities .....	8.4	7	13.2	8
Policy loans, mortgages and other loans .....	7.3	6	7.1	4
Investment real estate .....	1.4	1	3.3	2
Short-term investments .....	4.0	3	8.8	5
Other invested assets .....	11.1	9	16.9	10
<b>Total investments .....</b>	<b>125.0</b>	<b>100.0</b>	<b>162.7</b>	<b>100.0</b>

(1) Including assets held for linked liabilities, the relevant percentages are: fixed-income securities 71%, equities 17% and other 12% for 2006; and fixed-income securities 76%, equities 14% and other 10% for 2005.

Our assets held for linked liabilities relate to unit linked contracts. We invest the contract holder's funds from unit linked contracts, as directed by the contract holder, in designated investment alternatives or in accordance with specific investment objectives or policies. The investment result on such contracts is passed through to the contract holder and does not belong to us. Therefore, we do not include assets held for linked liabilities (CHF 23.3 billion as of December 31, 2006) in the remainder of our discussion regarding our investment portfolio or investment result.

Our investment portfolio grew by 30% from CHF 125.0 billion at December 31, 2005 to CHF 162.7 billion at December 31, 2006. CHF 29.8 billion of the growth in our investment portfolio related to the contribution from Insurance Solutions and CHF 12.2 billion related to the Admin Re<sup>SM</sup> GE Life Acquisition in December 2006. At the end of 2006, our overall gross asset allocation was 8% in equity securities (compared to 7% at the end of 2005), 79% in fixed income (compared to 81% at the end of 2005) and 13% in real estate and other (including cash and cash equivalents) (compared to 12% at the end of 2005). The average running yield on our portfolio increased from 4.6% in 2005 to 4.8% in 2006.

Our overall investment result, including net realised gains, was strong in 2006. The overall result declined by CHF 0.5 billion or 7% to CHF 6.9 billion in 2006 compared to CHF 7.5 billion in 2005, with higher fixed income yields offsetting a portion of the decrease in our net realised investment gains. This decline primarily reflected our switch to accounting for foreign exchange exposure as outlined in FAS 52, which caused a re-measurement loss of CHF 43 million in 2006 and a re-measurement gain of CHF 896 million in 2005, principally reflecting the change in foreign exchange rates of the Swiss franc, Euro and pound sterling investments and liabilities against the U.S. dollar.

The following table sets forth our investment result:

	Year Ended December 31,		
	2005	2006	Change in %
	(CHF in millions)		
<b>Net investment income .....</b>			
Fixed income .....	6,137	6,990	14
Equities .....	4,603	5,582	21
Other asset classes .....	164	249	52
Investment expenses .....	1,224	1,462	19
Interest paid on cedent deposits .....	(292)	(373)	28
Assets held for linked liabilities <sup>(a)</sup> .....	(313)	(600)	92
<b>Net realised investment gains .....</b>	<b>751</b>	<b>670</b>	<b>(11)</b>
Fixed income .....	3,474	1,948	(44)
Equity .....	481	144	(70)
Other asset classes .....	566	850	50
Assets held for linked liabilities .....	135	(322)	
Currency exchange remeasurement and designated trading portfolios <sup>(b)</sup> .....	1,396	1,319	(6)
<b>Total .....</b>	<b>896</b>	<b>(43)</b>	
<b>Total excluding assets held for linked liabilities .....</b>	<b>9,611</b>	<b>8,938</b>	<b>(7)</b>
Return on investments (in %) <sup>(c)</sup> .....	7,464	6,949	(7)
	6.3	5.3	

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- (a) Our assets held for linked liabilities relate to unit linked contracts. We invest the contract holder's funds from unit linked contracts, as directed by the contract holder, in designated investment alternatives or in accordance with specific investment objectives or policies. The investment result on such contracts is passed through to the contract holder and does not belong to us.
- (b) Designated trading portfolios are foreign currency denominated trading fixed-income securities that back certain foreign currency denominated liabilities.
- (c) At average foreign exchange rates; excluding results from assets held for linked liabilities. Our invested assets for 2006 were CHF 156,837 million (2005: CHF 119,057 million) and average invested assets for 2006 were CHF 130,524 million (2005: CHF 114,679 million).

Net investment income increased by 14% from CHF 6.1 billion in 2005 to CHF 7.0 billion in 2006, reflecting the attractive yields we earned on our large fixed income portfolio. Net realised gains declined by 44% from CHF 3.5 billion in 2005 to CHF 1.9 billion in 2006. This decline was due primarily to the fact that 2005 benefited from a sizeable sale of BBB-rated corporate bonds, while 2006 included the cost of derivatives used to hedge our equity and corporate bond portfolios against the potential large declines in equity markets and the widening of spreads, as well as costs from reinsurance derivatives to protect against large natural catastrophes. In addition, 2005 included CHF 896 million of foreign exchange remeasurement and mark-to-market gains in trading securities, which reversed to a loss of CHF 43 million in 2006. Our return on investments, while strong (measured using average foreign exchange rates, exclusive of results from assets held for linked liabilities) decreased from 6.3% in 2005 to 5.3% in 2006.

Investment expenses increased by 28% from CHF 292 million in 2005 to CHF 373 million in 2006, in line with the growth of assets under management. The 92% increase in interest paid on cedent deposits was mainly due to the higher interest credited to third-parties as a result of the full year impact from securitisation transactions undertaken during 2005 and the fund withheld covers acquired as part of the Insurance Solutions Acquisition.

### **Fixed-income Securities**

We make fixed-income investments in government, agency, corporate debt and mortgage and asset-backed securities that meet our liquidity and credit quality standards. To enhance total return, we lengthen or shorten the duration for most of our non-life fixed income portfolios as needed.

During 2006, we maintained a modest credit position, predominantly in our U.S. dollar life and health portfolio. The gross exposure in our fixed-income portfolio increased CHF 12.3 billion, or 59%, from CHF 21.0 billion at the end of 2005 to CHF 33.3 billion at the end of 2006, mainly due to Insurance Solutions, which added CHF 6.5 billion of corporate bonds to our fixed-income portfolio and the GE Life Acquisition, which added CHF 6.6 billion of corporate bonds. We purchased credit default swaps on investment grade indices and reduced our stress test exposure to widening credit spreads to CHF 1.2 billion on average in 2006, with the majority of the protection acquired in A and BBB rated exposure. We liquidated a large municipal bond portfolio acquired as part of the Insurance Solutions Acquisition in order to improve our overall yield.

Our total fixed income portfolio increased to CHF 129.3 billion in 2006 from CHF 104.0 billion in 2005, including the addition of CHF 23.9 billion from Insurance Solutions and CHF 8.0 billion from GE Life. The increase in the portfolio was partly offset by a shift from fixed income securities to equity securities, as well as by the weakening of the U.S. dollar against the Swiss franc. Net investment income on the fixed income portfolio grew by 21% to CHF 5.6 billion. Net realised gains were CHF 144 million in 2006 compared to CHF 481 million in 2005. Realised gains in 2005 benefited from the sizeable sale of mostly BBB-rated corporate bonds. Net unrealised gains of CHF 2.2 billion at the end of 2005 decreased to CHF 1.0 billion at the end of 2006. However, as a major portion of the previous unrealised gains on bonds was matched by duration to the insurance liabilities, the market movements had little economic impact.

Total fixed-income securities classified as available-for-sale (including assets from linked-business) increased from CHF 77.1 billion at December 31, 2005 to CHF 92.2 billion at December 31, 2006 (at amortised cost). Of the total fixed-income portfolio, CHF 14.5 billion and CHF 22.6 billion of securities were classified as trading securities (including assets from linked-business) as of December 31, 2005 and 2006, respectively.

The table below presents the composition of our fixed-income securities portfolio classified as available-for-sale based on estimated fair-values as of December 31, 2005 and 2006.

	As of December 31,			
	2005		2006	
	CHF in millions	% of Total	CHF in millions	% of Total
<b>Debt securities issued by governments and government agencies:</b>				
United States Treasury and other US governments and government agencies .....	24,445	31	29,147	31
States of the United States and political subdivisions of the states .....	386	-	708	1
Germany .....	2,738	3	2,269	2
United Kingdom .....	6,045	8	5,313	6
Canada .....	5,382	7	3,982	4
France .....	1,582	2	1,531	2
Other .....	6,036	8	7,601	8
Total .....	46,614	59	50,551	54
Corporate debt securities .....	20,171	25	27,384	30
Mortgage and asset-backed securities .....	12,559	16	15,192	16
<b>Total fixed-income available-for-sale securities .....</b>	<b>79,344</b>	<b>100.0</b>	<b>93,127</b>	<b>100.0</b>

The following table summarises the maturity of the securities in our fixed-income portfolio classified as available-for-sale based on estimated fair-values. Fixed-maturity investments are assumed not to be called for redemption prior to their stated maturity date. As of December 31, 2005 and 2006, CHF 7,770 million and CHF 18,744 million, respectively, of our available-for-sale fixed-income securities were subject to securities lending and repurchase agreements or were otherwise callable.

	As of December 31,			
	2005		2006	
	CHF in millions	% of Total	CHF in millions	% of Total
<b>Time to Maturity</b>				
One year or less .....	4,630	6	5,804	6
More than one year up to five years .....	21,266	27	26,171	28
More than five years up to ten years .....	16,733	21	19,129	21
More than ten years .....	24,156	30	26,831	29
Mortgage and asset-backed securities with no fixed maturity .....	12,559	16	15,192	16
<b>Total fixed-income securities .....</b>	<b>79,344</b>	<b>100.0</b>	<b>93,127</b>	<b>100.0</b>

Overall credit quality in our portfolio remains high with 96% of corporate bonds in the fixed income portfolio rated investment grade, compared to 93% in 2005. The majority of the fixed-income portfolio is rated by Standard & Poor's, Moody's or similar rating agencies. Government and government agency bonds, which accounted for more than 54% of our fixed-income investments at the end of 2006, in general, hold the highest credit rating (AAA or equivalent). Our corporate debt securities, with few exceptions, are invested in investment grade securities (BBB or better).

### Equity Securities

After a strong performance during the first four months of 2006, equity markets corrected in May and June before resuming their upward trend for the rest of the year. We protected our earnings during the period by using equity derivative instruments. During the second half of 2006, we increased our gross exposure from CHF 8.4 billion at the end of 2005 to CHF 13.2 billion at the end of 2006, to take advantage of rising stock prices.

Although we continued to favour European markets in 2006, we tactically lowered our exposure to Asian equities and increased our appetite for U.S. equities, especially in health care, financial and technology stocks. Listed real estate also performed well.

Our net realised gains on publicly traded equities increased to CHF 850 million at the end of 2006 from CHF 566 million at the end of 2005, while net unrealised gains on the balance sheet were CHF 2.0 billion, up from CHF 1.1 billion at the end of 2005.

The net effect of our equity hedges was to reduce our stress test exposure (based on a 30% fall in traded equity market with a simultaneous increase in volatility) to CHF 1.2 billion on average in 2006.

## Other Invested Assets

Other invested assets include the cost (net realised losses) of CHF 396 million for the derivatives used to hedge the equity and corporate bond portfolios against potential large declines in equity markets or widening of spreads. In addition, costs (net realised losses) of CHF 182 million were incurred for various reinsurance derivatives, reflecting the lower level of natural catastrophes in 2006. Aggregate costs on derivatives were more than offset by the strong performance of the underlying portfolio in 2006.

## Liquidity and Capital Resources

The principal sources of funds for our operations are reinsurance premiums, net investment income and net realised investment gains. We also enter into long- and short-term debt arrangements to obtain funds for general corporate use, as well as for specific transaction financing. The principal uses of these funds are to pay claims, benefits and related expenses, and other operating costs. Our operations generate cash flow as a result of the receipt of premiums in advance of the time when claim payments are required. Operating cash flow, together with other available sources of liquidity, has historically enabled us to meet our short-term and long-term liquidity requirements and we expect that they will continue to do so.

As additional resources to meet our short-term liquidity requirements, we also access the commercial paper and EMTN markets. Currently, we have a \$1.5 billion U.S. commercial paper program and a \$10.0 billion EMTN programme in place. We have back-up credit lines available through several major banks which may be drawn in any major currency. We also have in place a \$2.0 billion syndicated letter of credit facility and a \$4.0 billion syndicated facility, \$2.5 billion of which is available under a letter of credit facility and \$1.5 billion of which is available under a revolving credit facility. At December 31, 2006, outstanding debt under our EMTN programme had an aggregate book value of \$3.6 billion.

During 2006, we conducted a rights issue followed by a global offering, which resulted in the issuance of a total of 14.4 million shares for proceeds of CHF 1.3 billion to fund a portion of the Insurance Solutions Acquisition. Upon closing of the acquisition, we issued CHF 610 million of mandatory convertible securities to GE and the equivalent of \$2.4 billion in new shares to GE (at a per share price of CHF 87.58 as calculated under the acquisition agreement). In addition, during 2006, we issued the following long-term debt:

- in April, a credit linked note due March 2011 in aggregate principal amount of \$735 million;
- in May, \$752 million of 6.854% Perpetual Subordinated Step-Up Preferred Securities and €1 billion of 5.252% Perpetual Subordinated Step-Up Loan Notes to fund part of the purchase price of the Insurance Solutions Acquisition;
- also in May, an insurance linked security in aggregate principal amount of \$59 million with a three-year maturity;
- in June, CHF 300 million of notes with a three-year maturity and CHF 200 million of notes also with a three-year maturity, in each case under the EMTN programme;
- in November, ¥12,340 million of notes with a two-year maturity and CHF 100 million of notes with a one-year maturity, in each case under the EMTN programme;
- in December, £35 million of notes with a two-year maturity and ¥5,000 million of notes with a two-year maturity, in each case under the EMTN programme; and
- also in December, CHF 175 million of notes, with a three-year maturity on a private placement basis.

During 2006, we repaid \$300 million and CHF 100 million of senior financial debt, as well as €250 million of subordinated financial debt.

In addition, in connection with the Insurance Solutions Acquisition, we assumed approximately \$1.7 billion of Insurance Solutions indebtedness that included the following:

- \$600 million of 7.00% notes due 2026 (non-callable)
- \$400 million of 6.45% notes due 2019 (callable at a Treasury plus 25 basis points make-whole premium)

- \$350 million of 7.50% notes due 2010 (callable at a Treasury plus 10 basis points make-whole premium)
- \$350 million of 7.75% notes due 2030 (callable at a Treasury plus 25 basis points make-whole premium)

These notes are part of the funded business portfolio and are therefore classified as operational debt.

In addition, as part of the Insurance Solutions Acquisition, we restructured \$1.5 billion of the Insurance Solutions businesses' former obligations under letters of credit, guarantees and similar obligations under such instruments. As a result, we increased our letter of credit facilities by approximately \$1.6 billion, over and above the facilities we previously maintained to cover reinsurance collateral requirements in connection with our reinsurance operations.

Our cash and collateral policies are designed to provide us with a global view of cash and available collateral and the means by which collateral can be converted to cash and cash equivalents and to provide us with the flexibility to optimise the application and movement of cash and cash equivalents throughout the Group. Our capital management policy focuses on the components of our capital structure to retain financial flexibility while keeping our weighted average cost of capital low. To optimise our capital structure, we use the full range of instruments, including long- and short-term debt arrangements, senior and subordinated debt, equity and equity-linked instruments (convertible and exchangeable securities).

We classify debt having a maturity greater than one year at December 31, as long-term. At December 31, 2006, we had CHF 2,482 million (2005: CHF 2,794 million) of senior long-term financial debt outstanding and CHF 5,491 million (2005: CHF 3,058 million) of subordinated long-term financial debt outstanding. In addition, we had CHF 6,765 million (2005: CHF 4,389 million) of senior operational debt outstanding, which we use for our funded business. Funded business is structured with the intention of creating assets and liabilities that generate offsetting market risks (foreign exchange, interest rate, equity and credit risks). We exclude operational debt from our financial leverage calculations.

The following tables set forth the components of our senior and subordinated long-term debt at December 31, 2006. None of our long-term debt is secured. None of our debt is guaranteed by third parties; however, except in the case of Trups and Insurance Solutions notes referred to below, all of the debt has been guaranteed either directly, or indirectly through blanket corporate guarantees that we have issued in favour of various of our financing subsidiaries, by Swiss Reinsurance Company.

**Senior Long-Term Debt as of December 31, 2006**

Maturity	Instrument	Issued in	Currency	Nominal Amount (in millions)	Interest Rate	Book Value (CHF in millions)
2008	Mandatory Convertible Bond <sup>(1)</sup> ...	2005	CHF	1,000	6.00%	994
2008	Private Placement (step-up) .....	2001	CHF	100	3.60%	100
2008	EMTN .....	2006	JPY	17,340	Various	177
2008	EMTN .....	2006	CHF	100	3M Libor + 1bp	100
2008	EMTN .....	2006	GBP	35	3M Libor + 3.5bp	84
2008	EMTN .....	2005	GBP	90	3M Libor +5bp	215
2008	EMTN .....	2005	JPY	8,100	3M Libor	83
2008	EMTN .....	2005	USD	150	4.13%	182
2009	3 EMTN .....	2004	EUR	20	Various	32
2009	EMTN .....	2004	JPY	5,000	0.81%	51
2009	EMTN .....	2005	JPY	3,000	0.41%	31
2009	3 EMTN (Zero coupon Notes) .....	2004	USD	46	Various	55
2009	EMTN .....	2005	CHF	300	1.25%	298
2009	Insurance-linked Placement .....	2006	USD	59	Libor + 2.30% - 2.35%	66
2009	EMTN .....	2006	CHF	300	3M Libor + 0.5bp	300
2009	EMTN .....	2006	CHF	200	2.50%	200
2009	Mandatory Convertible Bond <sup>(2)</sup> ...	2006	CHF	610	9.80%	609
2009	Private Placement .....	2006	CHF	175	2.59%	175
2010	EMTN (Amortising Bond) .....	2003	GBP	40	4.38%	96
2010	EMTN .....	2005	CZK	300	2.88%	18
2010	2 EMTN .....	2005	CHF	625	Various	624
2010	Senior Notes <sup>(3)</sup> .....	2000	USD	350	7.50%	464
2011	Credit-linked Note .....	2006	USD	735	5.01%	898
2015	EMTN (Straight Bond) .....	2001	CHF	150	4.00%	151
2017	Trust-preferred Stock (Trups) <sup>(4)</sup> .....	1997	USD	42	8.72%	60
2017	Credit-linked Note .....	2000	USD	9	Various	6
2019	Senior Notes <sup>(3)</sup> .....	1999	USD	400	6.45%	488
2026	Senior Notes <sup>(3)</sup> .....	1996	USD	600	7.00%	774
2030	Senior Notes <sup>(3)</sup> .....	2000	USD	350	7.75%	490
Various Payment Undertaking						
Agreements .....						
	Various	Various	Various	Various	Various	1,426
<b>Total senior long-term debt as of December 31, 2006 .....</b>						
						<b>9,247</b>
<b>Total senior long-term debt as of December 31, 2005 .....</b>						
						<b>7,183</b>

- (1) Convertible into our shares based on a minimum conversion price of CHF 95.60 and a maximum conversion price of CHF 114.72. Based on the closing price we will be obligated to deliver between 8.7 million and 10.5 million shares upon conversion.
- (2) Convertible into our shares based on a minimum conversion price of CHF 84.90610 and a maximum conversion price of CHF 97.64202. Based on the closing price we will be obligated to deliver between 6.25 million and 7.18 million shares upon conversion.
- (3) Assumed in the Insurance Solution Acquisition.
- (4) Assumed in the acquisition of Life Re Corporation.

Total senior long-term debt as reported above is comprised of the following components:

	As of December 31, 2005	As of December 31, 2006
	(CHF in millions)	
Senior financial debt .....	2,794 <sup>(1)</sup>	2,482
Senior operational debt .....	<u>4,389</u>	<u>6,765</u>
<b>Total .....</b>	<b><u>7,183</u></b>	<b><u>9,247</u></b>

(1) Includes our two series of mandatory convertible bonds totalling CHF 1,603 million aggregate book value as of December 31, 2006, which received 100% rating agency equity credit.

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

(1) Convertible into our shares at a conversion price of CHF 207.19, with a fixed exchange rate applicable on conversion of \$1.00 = CHF 1.6641.

Total financial debt reported in the financial statements as long-term debt is comprised of the following components:

	As of December 31, 2005	As of December 31, 2006
	(CHF in millions)	
Senior financial debt .....	2,794 <sup>(1)</sup>	2,482
Subordinated financial debt .....	<u>3,058</u>	<u>5,491</u>
<b>Total .....</b>	<b><u>5,852</u></b>	<b><u>7,973</u></b>

(1) Includes our two series of mandatory convertible bonds totalling CHF 1,610 million aggregate book value as of December 31, 2006, which received 100% rating agency equity credit.

## Cash Flow

### *Net cash flow provided by operating activities*

Net cash flow provided by operating activities was CHF 1,972 million in 2005, while net cash flow provided by operating activities was CHF 1,554 million in 2006. The change in operating cash flow was primarily attributable to the increased claim payments related to the large natural catastrophe events, which occurred in the third and fourth quarter of 2006.

In 2006, we reclassified CHF 2,451 million from cash to Financial Services assets related to the assumption of the debt of Insurance Solutions.

#### *Net cash flow used in investing activities*

Net cash flow used in investing activities was CHF 3,630 million in 2005, while net cash flow provided by investing activities was CHF 3,044 million in 2006.

#### *Net cash flow used by financing activities*

Net cash flow used by financing activities was CHF 77 million in 2005, while net cash flows provided by financing activities was CHF 3,250 million in 2006. The change from 2005 to 2006 principally reflected cash from the equity offering undertaken in April 2006 as well as the issuance of long-term debt.

#### *Cash and cash equivalents*

Our balance of cash and cash equivalents was CHF 8,368 million at December 31, 2005 and CHF 13,606 million at December 31, 2006.

### **Commitments and Contingencies**

**Capital Commitments.** As a participant in investment partnerships, we have capital commitments for periods of up to ten years. Total uncalled commitments as of December 31, 2006 and 2005 were CHF 891 million and CHF 869 million. As part of our business, we also make capital available to clients contingent upon the occurrence of defined events.

**Lease Commitments.** As part of our ordinary course operations, we enter into lease agreements. Over the next five years and thereafter, total net future minimum lease obligations (which we classify as operating leases) amount to CHF 350 million. Lease expenses totalled CHF 37 million in 2005 and CHF 57 million in 2006.

**Legal Proceedings.** In the normal course of business, we are involved in claims, legal proceedings and regulatory matters. Except as discussed under “Our Business—Governmental, Legal and Arbitration Proceedings,” the disposition of these matters is not expected to have a material adverse effect on our business, consolidated financial position or results of operations.

### **Shareholders’ Equity**

Shareholders’ equity increased 27% from CHF 24.4 billion at December 31, 2005 to CHF 30.9 billion at December 31, 2006. The increase reflected our favourable results for 2006 as well as the equity raised during 2006 in conjunction with the financing of the Insurance Solutions Acquisition. Shareholders’ equity was also impacted by a CHF 1,176 million foreign exchange translation adjustment and a CHF 665 million adjustment for pension and post-retirement benefits.

Return on equity increased to 16.3% in 2006 from 10.3% in 2005, reflecting stronger earnings in 2006. We paid CHF 776 million in dividends in 2006, up 56% from the CHF 497 million paid in 2005. We paid a CHF 1.60 dividend in 2005 and a CHF 2.50 dividend 2006. We have announced that our Board of Directors will propose a CHF 3.40 per share dividend at the upcoming annual general meeting.

### **Risk Management**

#### **Overview**

As we are exposed to multiple risks, we must assess the entirety of risks including their possible correlation in our portfolio to determine which of them may accumulate and which contribute to diversification. This assessment is carried out on the basis of our proprietary integrated risk model, which we have developed over the course of more than a decade.

Through risk management we monitor the capital required to support our risk-taking activities. Our risk management organisation and processes are designed to ensure a disciplined approach to strategic risk selection, prompt implementation of strategy, monitoring of the current risk profile and clearly defined responses to changing situations. Good corporate governance dictates the need for a clear separation of responsibilities between risk-taking and risk and performance measurement.

Our approach to risk management is based on four guiding principles, which are applied across the group:

- controlled risk-taking based on clearly defined overall limits;
- clear accountability for delegated authority to our business units;
- an independent risk management function; and
- an open risk culture that values risk transparency and responsiveness to change.

These principles in turn are supported by our risk governance approach. In 2005, we implemented our Assurance Framework, which is designed to ensure that each risk has a risk owner, risk taker and risk controller.

### **Risk management organisation and governance**

The ultimate responsibility for our risk management principles and policies lies with the Board of Directors, which is also responsible for approving our overall risk tolerance. The Board committees that deal with risk management issues include the Finance and Risk Committee and the Audit Committee. The Executive Committee is responsible for implementing the risk management framework through the following committees:

- The Group Capital and Capacity Allocation Committee (“GCAC”) is responsible for allocating capital and capacity (including individual credit counterparty limits), approving the risk limits for individual investment asset classes and any changes to the internal risk and capital methodology.
- The Group Products and Limits Committee determines our product policy and standards, grants reinsurance risk limits and decides on large or non-standard transactions.

Within the Executive Committee, the Chief Financial Officer is responsible for the business planning process and defining asset management benchmarks. Responsibility for implementing the risk management framework across the Group lies with the Chief Risk Officer. The Chief Risk Officer leads the Group-wide risk management function, which include:

- dedicated risk management departments for:
  - credit and financial market risk;
  - life and health risk;
  - property and casualty risk; and
  - operational risk.

Each department is entrusted with Group-wide responsibility for identifying, assessing and controlling their allocated risks;

- a Corporate Integrated Risk Management Department, which is responsible for establishing overall risk transparency and assessing the combined impact of all risks;
- an Americas Insurance and Reinsurance Risk Management Department, which oversees risk governance in America, with local experts overseeing the property and casualty, and life and health, business, as well as the primary portfolio, acquired as part of the Insurance Solutions Acquisition;
- a Sustainability and Emerging Risks Unit, which scans the environment for emerging risks that may become significant for us and coordinates our efforts regarding sustainability; and
- a Corporate Actuarial Department, which assesses life and non-life insurance liabilities from accounting, statutory and economic perspectives.

None of these departments executes business, but rather they set risk management guidelines and standards based on best practice that the business units implement and provide oversight in respect of risk-taking activities.

In addition to the committees at the Executive Board level, the Group Risk Management Committee is the platform through which the Chief Risk Officer coordinates risk management activities Group-wide.

Group Internal Audit monitors the execution of risk management processes within the group. Group Internal Audit provides our Board of Directors and Executive Committee with an independent, objective assurance and consulting activity designed to assess the adequacy and effectiveness of its system of internal control, adding value through improving the Group’s operations and is part of our integrated Assurance Framework. Organisationally independent of management, the Head of Group Internal Audit reports directly to the Chairman

of our Board of Directors and regularly reports to the Audit Committee. Group Internal Audit staff governs themselves in accordance with the Code of Ethics and the “International Standards for the Professional Practice of Internal Auditing” established by the Institute of Internal Auditors. In addition, Group Internal Audit adheres to the Group’s guidelines and procedures, as well as its own manuals and guidelines governing its organisation and processes. Group Internal Audit focuses its activities primarily on those areas identified as possessing the highest operating and control risks within the Group. Group Internal Audit maintains a regular dialogue with the external auditor to share reports and risk issues arising from their respective audits and to coordinate their activities. The Head of Group Internal Audit and at least the two lead audit partners of the external auditors regularly participate in Audit Committee meetings.

### **Risk landscape**

We distinguish three types of risk: core, operational and other risks. 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 of assets and/or liabilities being negatively impacted by changes in financial market risk factors, such as equity market 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 (*i.e.*, eroding credit ratings and ultimately counterparty default) among counterparties of ours and/or third parties.

We are also subject to operational risks and other risks, which are ancillary and arise as a consequence of undertaking business.

- **Operational risk** is the risk of incurring a direct or indirect loss due to inadequate or failed internal processes, people, systems, external events or non-compliance with regulation resulting in regulatory penalties or a total or partial inability to operate properly. Management of operational risk is designed to mitigate risk as there is no financial return for carrying operational risk.
- **Other risks include:**
  - **Funding and liquidity risk** is the risk that we are unable to meet our short-term financial obligations or to raise funds in the markets to finance our commitments at a reasonable cost. This risk may result from larger than expected cash outflows or smaller than expected cash inflows and a restricted ability to raise short-term funds. In addition, sudden liquidity requirements may arise if covenants are triggered under specific adverse circumstances, requiring the collateralisation of debt obligations and third party guarantees with assets of a specified quality
  - **Reputational risk** is the risk that a particular event or behaviour will affect us and negatively impact stakeholders’ perception of the Group, thus impairing our ability to operate effectively.

### **Modelling of Risk**

We have developed our own internal integrated risk model to determine the capital required to support the risks on our books and to allocate risk-taking capacity to lines of business. The model is continuously updated to reflect prevailing best practice. The model is based on two important principles. First, it uses an Asset Liability Management approach (see “—Quantitative and Qualitative Disclosures about Financial Market Risk—Our Approach to Asset Liability Management”) to measure the net impact of risk on the economic value of both assets and liabilities. Second, it adopts an integrated risk perspective, taking into account that a single risk factor can impact different sub-portfolios and different risk factors can trigger mutual dependencies. As industry conditions change we integrate new conditions into our integrated model. For example, during 2006, we implemented changes that had been made to the pricing models in the industry, due to the Atlantic hurricanes. These changes included a more appropriate reflection of dependencies with storm surge and enhanced approaches to frequency increases of windstorm events in our integrated risk model.

Our internal integrated model generates a probability distribution for the Group’s annual economic profit and loss, specifying the likelihood that profit or loss will fall within any given range. From this distribution, a base capital requirement is derived that captures the potential for severe, but rare, aggregate losses over a one-year time horizon. The base capital requirement is then compared with *available capital* to determine the adequacy of our capitalisation.

Various statistical measures can be used to summarise the risk distribution and define the base capital requirement. One widely used measure is the 99% Value at Risk (VaR): a maximum loss that will be exceeded in only one year out of a hundred. In addition to the overall Group 99% VaR, the table below gives the standalone 99% VaR for property and casualty, life and health, financial market, credit, and funding and liquidity risks. This shows the diversification effect within our Group: the base capital requirement for the entire portfolio is smaller than the sum of the base capital requirements for the individual sub-portfolios.

The table below shows a calculation of base capital requirement using one year 99% VaR.

Base capital requirement using one year 99% VaR <sup>(a)</sup>	Mid-2005 (CHF in billions)	Mid-2006 <sup>(b)</sup>
Property and casualty .....	5.5	7.9
Life and health .....	1.8	2.5
Financial market .....	5.7	5.3
Credit .....	1.5	1.7
Funding and liquidity .....	0.1	0.0
Simple sum .....	14.6	17.4
Diversification effect .....	(4.7)	(6.1)
Swiss Re Group .....	9.9	11.3

(a) Based on Swiss GAAP.

(b) Includes Insurance Solutions and reflects model improvements and data enhancements, including enhanced models for natural catastrophes (such as the recalibration of the Atlantic hurricane model after Katrina).

Our overall risk exposure measured based on 99% VaR increased from CHF 9.9 billion in mid-2005 to CHF 11.3 billion in mid-2006. The principal source of the increase was the contribution of Insurance Solutions, which increased the insurance risk within the Group. This was partly mitigated by the completion in June 2006 of Successor, our \$950 million catastrophe bond programme, as well as by the increased use of industry loss warranties, principally to reduce Atlantic hurricane exposure.

Our exposure to market risk and credit risk was reduced by our €252 million Crystal Credit securitisation in January 2006, which provided us coverage for extreme credit events, as well as by hedging activities to protect our portfolio in the event of widening credit spreads and falling equity markets.

Between mid-2005 and mid-2006, our property and casualty risk increased 44%, largely due to the natural catastrophe risks taken on as a result of the Insurance Solutions Acquisition. The 36% increase in the life and health risk resulted principally from increased exposure through business acquired as part of the Insurance Solutions Acquisition. Our financial market risk declined, largely due to increased hedging of tradeable equity and credit spread exposures. Credit risk's 12% increase was principally attributable to the growth of the credit business and the Insurance Solutions Acquisition. Our funding and liquidity risk, which arises from our use of letters of credit facilities, was negligible, reflecting our increase over the period in financial strength.

In addition to the 99% VaR, we consider other statistical measures. One such measure is a 99% expected shortfall (99% Tail VaR). While 99% VaR measures the maximum loss that will be exceeded in only one year out of one hundred, 99% Tail VaR measures the average of losses that occur with a frequency of less than once in one hundred years. A second such measure is 99.5% VaR, which measures the level of loss likely to be exceeded in only one year out of two hundred years. The 99% Tail VaR and 99.5% VaR are more conservative risk capital measures than 99% VaR. Based on mid-2006 exposure data, our 99% Tail VaR amounted to CHF 17 billion, a 10% increase over mid-2005 (CHF 15.6 billion), and the 99.5% VaR amounted to CHF 14 billion, a 9% increase over mid-2005.

We believe we are well-prepared to meet emerging requirements flowing from the EU's Solvency II project, which was initiated to modernise the existing EU solvency system, and from Switzerland's similar approach to risk-based solvency control—the Swiss Solvency Test ("SST"). Solvency II will take as its starting point in a three-pillar structure inspired by the Basle II Capital Requirements Directive: quantitative requirements (Pillar 1), supervisory activities (Pillar 2) and supervisory reporting and public disclosure (Pillar 3). Two solvency control levels will be established: a minimum capital requirement reflecting a level of capital below which prompt and severe sanctions would be triggered and a higher solvency capital requirement level below which the actions would be widely left to the judgment of the supervisor.

We welcome these developments as they will establish risk-based solvency frameworks based on an economic valuation of both assets and liabilities and encourage sound risk management as well as more effective governance structures. We believe that the use of internal models—validated by the supervisor—for calculating the solvency capital requirements will support a better understanding of the risk landscapes of insurance companies. The details of Solvency II are yet to be defined, but we nonetheless expect that the regime that evolves should offer significant opportunities for us. We have, for over a decade, used an internal risk-based solvency framework based on an economic valuation of both assets and liabilities.

We also believe that an important aspect of risk-based approaches, enshrined in the SST, is the recognition of the fundamental economic principle of diversification, taking into account legal structures and contracts. We are tailoring our internal risk-based management approach to meet SST requirements.

### Core Risk Categories

Risk appetite and risk tolerance at the Group level are defined by a set of limits approved by the Executive Committee and the Board of Directors. The relevant bodies allocate capacity to lower levels.

### Management of Insurance Risk

**Property and Casualty.** Property and casualty risk arises predominantly from our property, casualty (including motor) and specialty lines. Limits to prevent excessive exposure to any individual risk or to the same underlying risk are monitored Group-wide and supported, where necessary, by a Group-wide clearing and reporting system. In addition, each underwriter is given a defined limit per treaty programme and single risk. To obtain exceptions, there are well-defined escalation procedures at various levels up to the Group Product and Limits Committee. These procedures and limits define the underwriting process and are set forth in the Group Underwriting Guidelines, which are approved by the Group Products and Limits Committee.

Property and Casualty Risk Management is responsible for the Group-wide monitoring and reporting of property and casualty risks. The various underwriting systems across the Group permit timely reporting on risks assumed and regular monitoring of capacity usage. The global Products function plays a major role in actively managing property and casualty risks by proposing the annual renewal strategy and closely monitoring renewal business. Where appropriate, we also use insurance-linked securities, industry loss warranties, retrocession and risk swaps as a means of balancing our portfolio.

The table below shows expected pre-tax claims for major natural catastrophe loss events, allowing for insurance-linked securities, industry loss warranties, retrocession and risk swaps. The figures account for the possibility that one event may trigger claims in various lines of business. For example, windstorm Europe includes, among others, claims from the motor line, and California earthquake also reflects—but is not limited to—additional claims resulting from workers' compensation and general liability.

2004 and 2005 were dominated by the North Atlantic tropical cyclone season. Hurricane Katrina was the most expensive catastrophe ever for the global insurance and reinsurance industry with an estimated market loss of \$45 billion. We responded with an array of measures, the most prominent one being a “probabilistic” U.S. flood rating model for the 2006 renewals, the first of its kind. As highlighted in the table below, since the end of 2005, the economic impact of the top natural catastrophe risk scenarios has increased greatly. This is primarily due to risks assumed through the Insurance Solutions Acquisition as well as model adjustments, specifically to Atlantic hurricane storm surge and storm frequency, prompted by Katrina. The significant increase in the potential impact from a California earthquake also reflects increased exposure in the portfolio due to the attractive risk-adjusted market opportunities.

Natural catastrophe stress tests Estimated economic impact of each single loss event <sup>(a)</sup>	December 31, 2005   December 31, 2006	
	(CHF in billions)	
Atlantic Hurricane (200-year return period) . . . . .	(3.3)	(5.7)
European windstorm (200-year return period) . . . . .	(3.0)	(5.2)
Japanese earthquake (200-year return period) . . . . .	(1.5)	(4.0)
California earthquake (200-year return) . . . . .	(1.7)	(2.4)

(a) Based on internal models (unaudited)

The Insurance Solutions Acquisition influences not only top natural catastrophe risks, but also a number of specialty lines. Our exposure to aviation terror risk, for example, increased significantly due to a large increase in all-risks covers and the inclusion of Insurance Solutions' third party liability war/terror product.

**Life and Health.** Life and health risk is assumed through underwriting activities focusing on mortality and morbidity covers and acquired life run-off business (Admin Re<sup>SM</sup> business). Local business units can accept business within agreed limits, which include per life retention limits for individual business, maximum market exposures for life and health catastrophe business and occupational scheme aggregation limits. We pay particular attention to accumulation risk in areas of high population density. Any business that falls outside the specified limits must be approved according to the risk governance framework.

The principal procedures and limits are laid out by Life & Health Risk Management in the Group Life & Health Reinsurance Guidelines and Group Reinsurance Guidelines. These articulate our attitude and approach towards life and health risk-taking by the business units with oversight by Life & Health Risk Management. These guidelines include details guidance on referral procedures and approval bodies. All large and complex transactions are subject to independent review by the central Products team and by Life & Health Risk Management. An integrated approach to assurance and audit across the business provides increased oversight by our experts on the appropriateness of technical processes and decisions.

Life & Health Risk Management is responsible for the Group-wide monitoring and reporting of life and health risk. The global Products function also plays a major role in actively managing life and health risks by supporting and closely monitoring new product development. The Insurance Solutions portfolio has been incorporated into this process. Where appropriate, we also use insurance-linked securities as a means of reducing peak exposures. The Vita index-linked securitisations, for example, were launched to provide protection against extreme mortality events, including a global pandemic, and this is now a well-established programme for us. The original Vita I programme for \$400 million expired in 2006 and was replaced by Vita III with \$705 million of coverage.

The estimated pre-tax claims for our life and health scenarios (see table below) are based on the average sum at risk. For some areas of the world, such as the United States, the number of excess deaths from one cause such as the influenza pandemic may be greater than the upper end of estimate scenarios. However, as the scenarios are based on an average sum which does not allow for the typically lower mortality experienced among the insured population, we believe that the test produces an estimate that is conservative. Our scenario describes the potential impact of an extreme epidemic in the United States assuming 300,000 excess deaths across the entire country, while the World Health Organisation scenario assumes that excess mortality is evenly spread across the population.

The decreases in our expected losses in the table below as compared to the prior year are mainly due to the decline in the value of the U.S. dollar against the Swiss franc.

Life insurance stress test Estimated economic impact of each single loss event <sup>(a)</sup>	December 31, 2005   December 31, 2006	
	(CHF in billions)	
Mortality (300,000) excess deaths in the U.S. spread proportionally to base mortality of age groups across the population .....	(0.5)	(0.4)
Mortality (300,000) excess deaths in the U.S. evenly spread across the population .....	(2.1)	(1.9)

(a) Based on internal models (unaudited)

### Management of Financial Market Risk

Financial market risk arises primarily from our PAM unit the interest rate sensitivity of the present value of liabilities and the capital markets trading activities of CMA. The overall risk limits framework is defined by the GCAC. Effective January 1, 2007, all activities involving capital market risk are subject to one overall limit for each major risk class, expressed in terms of both VaR and stress testing.

CMA and PAM translate this limits framework for their own activities, generally incorporating a more detailed set of risk limits to their business, including stop loss triggers. For example, CMA uses a 10-day 99% VaR (meaning that assuming a static portfolio over 10 days, there is a 1% chance that losses will exceed VaR) to limit and monitor its financial market risk on a daily basis. Minimum standards for the management of financial market risk are specified in the Group Credit & Financial Market Risk Guidelines. These are supplemented by Derivative Guidelines, Investment Guidelines and business-specific guidelines.

Financial market risk is identified using a risk inventory of the various risk factors that each business unit is exposed to. Each business area is responsible for measuring the financial market risk arising from its own

activities within the guidelines provided by Risk Management; the results are captured in the Market Risk Aggregation & Reporting System (“MARS”), which is also used for risk modelling and risk reporting at Group level. The asset-liability management report summarises financial market risks at Group level. Risk reporting in PAM is done on a weekly basis, while a combination of daily and weekly risk reporting is done in CMA. These reports are the primary tools to track exposures and monitor usage limits.

Limits are monitored independently by the Credit & Financial Market Risk Management function. The limits are reported to the head of the business unit, who is also ultimately responsible for risk steering. The business unit heads seek to optimise their respective portfolios within their limits, including the use of cash and derivative instruments.

The table below shows the pre-tax impact of market scenarios on available economic capital. The equity scenario includes traded equities, private equity, equity derivatives, Guaranteed Minimum Death Benefit products and funding obligations arising from equity holdings in our pension funds. The 48% increase in the global equity market scenario is due to pressures from traded equity securities, hedge funds and private equity. The interest rate scenario shows the net impact on assets and liabilities from a rise in interest rates. Real estate exposure includes investments in real estate and own-use property.

Market scenarios Estimated economic impact of each single loss event <sup>(a)</sup>	December 31, 2005   December 31, 2006	
	(CHF in billions)	
30% fall in global equity markets .....	(2.5)	(3.7)
100 bp parallel increase in global yield curves .....	0.4	(0.1)
15% fall in global real estate markets .....	(0.7)	(0.7)

(a) Based on internal models (unaudited)

### Management of Credit Risk

Our credit risk exposure arises directly from our investment activities and the portfolio of assets and liabilities underwritten directly by the various business units. We distinguish three types of exposure: the risk of issuer default from instruments in which we invest or trade (e.g., corporate bonds); counterparty exposure in a direct contractual relationship (e.g., retrocession or OTC derivatives); and portfolio exposure from risk transferred to us with no direct contractual relationship (e.g., trade credit and surety reinsurance business). All contribute to an overall credit risk portfolio governed by Group Credit & Financial Market Risk Guidelines that are approved by the GCAC.

The guidelines include credit shortfall limits by business unit and limits by country based on the nature of the exposure and a detailed assessment of the counterparty’s financial strength, the prevailing economic environment, industry position and qualitative factors. This assessment generates an internal counterparty-specific rating in one of 20 categories. We constantly monitor counterparty credit quality and exposures, compiling “watch lists” of those cases that merit particularly close attention.

The reporting process is supported by the Group Credit Risk Exposure Reporting Management and Information Tool, which contains all relevant information including counterparty details, ratings, credit risk exposures, credit limits and watch lists. It is accessible by all credit professionals, providing essential transparency to allow for successful implementation of active exposure management strategies for specific counterparties, industry sectors and industry sectors.

The credit scenarios in the table below show the estimated pre-tax impact of credit scenarios on our available economic capital. For example, the default scenario shows estimated additional (unexpected) losses due to adverse default rate changes. The scenarios are based on a credit environment development similar to 2001, which was the worst credit experience of the past ten years. The increase in the combined credit scenario reflects changes in the credit portfolios due to the Insurance Solutions Acquisition as well as organic business growth within Credit Solutions and CMA.

Credit scenarios Estimated economic impact of each single scenario loss event <sup>(a)</sup>	December 31, 2005   December 31, 2006   Percent change		
	(CHF in billions)		
Rating migration comparable to experience of 2001 .....	(0.3)	(0.3)	0
Default rate increase comparable to experience of 2001 .....	(0.5)	(0.5)	0
Deterioration of recovery levels comparable to experience of 2001 .....	(0.2)	(0.3)	(50)
Combined effect .....	(1.0)	(1.2)	(20)

(a) Based on internal models (unaudited)

At the end of 2006, our overall credit quality remained high with 92% of corporate bonds rated investment grade. We took proactive measures to manage our credit exposures by selling credit securities, and reinvesting in U.S. treasury securities, U.S. government and agency securities, and by purchasing credit default swaps on investment grade indices.

### Operational Risk Management

In 2006, we implemented a common operational risk management (ORM) methodology across the Group that emphasises managing operational risks as close to their source as possible. Top-down and bottom-up assessments provide comprehensive coverage of the entire operational risk landscape. The top-down process is based on Group-wide input from senior executives, while the bottom-up process is based on more than 300 risk and control self assessments across the Group, supported by a Group-wide management information system. We believe that the results from these processes have prompted significant progress in identifying, quantifying and mitigating key operational risk exposures. A formal referral process ensures that the top operational risks and their mitigation status are regularly monitored by the Executive Committee.

The activities of professionals in different areas of ORM, such as IT security and business continuity management, are integrated within our overall Assurance Framework. Internal Audit establishes priorities using quantified risk landscapes established by the ORM function in collaboration with the audit function.

### Capital Management

We seek, through Capital Management, to maintain an optimal capital structure, so as to give us financial flexibility at optimal funding costs.

We determine that amount of economic capital available to cover adverse events based on reported shareholders' equity and a number of adjustments net of tax. No allowance is made for potential tax offsets due to future losses arising from adverse experience.

The table below shows a calculation of available capital.

Calculation of available capital <sup>(a)</sup>	Mid-2005 (CHF in billions)	Mid-2006 <sup>(e)</sup>
Shareholders' equity .....	22.0	27.1
Mark-to-market adjustments <sup>(b)</sup> .....	1.8	(0.3)
Goodwill and intangibles .....	(2.6)	(4.7)
Equalisation reserves .....	1.2	1.3
P&C and L&H valuation adjustments <sup>(c)</sup> .....	8.5	12.3
Hybrid capital .....	4.4	8.1
Tax and other <sup>(d)</sup> .....	(2.7)	(3.2)
Available capital .....	<u>32.6</u>	<u>40.6</u>

(a) Based on Swiss GAAP.

(b) Includes fixed income securities (including fixed income securities backing life and health reserves), investments in real estate and own-use property

(c) Includes discounting of non-life reserves, life and health's value not recognised in the balance sheet and other

(d) Tax impact on the above adjustments

(e) Includes Insurance Solutions

Dividing the available capital of CHF 40.6 billion by the capital requirements of CHF 11.3 billion (based on 99% VaR) yields a capital adequacy ratio (CAR) of 360% at June 30, 2006, compared to 329% at June 30, 2005. The improvement is attributable to the increase in available capital reflecting positive earnings and an increase in property and casualty valuation adjustments resulting from changes in the determination of non-life payment patterns as well as higher interest rates. The Insurance Solutions Acquisition had a neutral effect; conservative funding and increased diversification offset the increases in capital requirements reflecting the enlarged risk profile.

Financial strength is a central component of our value proposition and our franchise. We seek to hold sufficient capital to ensure we are able to operate following the realisation of a loss corresponding to 99% VaR. We also monitor 99% Tail VaR and 99.5% VaR. Based on these more conservative measures for required capital our CAR at June 30, 2006 was 239% for 99% Tail VaR and 291% for 99.5% VaR. In addition to considerations based on internal economic value, we must also consider external capital constraints from regulators and rating agencies.

## Capital and Earnings Protection

Our risk tolerance represents the amount of risk that we are willing to accept within the constraints imposed by our capital resources, our strategy, our risk appetite and the regulatory and rating agency environment within which we operate. Risk tolerance is reflected in clearly defined targets for all relevant operations, which targets principally seek to control risk to capital adequacy but also consider other dimensions such as earnings volatility.

We seek to manage earnings volatility in order to achieve more consistent returns to shareholders, enhance credit quality and lower our capital costs. To this end, we use insurance-linked securities, industry loss warranties, retrocession, insurance risk swaps, equity derivatives and credit default swaps. For example, at the end of September 2006, in the midst of the US hurricane season, our overall earnings protection based on a 25-year return period for Atlantic hurricane was \$1.0 billion, which corresponds to nearly half of the expected gross claims amount from such event (see table below). For this and other top catastrophe risks, earnings and capital protection measures are in place, such as our Successor programme.

Earnings protection for selected natural catastrophes <sup>(a)</sup>	Return period	September 30, 2006		
		Estimated gross claims (USD in billions)	Claims hedge	Net claims
Atlantic hurricane .....	25 years	2.1	1.0	1.1
European windstorm .....	25 years	1.5	0.4	1.1
California earthquake .....	50 years	1.2	0.2	1.0
Japanese earthquake .....	50 years	0.6	0.2	0.4

(a) We also have additional protection in place for larger claims

## Quantitative and Qualitative Disclosures about Financial Market Risk

Our asset composition and the liabilities we hold are subject to market risk. This risk is inherent in all financial instruments and encompasses the risk of loss from changes in the fair value or income of financial instruments due to fluctuations in interest rates, currency exchange rates, equity prices, credit ratings and spreads or other factors that relate to the volatility of the rate, index, or price underlying the financial instrument. Our trading assets are immaterial relative to our overall investment portfolio and, therefore, we are not exposed to significant risk from trading activities. Generally we are not exposed to commodity price risk.

We use a variety of derivative instruments including swaps, options, forwards, credit derivatives and exchange-traded financial futures in our trading and hedging strategies, in line with our 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.

## Our Approach to Asset Liability Management

Asset liability management (“ALM”) is an integral part of how we monitor and manage financial market risk. It involves splitting our economic balance sheet into two virtual balance sheets: one exposed to insurance risk and the other to financial market risk.

Our insurance risk balance sheet shows the market-consistent value of insurance liabilities and capital on the liability side and a “minimum risk portfolio” on the asset side. This notional portfolio represents investments—typically cash and fixed income instruments replicating the risk characteristics of future liabilities—that minimises financial market risk relative to the liabilities and represents the cash flows needed to meet expected future payments. Deviations from expected cash flow are to be absorbed by capital. Deviations result from active management, are closely monitored and are subject to risk limits. The available capital is the total capital exposed to risk and is broadly equal to the difference between the market value of the assets and the market-consistent value of in-force liabilities. The risk is quantified by modelling the change in available capital over a one-year horizon.

Our market risk balance sheet shows our actual investments on the asset side and the minimum risk portfolio as a liability, which is then used as the basis for setting our asset management benchmark. The combination of both balance sheets reproduces our full Group balance sheet.

Our ALM team regularly monitors the net impact on the market risk balance sheet from changes in interest rates, credit spreads, equity markets, real estate prices and currencies. In particular, we monitor the potential impact from interest rate changes on our investment and minimum risk portfolios. The interest rate exposure is measured in terms of the change in value of interest rate sensitive instruments from an upward shift of key

interest rates by one basis point. In addition interest rate risk is assessed by scenario analysis and quantified in terms of VaR and Tail VaR at various confidence levels and holding periods. We believe that as of December 31, 2006 assets and liabilities were closely matched, resulting in moderate interest rate risk to the Group.

### **Equity Price Risk**

We are exposed to changes in the level or volatility of equity prices that affect the value of securities or instruments that derive their value from a particular equity security, a basket of equity securities or a stock index. When investing, we seek to achieve long-term competitive returns with capital appreciation by investing in enterprises with attractive growth and profitability characteristics. We attempt to reduce the inherent risk of loss from equity price movements by diversifying our investment portfolio across geographic regions and industries. We use derivative instruments such as futures, options and forward contracts on a limited basis to reduce exposure to adverse price movements of all financial instruments that we hold.

### **Foreign Exchange Risk**

As a global reinsurer, we have liabilities in various currencies. We face foreign exchange risk mainly from investments in financial instruments, investments in group companies or equity participations and from the imperfect matching of foreign currency reinsurance liabilities and assets. Our investment strategy is designed to have a currency match between liabilities and the assets that back them. The exceptions are currencies in which investment opportunities are not available or in which the amounts to be covered are immaterial. In addition, we invest our capital in the various currencies in a way that reflects our exposures to risks denominated in the respective currencies. Foreign exchange risk arises due to the possibility that changes in foreign exchange rates will impact the value of such instruments, investments or participations or impact the imperfect matching of liabilities and assets.

Foreign exchange risk potentially affects our balance sheet and income statement. Our operations are transacted primarily in U.S. dollars, euros, British pounds, Canadian dollars, Australian dollars, Swiss francs and Japanese yen.

To the extent that we use derivative instruments such as futures, forward contracts, options and swaps, we do so to reduce exposure to positions that are not effectively matched. Foreign exchange forward contracts are entered into to reduce foreign exchange risks on anticipated or planned investments and acquisitions. We use such instruments to offset the impact of changes in foreign exchange rates pending the completion of the transaction. We also enter into derivative transactions to reduce foreign currency risk resulting from investments in our subsidiaries.

### **Interest Rate Risk**

Interest rate risk arises from exposure due to holding interest sensitive financial instruments (assets and liabilities). Changes in the level or volatility of interest rates can potentially affect the market value of our investments. This is, however, partly offset by the corresponding changes in value on the liability side. Our fixed-income securities portfolio is primarily comprised of debt securities of governments and government agencies and, to a lesser extent, corporate debt securities and mortgage and asset-backed securities. Based on estimated fair values, our portfolio of fixed-income securities available-for-sale at December 31, 2005 had a value of CHF 79,344 million, and at December 31, 2006 had a value of CHF 93,127 million.

We are exposed to interest rate risk through changes in the yield curve and interest rate spreads. These may affect the fair value of debt securities and other investments as well as the fair value of our liabilities. Our fixed-income securities may have a different duration than the estimated duration of the covered liabilities. In general we aim to have a close match of asset and liability durations to reduce interest rate risks. Fixed-income securities that cover technical reserves are maintained in the form of highly liquid instruments.

In addition, we seek to mitigate interest rate risk by entering from time to time into derivative transactions such as interest rate swaps, interest rate futures and forward rate agreements.

## **Outlook**

### **General**

Increased client focus was one of the main drivers for the organisational realignment completed during 2005 and is already bearing fruit with clients reacting positively to our combined marketing activities for our

Property & Casualty and Life & Health businesses. Our new organisation places strong emphasis on underwriting quality, product development and knowledge. The separation of Products and Client Markets, and the resulting product focus, position us well to continually improve underwriting quality standards.

We believe fundamentals for 2007 remain strong. In 2007, we expect to benefit from growth provided by the first full year inclusion of Insurance Solutions and GE Life. Developments in the European regulatory framework, including the EU Reinsurance Directive and the move towards Solvency II, will create new opportunities for strongly capitalised companies like us to support clients with efficient capital management solutions.

We remain committed to maintaining strict underwriting discipline and withdrawing capacity where economic terms are insufficient. Also, we will continue to address volatility on both sides of our balance sheet by actively hedging investment and underwriting exposures, including seeking innovative solutions in the capital markets.

### **Our Property & Casualty Business**

The January 2007 renewals of our non-life reinsurance portfolio included renewals for the former Insurance Solutions business. The January renewal season accounts for 67% of our and the former Insurance Solutions traditional treaty portfolio. Across our combined portfolio, total premium volume grew to CHF 10.3 billion. Through the January renewal, we have retained overall 70% of Insurance Solutions non-life treaty business and, since the June 2006 closing of the Insurance Solutions Acquisition, 75% of Insurance Solutions' non-life premiums (CHF 2.0 billion) have been successfully renewed. Our combined book has grown by CHF 1.3 billion, or 14% with rates up 1%. Business not renewed was mainly a result of inadequate prices and broader terms and conditions, as well as reductions due to concentration limits in respect of treaties where we and Insurance Solutions had both previously participated, though in the latter case lost business was more than offset by new business from Insurance Solutions clients.

Despite slight softening in the market in general, in the January renewals all of our markets reflected a trend towards higher client retention due to better capital position and strong profitability levels. In the January renewals, in Europe, our premiums grew by 8% to CHF 6.1 billion, with lower volumes due to clients retaining more of their own business, offset by the growth from Insurance Solutions. In the United States, our premiums grew by 36% to CHF 2.3 billion, mainly due to strong demand for catastrophe capacity. In Asia, where the January renewal is primarily emerging markets, our premiums grew by 22% to CHF 985 million (reflecting business in China (mainly motor), Australia and New Zealand). We also grew our credit and surety portfolio by 3% to CHF 965 million, which consolidated our leading position in this area.

In property, we expect price levels for peak natural catastrophe exposures to remain firm despite the increase of the Florida Hurricane Catastrophe Fund (which provides up to \$19 billion of additional coverage), especially for reinsurers with strong security. Winter storm Kyrill in January 2007 reminded the industry of European weather-related risk. Despite some softening, rates remain at strong price levels in this area. Non-proportional property benefited from excellent price levels from large programmes and catastrophe business in the U.S., as well as the higher interest rates.

In casualty, we expect to continue to address the drivers of liability risks, translating the evolving risk landscape into new products. One example is the EU Directive on Environmental Liability, which is to be adopted in the laws of the member states by April 30, 2007. We have developed a site-related model for hazard analysis, linking current models with geographic information systems.

### **Our Life & Health Business**

In life and health, we anticipate strong sales of accumulation and retirement products in developed markets such as the United States, Europe and Japan. We are actively seeking to address client needs by developing new variable annuity products and exploring longevity products. Sales of protection products are expected to continue to grow, but at a slower pace. We believe that our strength in traditional reinsurance makes us ideally positioned to offer effective solutions and respond to the needs of clients. Nevertheless, there continues to be a protection gap for elderly people—and our strength in traditional reinsurance positions us well to offer effective solutions and respond to the needs of our clients.

In Asia, a combination of regulatory, market and social changes suggest continued strong prospects for volume and growth. Our agreement to purchase a 26% stake in TTK Healthcare Services Pvt Ltd demonstrates our commitment to India and marks a milestone in our strategy to enter the private medical insurance business in Asia.

We expect further consolidation in the life sector in developed markets to continue to drive the growing trend for transferring closed blocks of life business to third parties—a trend that we are well positioned to capitalise on as a result of our Admin Re<sup>SM</sup> business.

### **Our Financial Services Business**

We believe the outlook for Financial Services remains positive. The credit market is expected to continue to provide growth with favourable terms and conditions. We expect Credit Solutions to further extend its leading global position, particularly in Asia. 89% of our credit and surety book renewed in January 2007. The renewal outcome was favourable with a growth of 3% despite increased capacity and client retentions. Despite some softening in the credit environment, we expect that Credit Solutions earnings levels will remain strong in 2007.

While loss ratios are at historical lows, an additional credit hedging strategy is in place to reduce volatility and thus protect the portfolio. We expect the insurance-linked securities market to continue to grow over the coming years, and we will seek to maintain our leading position as structurer and underwriter in the ILS market.

### **Our Current Trading and Prospects**

Trading to the date of this Offering Memorandum has been in line with the expectation of our management since the publication of our results for 2006 and our management is confident of the underlying financial and trading prospects of the Group for the current financial year.

We maintain our targets of earnings per share growth of 10% and return on equity of 13%, in each case over the cycle, reflecting our aim to grow returns for our shareholders.

## OVERVIEW OF REINSURANCE

### General

Reinsurance is an arrangement in which an insurance company, the reinsurer, agrees to assume from another insurance company, the ceding company, all or a portion of the insurance risks that the ceding company has underwritten under one or more insurance contracts. In return, the reinsurer receives a premium for the insured risks that it assumes from the ceding company. Reinsurance, however, does not discharge the ceding company from its ultimate liability to policyholders should the reinsurer fail to meet its obligations. Reinsurance can provide a ceding company with several benefits, including a reduction in net liability on individual risks, catastrophe protection from large or multiple losses and assistance in maintaining acceptable financial ratios. Reinsurance also provides a ceding company with additional underwriting capacity by permitting it to accept larger risks and write more business than would be possible without an accompanying increase in capital and surplus. Reinsurance companies often also provide consultative underwriting and risk management services. During the period between the time premiums are received by the reinsurer and the time that the reinsurer must pay claims and claim adjustment expenses, the reinsurer has an opportunity to invest the funds received as premiums, less expenses. This investment activity can make a significant contribution to a reinsurer's profitability.

We estimate that in 2006, insurance companies ceded approximately \$170-180 billion in premiums to reinsurance companies worldwide.

### Types of Reinsurance

#### Non-life Reinsurance and Life and Health Reinsurance

Non-life reinsurance includes property and casualty reinsurance. Property insurance protects an insured against financial loss arising out of the loss or damage of property caused by an insured peril. Casualty insurance protects an insured against financial loss arising out of loss or damage to persons other than the insured or property. Property reinsurance involves a high degree of volatility but claims are generally reported soon after the event giving rise to the claim. Casualty risks are more unpredictable because there tends to be a greater time lag between the occurrence, the reporting and the payment of claims. Non-life reinsurance is generally written along the same lines of business as non-life insurance.

Demand for non-life reinsurance is influenced significantly by underwriting results and by underwriting capacity of insurers and prevailing general economic conditions. The supply of reinsurance is primarily related to prevailing reinsurance premiums, levels of insured claims, levels of reinsurance industry surplus and the use of underwriting capacity which, in turn, may fluctuate in response to changes in rates of return on investments earned in the reinsurance industry. As a result, the non-life reinsurance business historically has been a cyclical industry characterised by periods of price competition due to excessive underwriting capacity as well as periods of strong pricing due to shortages of underwriting capacity. The frequency and severity of losses suffered by insurers can significantly affect these cycles. The absence of severe or frequent catastrophe and other loss events can result in declining premium rates in the global market. The effects of these underwriting cycles can be reduced if the reinsurer has a widely diversified global business.

Life and health reinsurance provides cover to insurers for life products, including individual and group life, annuity and retirement-related products. It also provides cover to insurers for health products, including disability, medical expense and critical illness products. Reinsurance of these risks typically provides ceding companies with coverage against death claims, known as mortality risk, and claims relating to the incidence of illness, known as morbidity risk. Reinsurers can also provide coverage against investment-related risks in the case of certain interest-sensitive life and annuity products. Life insurers may also seek reinsurance as a means of financing a portion of the up-front costs of obtaining new business such as commissions and overhead expenses and the cost of setting up reserves for future policy benefits. A reinsurer can assume a portion of the ceding company's risk portfolio and reimburse the ceding company for a portion of its cost of generating the new business.

Life and health reinsurance treaties generally reflect the terms and conditions of the underlying insurance policies that they cover. Life and health reinsurance is generally written on either a risk premium basis (also referred to in the U.S. reinsurance market as yearly renewable term) or an original terms basis (also called coinsurance). Under a risk premium reinsurance arrangement, the ceding company and the reinsurer negotiate a separate premium for the risk borne by the reinsurer, rather than ceding to the reinsurer a portion of the premiums

the ceding company receives on the underlying policies. The premiums payable to the reinsurer under a risk premium arrangement may be reviewable. Under an original terms reinsurance arrangement, because the reinsurer receives a portion of the premiums paid to the ceding company on the policies, the reinsurance premiums will normally have the same premium arrangement as the original policies, which may extend over several years. In each case reinsurance would typically cover the mortality or morbidity risk related to the underlying policies although it may also cover investment risk. The reinsurer also assumes “lapse risk,” which is the risk that the policies may lapse prior to the end of their term.

Life and health reinsurance treaties may be written on either a quota share or a surplus basis. Under a quota share arrangement, the reinsurer assumes an agreed upon portion of the risk and premiums for each insurance policy covered by the treaty. Under a surplus arrangement, the ceding company cedes all or a portion of the risks above a specified retention level for each person for each insurance policy covered by the treaty that has an insured value in excess of the retention level. In a limited number of cases, reinsurance is also written on an aggregate stop-loss basis to protect the ceding company’s total portfolio from extraordinary losses resulting from the aggregation of individual risks.

In certain markets, including North America and Japan, life and health reinsurance agreements frequently provide for rights of recapture as an accommodation to ceding companies. These rights permit the ceding company to increase the amount of liability it retains on the reinsured policies after the policies have remained in force for a designated period of time (typically 10 years) if the ceding company has increased its retention limits. The provision of recapture rights to the ceding company is typically reflected in reinsurance pricing.

The life and health reinsurance business tends to be less volatile than non-life reinsurance business because the claims experience is generally more predictable.

### **Treaty and Facultative Reinsurance**

Both non-life reinsurance and life and health reinsurance can be written through either treaty or facultative arrangements. In treaty reinsurance, the ceding company cedes, and the reinsurer assumes, a specified portion of a type or category of risks insured by the ceding company. Treaty reinsurers do not separately evaluate each of the individual risks assumed under their treaties and depend largely on the original risk underwriting decisions made by the ceding company’s underwriters. This dependence subjects reinsurers to the possibility that the ceding company has not adequately evaluated the risks to be reinsured and, therefore, that the premiums ceded to the reinsurer may not adequately compensate the reinsurer for the risk assumed. Accordingly, the reinsurer’s evaluation of the ceding company’s risk management and underwriting practices, as well as claims settlement practices and procedures, will usually impact the pricing of the treaty.

In facultative reinsurance, the ceding company cedes, and the reinsurer assumes, all or part of a specific risk or risks. Facultative reinsurance normally is purchased by ceding companies for risks not covered by their reinsurance treaties, for amounts in excess of the monetary limits of their reinsurance treaties and for unusual and complex risks. Underwriting expenses and, in particular, personnel costs, for facultative business can be high relative to premiums because each risk is individually underwritten and administered. The ability to separately evaluate each risk reinsured, however, increases the probability that the reinsurance underwriter can price the contract to more accurately reflect the risks involved. Because of the transactional nature of the business and the greater risks generally involved, margins on non-life facultative business are usually higher than on treaty business.

### **Proportional and Non-Proportional Reinsurance**

Both treaty and facultative reinsurance can be written on either a proportional basis or a non-proportional basis. Proportional reinsurance is also known as pro rata reinsurance. Quota share reinsurance and surplus share reinsurance are types of proportional reinsurance. Non-proportional reinsurance is also referred to as excess, or excess of loss, reinsurance. In the case of proportional reinsurance, the reinsurer assumes a predetermined portion of the ceding company’s risks under the covered insurance contract or contracts. In the case of non-proportional reinsurance, the reinsurer assumes all or a specified portion of the ceding company’s risk of loss in excess of a specified amount, known as the ceding company’s retention or the reinsurer’s attachment point, subject to a negotiated reinsurance contract limit.

Premiums that the ceding company pays to a reinsurer for proportional reinsurance are a predetermined portion of the premiums that the ceding company receives from its insured, consistent with the proportional

sharing of risk. In addition, in proportional reinsurance, the reinsurer generally pays the ceding company a ceding commission. The ceding commission is usually based on the ceding company's cost of generating the business being reinsured, including commissions, premium taxes, assessments and miscellaneous administrative expense, and also is affected by competitive factors. The ceding commission may also include a profit participation for originating the business, the amount of which is often based on the claims experience. Premiums that the ceding company pays to a reinsurer for non-proportional reinsurance are not directly proportional to the premiums that the ceding company receives. This is because the reinsurer does not assume a proportional risk. The frequency of claims under a proportional reinsurance contract is usually greater than under a non-proportional contract, and therefore the claims experience is generally more predictable and less volatile. There is usually no ceding commission on non-proportional reinsurance.

Non-proportional non-life reinsurance is often written in layers. One or a group of reinsurers accepts the risk of loss just above the ceding company's retention up to a specified amount, at which point another reinsurer or a group of reinsurers accepts the excess liability up to an additional specified limit or the excess liability reverts to the ceding company. The reinsurer taking on the risk of loss just above the ceding company's retention is typically said to write lower layer excess reinsurance. A claim that reaches just beyond the ceding company's retention will create a claims payment for the lower layer reinsurer, but not for the reinsurers of any higher layers. Claims activity in lower layer reinsurance tends to be more predictable than that in higher layers due to greater frequency and availability of historical data, and therefore, like proportional reinsurance, better enables underwriters and actuaries to more accurately price the underlying risks.

The following diagrams illustrate the allocation of claims between a ceding company and reinsurers under hypothetical proportional and non-proportional treaties. The diagrams assume claims of CHF 1,000,000 to be paid under each treaty.

#### Hypothetical Claims of CHF 1,000,000

Proportional Treaty	Non-Proportional Treaty
Ceding Company pays CHF 600,000 (60%)	Reinsurer pays CHF 400,000 (40%) Higher Layer Reinsurer pays CHF 100,000 in excess of CHF 900,000 Lower Layer Reinsurer pays CHF 300,000 in excess of CHF 600,000 Ceding Company pays CHF 600,000 Retention

- *Proportional Treaty.* In the hypothetical proportional treaty, the ceding company retains 60% of the premium it received from the insured and receives a commission from the reinsurer. The reinsurer receives a premium equal to 40% of the premium that the ceding company received from the insured less the commission the reinsurer paid to the ceding company. In return, 60% of each claim is paid by the ceding company and 40% of each claim is paid by the reinsurer.
- *Non-Proportional Treaty.* In the hypothetical non-proportional treaty, the total coverage is written in three layers: the ceding company's retention, a lower layer, and a higher layer. The ceding company negotiates reinsurance treaties with each of the lower layer reinsurer and the higher layer reinsurer in which the premiums paid by the ceding company to the reinsurers reflect the likelihood and timing of claims. In this example, the ceding company pays the first CHF 600,000 of claims, the lower layer reinsurer assumes the risk of claims in excess of CHF 600,000 up to CHF 900,000 and the higher layer reinsurer assumes the risk of claims in excess of CHF 900,000 up to CHF 1,000,000. The responsibility for claims in excess of the higher layer remains with the ceding company.

## **Alternative Risk Transfer**

“Alternative risk transfer” refers to integrated risk management solutions that combine traditional insurance products, non-traditional insurance products (in the sense of insurance of risks that traditional insurance providers are unable or unwilling to accept), financing techniques and capital markets solutions. These reinsurance products include forms of self-insurance such as risk retention and the use of captive insurers, as well as products such as finite or financial reinsurance, insurance derivatives, risk securitisation and run-off management.

Large global corporations sometimes seek to manage their risks by operating in-house insurance companies or “captives.” Captives often use reinsurance to manage their exposure on specific risks or to provide a cap on their maximum exposure to losses. Reinsurance also provides captives with access to risk analysis expertise from a reinsurer with more diversified experience than the captive.

Risk securitisation uses the capital markets as a means of creating risk-bearing capacity. Capacity is created using special purpose vehicles financed through the issuance of securities in the capital markets. One example of risk securitisation is a catastrophe, or CAT, bond which funds a reinsurance vehicle established to reinsure a specific catastrophe. The principal and/or interest of these bonds secures the reinsurance obligation and is then at risk of loss, depending on the occurrence and severity of the specified catastrophe. The interest rate on the bonds compensates the investor for the risk that principal and/or interest may be lost.

Run-off management is the handling of claims from past insurance and reinsurance policies, typically where the claims experience has been adverse or where the insurer or reinsurer is no longer involved in the line of business. Run-off management can be combined with the assumption of risk through reinsurance or other means.

## **Retrocession**

Reinsurers typically purchase reinsurance to cover their own risk exposure or to increase their capacity. Reinsurance of a reinsurer’s business is called a retrocession. Reinsurance companies cede risks under retrocessional agreements to other reinsurers, known as retrocessionnaires, for reasons similar to those that cause insurers to purchase reinsurance. These reasons include reducing liability on individual risks, protecting against catastrophic losses, stabilising financial ratios and obtaining additional underwriting capacity.

Retrocession can be effected through traditional retrocession agreements, or through insurance linked securities, catastrophe swaps, industry loss warranties and other derivatives. Catastrophe swaps are transactions, entered into between large primary insurers or reinsurers, in which a series of fixed, predefined payments are exchanged for a series of floating payments, which depend on the occurrence of insured events. Catastrophe swaps entail few fixed costs. Catastrophe swaps are usually not collateralised and do, therefore, entail credit risk. Industry loss warranties are typically structured as indemnity insurance or reinsurance contracts. Industry loss warranties have dual triggers, meaning that purchasers of industry loss warranties receive the full policy amount under their contract only if the total loss to the industry for the specified event reaches the loss warranty threshold set forth in the contract.

## **Broker vs. Direct Reinsurance**

Reinsurance can be written through reinsurance brokers or directly with ceding companies. From a ceding company’s perspective, both the broker market and the direct market have advantages and disadvantages. A ceding company’s selection of one market over the other will be influenced by its perception of these advantages and disadvantages relative to the reinsurance coverage being placed. For example, broker market coverages usually involve a number of participating reinsurers that have been assembled by a broker, each assuming a specified portion of the risk being reinsured. A ceding company may find it easier to arrange a broker market coverage in a difficult underwriting environment where risk capacity is constrained and reinsurers are seeking to limit their risk exposure. On the other hand, direct reinsurance relationships generally lead to the sharing of technical expertise between the reinsurer and the ceding company and, especially in Europe and Japan, often continue as partnerships over many years.

## OUR BUSINESS

### Overview

We are the world's leading global reinsurer, based on premiums earned. We operate through more than 90 offices in over 25 countries. We have been engaged in the reinsurance business since our founding in Zurich, Switzerland in 1863. We offer financial services products that enable risk-taking essential to enterprise and progress. Our traditional reinsurance products and related services for property and casualty, together with our life and health business, are complemented by insurance-based corporate finance solutions and supplementary services for comprehensive risk management. We are recognised as a leading authority in managing capital and risk, based on our core competencies of:

- risk transfer, for which our objective is to identify, evaluate, underwrite and diversify risk to minimise the capital cost of carrying the risk;
- risk finance, for which we employ a range of products to finance risk retention; and
- asset management, which combines analysis of insurance liabilities, reinsurance products and asset management skills to optimise total return on financial assets.

We offer a wide range of products to manage capital and risk, including traditional reinsurance, insurance-based corporate finance solutions and supplementary services for comprehensive risk management. Our traditional reinsurance products include a wide range of property and casualty covers, life and health covers and related services. Our insurance-based corporate finance solutions include, for example, securitisation of insurance risks and run-off services. Our asset management and financial services operations include our proprietary investment activities in publicly traded securities and alternative investments, our minority holdings, our investment and advisory activities, and our third-party asset management activities. Our global reach enables us to offer our expertise to, and to service, clients throughout the world.

Following the September 2005 re-alignment of our management structure to more closely follow our strategic priorities, we operate through three business functions (with corporate support functions globalised to manage common resources). We believe that this re-alignment has allowed us to bring the organisation closer to our customers, deepen our focus on product skills and further enhance our financial strength. Our business functions are:

- **Client markets**, which through its four divisions: Americas, Europe, Asia and Global & Large Risks (which includes our global clients, our corporate risk underwriting function, aviation & space and large project engineering risks), focuses across all lines of Life & Health and Property & Casualty business on meeting client needs, evaluating and analysing market trends and developing effective and competitive risk management solutions across distribution channels at the point of sale;
- **Products**, which through its four divisions: Property & Specialty (property, man-made, natural catastrophe and large risk underwritings, as well as engineering and marine), Casualty (liability and motor), Life & Health and Claims & Liability Management, covers all of our reinsurance products and focuses on promoting innovation and development of new risk transfer solutions and also deploys our knowledge and expertise to promote underwriting excellence and provide standard criteria for risk pricing in our life and non-life businesses; and
- **Financial Services**, which through three of its divisions: Credit Solutions, Capital Management and Advisory (CMA) and Asset Management focuses on asset portfolio and financial market activities through which we seek to develop innovative risk and capital markets solutions for our clients and ourselves, and also focuses on risk securitisation, by which reinsurance risks can be transferred through securitisation transactions to the capital markets, thus providing new and capital-efficient coverage for the increasing frequency and severity of insured events (principally through insurance-linked securities). Financial Services provides risk management, capital management and structured investment solutions by integrating our reinsurance and capital markets capabilities. It also provides proprietary ("PAM") and third party ("TPAM") asset management.

We use a variety of distribution channels depending on local market characteristics and customer needs. Our European Property & Casualty business is primarily written directly, however, a significant portion of business written in the London Market is written through brokers. In the United States, we have established Direct and Broker business units to broaden the distribution of our products. Our Life & Health business is generally written directly with clients, with an emphasis on building long-term relationships.

Our operating divisions and their local offices are supported by our Corporate Centre in Zurich, which is our centralised source of shared expertise in capital and risk management, underwriting analysis and economic research. Our Corporate Centre is comprised of three corporate functions: Finance, Risk Management and Operations (which includes the Global Information Technology, Communications and Human Resources, Group Legal, Global Technical Accounting and Services and Group Logistics divisions). The Corporate Centre is also responsible for monitoring and evaluating the use of capital and acceptance of risk throughout our group under the direction of our Chief Risk Officer.

At and for the year ended December 31, 2006, we reported:

- premiums written of CHF 29.1 billion (\$23.9 billion);
- premiums earned of CHF 29.5 billion (\$24.2 billion);
- total assets of CHF 291.3 billion (\$239.0 billion);
- shareholders' equity of CHF 30.9 billion (\$25.3 billion); and
- investments of CHF 172.5 billion (\$141.5 billion).

Of our premiums earned in 2006, CHF 17.4 billion, or 59%, represented Property & Casualty premiums earned, CHF 11.0 billion, or 37%, represented Life & Health premiums earned and CHF 1.1 billion, or 4%, represented Financial Services premiums earned.

## Recent Developments

**Insurance Solutions.** In June 2006, we completed our acquisition of Insurance Solutions for a total cost of \$8.8 billion, including the reimbursement of capital injected since November 2005 of \$1.2 billion and purchase price adjustments. The Insurance Solutions Acquisition was financed through a combination of cash, an at-market rights issue and global offering of equity, mandatory convertible securities (including the proceeds of a December 2005 CHF 1.0 billion offering and \$500 million issued to GE at closing) and hybrid debt (U.S.\$752 million of 6.854% Perpetual Subordinated Step-Up Preferred Securities and €1.0 billion of 5.252% Perpetual Subordinated Step-Up Loan Notes). The financing also included the issuance of \$2.4 billion in new Swiss Re shares to GE, resulting in GE holding an 8.9% stake in our share capital. On March 1, 2007, we announced that GE would sell approximately half its stake to the market, and that, as a first step in the share buyback programme of up to CHF 6.0 billion that we announced March 1, 2007, we would acquire the balance. On March 6, 2007, GE settled the sale of its entire stake, and we repurchased 16,650,479 of our shares for an aggregate purchase price of approximately CHF 1.7 billion. The second step of our announced buyback programme contemplates share repurchases of up to CHF 4.2 billion over the next three years.

At the time of the acquisition, Insurance Solutions was the world's fifth largest reinsurer, as measured by premiums written. The Insurance Solutions business provides us with a complementary product range and the addition of its operations will diversify our portfolio, provide benefits of scale and add new talent to our global workforce. Post-closing, we implemented our strict underwriting standards for renewals of the Insurance Solutions business.

Beginning with fiscal 2008, we expect to achieve estimated pre-tax annual cost synergies of CHF 460 million. We incurred one-time restructuring costs of CHF 210 million in 2006 and expect to incur an additional CHF 50 million in 2007. Among other things, we achieved CHF 42 million of cost savings related to information technology, and have consolidated 133 offices into 93 at the beginning of 2007 and expect to reduce this to 74 offices at the beginning of 2008.

**GE Life.** In late 2006, we acquired, for £465 million, including £260 million for statutory net assets, GE's direct UK life operations. We acquired approximately 400,000 policies, with total assets of over £8 billion (over CHF 20 billion), consisting primarily of savings and income retirement planning products and the National Mutual Fund acquired by GE Life in 2002. The transaction was our largest Admin Re<sup>SM</sup> transaction to date, and is expected to provide scale and infrastructure for business in the United Kingdom.

**Proposed restructuring of legal entities.** In addition to the restructurings of legal entities that we undertook to rationalise elements of our structure following the Insurance Solutions Acquisition (such as the merger of GE Reinsurance into Swiss Re America), we announced on March 13, 2007 that we intend to restructure our legal entities to take advantage of opportunities presented by the upcoming implementation of the European Reinsurance Directive (which under the "single passport" system will obviate the need to maintain separate legal entities in EU member states, each subject to national regulatory (including capital reserve) requirements). We are targeting mid-2009 to put the new structure in place, with conversions of the first locations beginning January 2008.

We expect to form three legal entities in Luxembourg (where we already have a holding company for some of our EU operations) that will serve as risk carriers for most of our European reinsurance and insurance business, and will operate through branches of these entities in the rest of the EU. The new structure should have no significant impact on the interface with our clients, as local operations will continue to have responsibility for their business activities. With fewer legal entities (and therefore fewer constraints on capital distributions, while retaining the flexibility to rely on inter-group retrocession), the new structure is also expected to result in more efficient capital management, administration and reporting. This proposed restructuring does not impact the structure of our operations outside the EU.

**Other.** In June 2006, we completed the sale of Fox-Pitt, Kelton.

As of December 1, 2006, we combined our private equity fund of funds business with Horizon 21, a Swiss investment manager that specialises in alternative investments in insurance-linked securities, contributing CHF 3.1 billion of assets to the partnership and becoming a strategic shareholder of Horizon 21 Private Equity Holdings with a 30% stake.

In December 2006, we announced that we had entered into a definitive agreement with TTK Group and India Value Funds Advisors (“IVF”) to purchase a 26% stake in TTK Healthcare Services Pvt Ltd (“TTKHCS”), one of India’s leading health insurance third party administrators. TTKHCS is headquartered in Bangalore, employs approximately 400 people in 22 locations in India and provides Indian health insurance companies with a wide range of medical claims handling services. We simultaneously announced our intention to create a health care services advisory company, focusing on product development and corporate health schemes, in India, subject to regulatory approval. These announcements reflect steps taken in furtherance of our larger plan to enter into the medical reinsurance business in Asia.

In February 2007, we sold our London headquarters at 30 St. Mary Axe, for £600 million. We remain a principal tenant of 30 St. Mary Axe.

### **Business Strategy**

We will seek to take advantage of our market capitalisation, market position and diversification and continue to focus on sustainable and profitable growth, the quality of our earnings and efficient use of capital. The Insurance Solutions Acquisition has provided us with access to a wider client base, new product lines and an additional pool of talent. We will invest in areas where we can best anticipate and manage risks and intend to expand our reach to clients and markets via innovative products. To implement our strategy, we will:

- **Actively manage the cycle for profits.** As a global company with a wide product range and geographical reach, we allocate capital by balancing opportunities on a risk-adjusted basis to generate sustainable earnings and growth over the long-term. To facilitate this strategy, we have, in recent years, re-engineered the way business is managed and capital allocated to our various market segments. In addition, we have established our Client Markets function in order to ensure we focus across more Life & Health and Property & Casualty opportunities to deliver profitable solutions to our clients. In our Property & Casualty business, the instruments used to measure the dynamics of the cycle have improved and now include a centralised pricing process based on risk-adjusted return targets, global renewal guidelines and leading cycle-phase indicators gathered through quarterly surveys of underwriters around the world. In our Life & Health business, we closely monitor the pricing assumptions and assess the returns available over time across geographies and products. We remain focused on active cycle management for profits through strict underwriting and risk selection. We remain willing to accept further reductions in volume where economic returns do not match our reference points.
- **Increase capacity and address earnings volatility.** We underwrite significant exposures, and in addition to our scale and diversification, we apply a range of tools to reduce earning volatility. We employ hedging instruments to manage financial market risks.

We also use our capital markets expertise to manage volatility and free capital to support further economic profit growth in other areas. Since 1997, we have been securitising peak risks in our natural catastrophe and mortality business to optimise the structure of our balance sheet. In doing so, the size of our risk portfolio becomes less dependent on our own capital base, because we are able to pass on a proportion of our risk to the capital markets. Through two transactions in 2003 (Vita I) and 2005 (Vita II), for example, we transferred a significant portion of extreme mortality risk (\$762 million) to the capital markets, thus limiting our exposure to peak life insurance risks such as a global pandemic. We have also focused on transforming insurance risk into a tradeable security and turning assets (the present value of future profits) into cash on an accelerated basis. Recent transactions demonstrate our ability to combine risk management and investment banking capabilities, thereby increasing capital efficiency (as funds are

released to generate future business growth) and our profit margin. In 2005, for example, we transferred insurance and investment risks from five blocks of Admin Re<sup>SM</sup> business to the capital markets and had issued a total of \$615 million in life-related insurance-linked securities through two transactions through which we monetised embedded value, resulting in total securitisations of CHF 1.3 billion in 2005. During 2006, we securitised €252 million of credit reinsurance risk through our Crystal Credit transaction, launched our Successor programme providing \$950 million of peak risk and earnings protection (against North American hurricane, European windstorm, California earthquake and Japan earthquake risks), and transferred \$705 million of peak risks through Vita III (providing, in part, replacement cover for Vita I, which expired at the end of 2006).

- **Continue to build on the Insurance Solutions business platform.** We will continue to seek to take advantage of the Insurance Solutions business' strong regional presence in the United States, its strong direct U.S. distribution network and its broker network (especially in the Midwest and on the East Coast), and further optimise the U.S. distribution platform. We will seek to capitalise on new products and client relationships in its continental Europe property and casualty portfolio and its strong German life and health client franchise. We will seek to apply our cycle management expertise (including our pricing tools), to capitalise on new talent and to achieve our underwriting standards across the combined group.
- **Extend leadership position in Asia.** We have already built a leading position in Asia and have branches in mainland China, Hong Kong, Japan, Korea, Malaysia, Singapore and Taiwan, as well as representation in India and other locations in the region. In connection with the announcement of the IVF transaction, we announced our intention to create a health care services advisory company, focusing on product development and corporate health schemes, in India, subject to regulatory approval. We are also a market leader in Australia. We will seek to build on this competitive advantage through further investment in the skills of local people while capitalising on our brand and product range to realise the potential for profitable growth in these insurance markets. One challenge to overcome will be the extent to which local regulators will be prepared to align local underwriting and investment regulations with international best practice. We will encourage liberalisation of local regulation, particularly those in India limiting the establishment of wholly foreign-owned branches.

## Our Business

We write all major lines of reinsurance with clients throughout the world. Our business is thus diversified as to lines and geography as well as to type of reinsurance. For the 2006 treaty year, our business was split 41% (versus 45% in the prior treaty year) proportional treaty business, 33% (versus 31% in the prior treaty year) non-proportional and 26% (versus 24% in the prior treaty year) facultative/direct. The Insurance Solutions portfolio is weighted towards non-proportional covers.

The table below presents the distribution of our 2005 and 2006 net premiums earned and fees assessed against policyholders by country (based on the locations of the ceding companies).

	Year Ended December 31,			
	2005		2006	
	CHF in millions	% of Total	CHF in millions	% of Total
United States	12,175	44	12,320	41
United Kingdom	2,614	9	3,513	12
Germany	1,830	7	2,560	8
Italy	849	3	804	3
France	1,223	4	1,137	4
Canada	989	4	1,235	4
Switzerland	750	3	705	2
Australia	853	3	979	3
The Netherlands	647	2	646	2
Other	5,842	21	6,495	21
<b>Total</b>	<b>27,772</b>	<b>100.0</b>	<b>30,394</b>	<b>100.0</b>

The table below presents the distribution of our 2005 and 2006 premiums earned by lines of business.

	Year Ended December 31,			
	2005		2006	
	CHF in millions	% of Total	CHF in millions	% of Total
Property .....	5,095	19	6,063	20
Liability .....	4,095	15	4,563	15
Motor .....	2,070	8	1,923	6
Accident .....	812	3	1,057	4
Specialty lines .....	2,785	10	3,251	11
Non-traditional .....	1,489	6	584	2
<b>Total property &amp; casualty</b> .....	<b>16,346</b>		<b>17,441</b>	
Life .....	6,982	26	7,851	27
Health .....	1,612	6	2,243	8
Admin Re .....	1,044	4	880	3
<b>Total life/health/Admin Re</b> .....	<b>9,638</b>		<b>10,974</b>	
Financial Services .....	907	3	1,100	4
<b>Total</b> .....	<b>26,891</b>	<b>100.0</b>	<b>29,515</b>	<b>100.0</b>

## Property & Casualty

### General

Property & Casualty operations had consolidated net premiums earned of CHF 17.4 billion in 2006, representing 59% of the total consolidated net premiums earned. In 2005, Property & Casualty operations had consolidated net premiums earned of CHF 16.3 billion, representing 61% of the total consolidated net premiums earned. Our Property & Casualty business includes the following principal lines:

*Property.* The collective term for reinsurance of fire and business interruption insurance as well as burglary, fidelity guarantee and allied lines, such as floods, windstorms, hail and earthquakes.

*Liability.* The reinsurance of industrial, commercial, employers', product, professional or private liability to third parties.

*Motor.* The reinsurance of accident and liability, as well as accidental collision damage in connection with motor vehicles.

*Accident.* The reinsurance of individuals or groups against economic risks in the event of death or temporary or permanent disability by accident.

Other Lines include:

- *Marine.* The reinsurance against damage or loss of ships and cargos; also includes offshore drilling platforms.
- *Engineering.* The reinsurance of construction and erection of objects during the construction or erection period and the insurance of machinery in operating plants.
- *Nuclear Energy.* The reinsurance for property damage, liability and accident in connection with the operation of nuclear energy facilities.
- *Special Risks.* The reinsurance of a range of risks such as theft, fidelity, fraud, burglary, robbery for financial institutions and commercial risks, event cancellation and risks relating to art and antiques.
- *Agricultural.* The reinsurance of risks relating to crops and other agricultural products.
- *Aviation.* The reinsurance of property, accident and liability losses from the manufacture, use or operation of aircraft and aviation facilities.
- *Space.* The reinsurance of property and liability losses from the use or operation of launch vehicles and satellites.
- *Credit & Surety.* The reinsurance of financial losses sustained through the failure, for commercial reasons, of policyholders' clients to pay for goods or services supplied to them, and insurance covering sureties and guarantees issued to third parties for the fulfillment of contractual liabilities.

As a result of the Insurance Solutions Acquisition, we added a direct insurance business.

We write proportional and non-proportional treaty and facultative business. In treaty underwriting, we cover a client's portfolio of risks. To that end, we assess the client's underwriting strategy and capabilities, market positioning, claims handling, and the like. We obtain information such as past claims experience, geographical spread of exposures and type and size of risks and agree on the scope of coverage, reinsurance price, terms and conditions for the whole portfolio under consideration. We believe that we have a stable and well-established treaty client base. In facultative underwriting, the focus is on individual policies. Factors such as risk management and mitigation and scope of coverage determine the pricing and terms of coverage of that risk. Treaty and facultative reinsurance clients are often the same.

To enable management to anticipate trends and developments, we analyse our portfolio and monitor exposures and accumulations, the development of price and coverage. We have developed our own modelling, pricing tools and methodologies, which are constantly reviewed and adapted to the market conditions and to incorporate new knowledge. While business responsibility is delegated to the local business units, global guidelines are designed to ensure underwriting consistency throughout the group. Mandatory escalation business cases were defined at all levels of the organisation. In connection with the integration of Insurance Solutions, we completed our establishment of a uniform underwriting approach across all of our lines in year-end renewals and also globalised our engineering and marine businesses, extending the benefit of our expertise and capacity to clients in all regions. Common processes across the group allow us to set targets, create pricing transparency and measure performance in line with our goals. These processes have significantly enhanced our ability to measure pricing adequacy early in the renewal process and take immediate corrective action. This is best illustrated by our development of Underwriting Steering Values (USV), which compare current prices with required risk adjusted profit margins and average price levels over the whole insurance cycle. The use of USV by all underwriters allows us to steer capital towards the most attractive market opportunities and helps underwriters to maintain objectivity at a time when prices may come under pressure. Despite the extraordinary number and size of natural catastrophes claims in 2005, USV continued to support a disciplined underwriting approach. This approach led to a decrease in renewed business in January 2006 for certain casualty lines, as continued pressure on rates meant some casualty business was marginal at best. We attribute increases in our property & casualty underlying portfolio profitability in 2006 in part to the implementation and maintenance of the tighter rates and conditions introduced in previous years.

Individual business trends were in line with trends seen in recent years and the industry events that occurred throughout 2006, and overall performance was in line with our expectations and the indications at renewals. Natural catastrophes continued to require a significant portion of underwriters' attention. An unprecedented number of natural catastrophe claims demonstrated the volatility inherent in these exposures, and also reinforced increased demand for coverage from these risks. Due to our increased rates and the lower level of natural catastrophe claims, all lines of business except for motor and accident contributed to strong performance and an improved combined ratio in 2006.

### **Risk Solutions**

Risk Solutions has been included in our Property & Casualty business since our September 2005 realignment. The Risk Solutions unit includes Corporate Risk Underwriting and Capital Solutions. Corporate Risk Underwriting, the unit's larger component, applies conventional (re)insurance techniques to offer mainly facultative reinsurance products to large corporate clients, financial institutions and the aviation market in the high-severity/low-frequency risk segment. Capital Solutions is our centre of competence for reinsurance- and insurance-based structured solutions for our insurance and corporate clients. The covered risks include traditional lines of business, such as property and casualty, as well as other risks traditionally not covered by reinsurance. The key element to all such structured solutions is a direct link to an insurable event or the use of the core competencies of a reinsurer, such as actuarial costing techniques. Typical structures include prospective (e.g., multi-year and multi-line covers) and retroactive solutions, contingent capital commitments and other specific solutions structuring one or a combination of risks, which are either considered difficult to insure or are not traded in capital markets.

### **Europe**

We have operated throughout Europe since our founding in 1863. We conduct our Property & Casualty business in Europe directly through Swiss Reinsurance Company and its subsidiaries and branches.

We maintain a strong presence in our traditional markets in Austria, France, Germany, Ireland, Italy, The Netherlands, Switzerland and the United Kingdom. We have leading positions in the majority of these markets. In recent years, we have also developed a strong position in Central and Eastern Europe, particularly in Poland

and the Czech Republic. We market our traditional reinsurance business to our European clients through offices in London, Madrid, Milan, Munich, Paris, Rome and Zurich. Our Europe Division also manages our operations in Africa, which we conduct principally out of offices in Johannesburg.

In our traditional business, several of our clients in Europe have been ceding business to us for over 100 years. We write business with all types of insurers, and currently serve over 2,500 clients, with five insurance groups accounting for over 20% of our European business. During the past few years, the European insurance market, which we believe represents almost 40% of the worldwide Property & Casualty insurance market, has further consolidated.

We seek to respond to these developments in Europe by offering an integrated value proposition ranging from traditional commodity products to more complex, tailor-made programmes. In our traditional lines, we respond to premium rate pressure by focusing on efficiency in our distribution channels (including developing internet-based initiatives) and in increasing administrative efficiency. We have been altering our business mix, placing greater emphasis on non-proportional treaty and facultative business, though more than half of our business (based on gross premiums written) remains proportional treaty business. We also have been successfully seeking to establish relationships with new clients especially in Central and Eastern European markets.

Most of our traditional Property & Casualty business in Europe is written directly. However, a substantial portion of our business written in the London Market is obtained through reinsurance brokers. The “London Market” consists of U.K. and non-U.K. ceding companies placing business in London with reinsurers both in the United Kingdom and abroad. The London Market is particularly recognised as a worldwide centre for specialised risk underwriting. We write a significant volume of gross premiums annually in the London Market.

Our European Property & Casualty operations compete principally with Munich Re, General Re and its subsidiary Cologne Re, Hannover Re, SCOR, PartnerRe and Converium. We also compete in Europe with Bermuda-based reinsurers and Lloyd’s of London.

Our African clients range from large multi-line insurers to small niche companies. Our relationships with ceding companies in the region are long-standing but reinsurance brokers have recently become more important. In the South African market there are nine registered reinsurers, of which Swiss Re Africa Limited, our South African subsidiary, is the largest in terms of 2006 premium volume. The South African reinsurance and insurance markets are highly competitive.

## Americas

*North America.* Swiss Re America, our subsidiary based in Armonk, New York, has conducted reinsurance operations in the United States since 1910. For many years prior to that, reinsurance business in the United States was written through Swiss Reinsurance Company from Zurich. Swiss Re Canada, our Toronto-based subsidiary, has conducted reinsurance operations in Canada since 1953.

We have a coast-to-coast North American network of offices that provide facultative covers to our clients on a regional basis in Atlanta, Boston, Chicago, Dallas, Kansas City, New York, Philadelphia, San Francisco, Montreal, and Toronto. Our U.S. broker business is organised around our office in Calabasas, California. We also write special lines business out of Manchester, New Hampshire. We have centralised our divisional underwriting function in Armonk, New York, Calabasas, California and Toronto, Canada to better coordinate with marketing and control our underwriting activity.

In the United States we provide reinsurance products through two principal business units—Direct and Broker. The Direct unit located in Armonk addresses the needs of regional companies as well as large U.S. and multinational insurance companies, serving clients regardless of the type of risk or location. The Broker unit consists principally of Swiss Re Underwriters Agency, formerly Underwriters Re, an underwriting agency that concentrates on products sold through the broker market channel. Canadian business is written through Swiss Re Canada in Toronto.

We write Property & Casualty business in the United States and Canada with all types of insurers. We maintain relationships with several hundred clients in North America and focus on providing these clients with access to all the resources of our group. Our approach is to create client-focused teams designed to provide value-added products and services, such as claims and accounting operational reviews, client underwriting reviews and technology assessments. We believe there is competitive advantage in providing these services in support of reinsurance programmes, rather than performing them on a fee-for-service basis. We also offer risk financing products as well as tailor-made products to meet our clients’ needs.

A substantial portion of Swiss Re America's business is sold directly to clients, although a growing portion of our U.S. business is sold through the broker market. A significant portion of Swiss Re Canada's treaty business comes to us through brokers.

As a direct reinsurer, we compete in North America principally with General Re and American Re, a subsidiary of Munich Re. In the broker market, our principal competitors are Transatlantic Re, Everest Re, XL Re, PartnerRe and Munich Re, as well as the newer Bermuda-based reinsurers.

*Latin America.* We began writing business in Latin America in 1911. We write business primarily in Mexico, Puerto Rico, Colombia, Brazil and Chile and, to a lesser extent, Argentina, Venezuela and Uruguay. Although the Brazilian market remains monopolised by a state-owned firm, privatisation and deregulation are still expected. In anticipation of these changes, we maintain an office in São Paulo.

Deregulation of the insurance industry, economic growth due to market reforms and lower inflation have all increased the attractiveness of the Latin American insurance market to foreign insurance and reinsurance companies. This has resulted in overcapacity in the market. We are focusing our Latin American activities on building leading positions in principal markets by strengthening our resources through our local offices, supported by a centralised underwriting office in Armonk, New York.

Our main competitors in Latin America are other global reinsurance companies such as Munich Re, Hannover Re, PartnerRe, Transatlantic Re and Everest Re.

## **Asia**

We have been one of the market leaders in Asia since 1914. Since early 2002, the headquarters of our Property & Casualty Asia division has been located in Hong Kong. We maintain local offices in the region, comprising subsidiary, branch, service company or representative office in Australia, China (Hong Kong, Beijing and Shanghai), Singapore, Malaysia, Taiwan, the Philippines, Japan, South Korea and India. We also maintain a Zurich-based operation from which we serve the Middle Eastern and Turkish markets. We continue to work with regulators in the region to obtain national reinsurance licenses in principal markets, as well as the most appropriate legal structures from which to deliver our capabilities to our local clients.

Our strategy in the region is to position ourselves as the reinsurer of choice to both mature and developing markets in Asia. Overall insurance and reinsurance growth in the region, excluding Japan and Australia, is expected, in percentage terms, to exceed that of the North American or European markets over the next several years. In the mature markets, such as Australia, New Zealand and Japan, we will continue to build on our strong market position and increasingly focus on shifting and expanding our underwriting production to non-proportional treaty and facultative business. We focus on the rapidly growing emerging markets in the region, particularly China and India. We are particularly active in emerging Asian markets where legal and societal changes have increased liability awareness, creating greater demand for liability insurance products. We believe that in these markets our worldwide experience and financial capabilities can be brought to bear, as Asia's emerging markets move closer to world regulatory best-practices, stronger economic co-operation and greater asset growth. All of our lines of business will continue to be deployed in Asia, and from a growth perspective we anticipate further expansion of our position in property and certain casualty lines, as investment, infrastructure and building commitments increase in the region.

Our competitors in the region include Munich Re, General Re, the London Market and all principal reinsurers operating globally.

## **Life & Health**

### **General**

Our Life & Health business had consolidated net premiums earned of CHF 11.0 billion in 2006, representing 37% of our total consolidated net premiums earned. In 2005, our Life & Health business had consolidated net premiums earned of CHF 9.6 billion, representing 36% of our total consolidated net premiums earned. Our Life & Health business is comprised of the following principal lines:

*Life reinsurance*—which typically provides protection against risk exposures, principally mortality risk, on individual lives on an excess or quota share basis and is written predominantly through treaty arrangements, and to a lesser extent, on a facultative basis.

*Health reinsurance*—which reinsures the following coverages:

- *Disability*—insurance against the incapacity to exercise a profession as a result of sickness or other infirmity.
- *Critical illness*—which provides a lump sum payment to policyholders who are diagnosed as having specified serious ailments, such as heart attacks, strokes or cancer, or who suffer a total disability.

The acquisition of Life Re in 1998 added Admin Re<sup>SM</sup> to our product lines. Admin Re<sup>SM</sup> is one of our core offerings. It involves the acceptance of closed blocks of in-force life and health insurance business, either through acquisition or reinsurance, with us usually assuming responsibility for administering the underlying policies. Admin Re<sup>SM</sup> can therefore include both the acquisition of individual blocks of business and the acquisition of an entire life insurance company. The administration of the business is generally managed together with a third-party administrator.

Admin Re<sup>SM</sup> allows insurers to free their capital and gain access to future cash flows from non-core portfolios. It also increases operational efficiency by removing the need for life insurers to maintain legacy IT systems for non-core lines. With a significant number of transactions successfully completed since 1998, we have developed significant experience in the complexities of policy conversion, regulatory approval and effective management of in-force books of business for the continuing benefit of policyholders. We draw on our extensive experience gained through our traditional reinsurance business to bring customers attractive solutions.

Conditions in an increasing number of markets are creating opportunities for Admin Re<sup>SM</sup>. Primary life insurance markets—particularly in the United Kingdom and the United States—are experiencing significant consolidation and disaggregation of non-core lines of business, generating additional opportunities for Admin Re<sup>SM</sup>. With the GE Life Acquisition at the end of 2006 added over 400,000 policies, increasing assets acquired by over £8 billion (over CHF 20 billion) on our balance sheet. This is our largest Admin Re<sup>SM</sup> transaction to date.

Mortality risk is the core business of the Life & Health business. Historically, mortality rates in insured populations have shown significant improvement as medical treatments have substantially raised life expectancy through the elimination of early deaths. Advances in medicine suggest that the likelihood that individuals will live beyond what is typically thought of as a normal life span is becoming increasingly feasible. Research conducted by the business suggests that the overall trend is one of sustained improvement, but that its extent will vary considerably according to age group and market.

In 2003, as part of a strategy to proactively protect against remote but significant contingencies and to help diversify the potential burden associated with the world's insurance-related risks further and more effectively, we sponsored the first insurance-linked security relating to life mortality risk, obtaining \$400 million of coverage from institutional investors. Following the success of this transaction, in April 2005, we completed the transfer of mortality risk to the capital markets by obtaining \$362 million of coverage through insurance-linked securities from institutional investors. Through securitisation, we have transferred mortality risk to the capital markets as an alternative to traditional retrocession. The structure of the risk coverage is based on a combined mortality index. The principal of the notes is at risk if, during any single calendar year in the risk coverage period, the combined mortality index exceeds a percentage of the baseline level. In January 2007, we transferred a further \$705 million of extreme mortality risk to the capital markets through the third tranche of our Vita securitisation programme. Part of the issuance was used to replace cover provided by Vita I, which expired at the end of 2006 with the balance providing additional protection against extreme mortality risk.

As further examples of our securitisation strategy, in January 2005, we issued \$245 million of securities in a securitisation of in-force life insurance policies, backed by the expected future profits from five blocks of life insurance business previously acquired by us through Admin Re<sup>SM</sup> transactions. In December 2005, we continued our programme of transferring mortality risk to the capital markets, by securitising an additional \$370 million of U.S. Admin Re<sup>SM</sup> business through our ALPS Capital transaction. This transaction securitises the expected future profits of four blocks of life insurance business. By transforming insurance risk into a tradeable security, we are able to turn intangible assets into cash, which otherwise would only emerge over time.

While a global trend towards privatising health and welfare benefits has resulted in a growing recognition of the protection provided by health policies, it has proven difficult in some countries to develop products that both meet policyholder needs and provide a reasonable return for insurers or reinsurers. Some existing health products have resulted in losses because of unrealistic policy benefits, lax policy conditions or insufficient underwriting inquiries. Accordingly, following an extensive review of our health portfolio, we have put much of our U.S. health business into run-off. The Life & Health business remains committed to markets and products that allow

us to generate an acceptable return and continue to write health business outside the United States. In terms of new products, we are evaluating the potential opportunities for offering longevity risk covers.

We seek to capitalise on our global position, using local initiatives to respond to local market practice. We also focus on new clients and products such as Admin Re<sup>SM</sup>. Our goal is to differentiate Swiss Re as a provider of a broad range of risk management services, while controlling our administration costs. We provide support to our clients at every stage of their business cycle, from start-up planning and launch through subsequent growth into mature businesses, to, where appropriate, the cessation of specific product lines or business units. Our purpose is to help clients protect their balance sheets and to help them meet their risk management requirements.

### **North America**

We conduct our traditional North American Life & Health operations primarily through Swiss Re Life & Health America. Our U.S. Life & Health operations are centred in Armonk, New York and our Canadian Life & Health operations are headquartered in Toronto. North America accounted for 64% of our Life & Health consolidated premiums earned and fees in 2005 and 61% in 2006.

We are the largest life and health reinsurer in North America, with more than \$2 trillion of gross life reinsurance and insurance in force. We offer reinsurance in the United States, Canada and the Caribbean for most forms of individual and group insurance risks. In North America, our Life & Health reinsurance is sold directly by our marketing personnel.

The focus of our operations in the United States has been individual and group life reinsurance, and Admin Re<sup>SM</sup>. U.S. Life & Health premiums grew by 3.2% in the period 1996-2005. For 2006, we estimate that premiums increased by 2.5% after inflation, slightly below the long-term trend and the growth of the economy. Growth prospects for traditional term products have moderated due to a shift in demand from mortality protection to retirement savings and combination products. Product innovation has become a key driver of sales, with most new products offering accumulation and/or living benefit guarantees. The proliferation of embedded options and guarantees has changed the risk landscape, prompting increased scrutiny of life insurers' risk and capital management practices by regulators and rating agencies.

The US Life & Health market has exhibited a decade of strongly expanding cession business, and cession of sums assured grew from 15% in 1993 to a peak of 62% in 2002. Cession rates for new life business declined from 56% in 2004 to 47% in 2005 (on the basis of sums assured) and likely further down in 2006. The price increases in the reinsurance market in 2004-2005 have slowed reinsurance premium growth due to increased retentions by primary insurers and a shift from quota-share to excess of loss arrangements, but have raised profit margins for life reinsurers. In 2005, the reinsurance market growth slowed to an estimated 1.5% after inflation, from 11.1% in 2004. Growth of traditional reinsurance is expected to lag behind growth of risk in the direct market over the next few years.

We are a full-service life and health reinsurer and market leader in Canada. We rank first or second in all major Canadian product lines, including individual and group life and disability, based on life insurance in-force and, in the case of disability, on premiums. We are also a market leader and full service life and health reinsurer in the Caribbean.

We expect that the market for living benefits products, such as long-term care and critical illness insurance, will expand in Canada as the population ages. We also offer traditional group life and health products in Canada, although these markets are mature and we do not expect that they will show significant growth.

We compete in the U.S. life and health reinsurance market principally with Reinsurance Group of America, Munich Re, Scottish Re and Transamerica. We compete in Canada principally with Munich Re and Reinsurance Group of America.

### **Europe**

We provide life and health products throughout Europe, and we have a leading market position in Switzerland, the United Kingdom, The Netherlands, Italy and Belgium. We are also active in Eastern Europe where we have developed a strong market position, although current business volumes there are still relatively small. We write life and health reinsurance in Europe through a number of local offices including London, Zurich, Amsterdam, Paris, Madrid and Munich. Europe accounted for 31% of our Life & Health consolidated premiums earned and fees in 2006.

Our principal products in Europe are life, disability and critical illness, written on both group and individual bases. In addition to these traditional lines, we also offer financial reinsurance products to clients seeking efficient capital management solutions. Life reinsurance accounted for 56% of our 2006 Life & Health consolidated premiums earned in Europe, while health reinsurance accounted for 44% of these premiums.

The United Kingdom is our principal European market, representing 18% of total Life & Health premiums. Our primary focus in the United Kingdom is on mortality and critical illness protection. While price competition has been a feature of this market for many years, continued mortality improvements have sustained margins at acceptable levels. Critical illness products are primarily sold as accelerated covers attached to life protection.

In the U.K. market, many primary insurance companies are struggling with expense issues and reaching economies of scale. We believe these features developments represent opportunities for the continued expansion of our Admin Re<sup>SM</sup> business into this market.

Most European countries have well-established life insurance companies providing both risk and savings products. Traditional savings products sold by life insurance companies usually incorporate an element of mortality risk for which reinsurance is sought. We believe that the ageing of the European population is likely to increase the need for both savings products and risk products. The ageing population is increasing latent demand for pension provision; however, increased uncertainty regarding the structure and value of pension products has acted as a brake on growth in this area. At the same time, governments throughout Europe are trying to find ways of reducing the burden of social programmes on national budgets and are actively promoting the concept of individual responsibility for welfare-related issues. A notable example is the pension reform measures undertaken in Germany. Even without welfare reform, we expect that the demand for savings products will continue to grow strongly as governments encourage individuals to manage their own future financial needs.

In addition to traditional lines, we also offer financial reinsurance products for clients seeking efficient capital management solutions. Capital management has increasingly become a key focus of insurance company management. Our primary product lines focus on providing efficient capital management along with risk transfer in order to assist clients with their capital management needs. We believe this will be a key driver in the continued growth of our business.

In general, we conduct our European Life & Health business directly with clients, with an emphasis on building long-term relationships. Our European Life & Health clients are principally insurance companies or bancassurers, but a portion of our business is conducted directly with self-administered pension funds. Swiss Re Life & Health Limited, our U.K. operating company, has a strong presence among bancassurers, as well as newly emerging retail assurers and brand assurers.

Our Life & Health operations will continue to build on the long-term relationships that we have developed throughout Europe. We believe that these relationships provide us with a competitive advantage. We also intend to focus on new entrants to the market and their specific needs for risk management and distribution advice.

We compete throughout the European life and health market principally with Munich Re, Hannover Re, Reinsurance Group of America, Cologne Re and SCOR.

### **Rest of the World**

*Asia.* Our Asia Life & Health business is mostly written through branches and concentrated in Japan, Korea and Hong Kong, including for business in other parts of the region, including Taiwan, Singapore, Thailand, Indonesia and the Philippines. In addition, we write business in countries such as India, China and Vietnam, where we believe there are significant long-term opportunities for growth. We operate a service company in Mumbai (Bombay). Our Life & Health business in Asia grew by more than 15% in 2005 and we have developed a number of key strategic initiatives designed to build on this achievement during 2006, including new product developments in the areas of health and living benefits, and capital management.

We are a leading foreign life and health reinsurer in Japan. In May 2004, we became the first leading global reinsurer to operate a fully-fledged branch in Japan, providing nationwide reinsurance services in both life and non-life business. Our Japanese client base consists primarily of life insurance companies. Our products in Japan include individual life and health coverages. The Japanese life insurance industry currently is going through a very difficult period. In-force premium income for the industry as a whole is static, at best, but the largest companies, including foreign companies, are expanding new business at the expense of smaller Japanese companies whose new business is declining. We expect that this trend will accelerate because the solvency positions of insurers are now public knowledge and that a flight to more financially stable, larger companies will likely result.

We believe that demand from life insurers for financial support in life and health products will continue to increase in most emerging markets. Accordingly, in these markets we are promoting our specialised knowledge in the area of product development and risk analysis and our broad capability in designing tailor-made reinsurance solutions to help our clients manage risk and meet their capital requirements. India, for example, with its large population and expected growth in GDP over the next few years, presents opportunities for us. However, because the market for sophisticated insurance products is untested and other uncertainties exist with the current regulatory environment, it is difficult to predict how quickly the market will develop.

*Australia.* We are among the market leaders in Australia. Our strategy in this market is to position ourselves as the leading value-added reinsurer differentiated from competitors by the scope and sophistication of our services. Our client base in Australia consists primarily of property and casualty, and life insurance companies (with premiums of CHF 653 million and CHF 323 million earned in each of these areas, respectively in 2006) for which we reinsure primarily individual and group life and disability business. The recent deregulation of the Australian financial services sector has contributed to the blurring of the boundaries between the banking, investment and insurance markets, resulting in substantial consolidation among insurance and banking firms. The market emphasis is moving towards fund management and investment products, with insurers offering traditional risk products through outsourcing, alliances and joint ventures.

*Africa.* Our Africa Life & Health operations consist primarily of business that our South African subsidiary writes in South Africa, with a small additional amount written in Sub-Saharan Africa.

Our principal products consist mainly of group and individual life, group and individual disability income and individual health. Reinsurance is offered on both original terms and risk premium arrangements, almost entirely on a proportional basis.

The South African market is dominated by a few large insurers who generate the majority of total premiums in the African insurance market. Competition among reinsurers is intensifying in South Africa and pressure on margins is increasing. Our strategy in this region is to develop long-term partnerships with clients by providing economic value to them and being acknowledged as an expert provider of risk management solutions and technical services.

*Latin America.* The life and health reinsurance markets in Latin America are fragmented and characterised by high commission rates and low profit margins. The Latin American markets are generally in an early stage of development, and the products we offer there tend to be conventional, such as group risk covers. Longer term, we expect growth in the conventional market and a more stable economic environment will result in strong growth in the market for individual life and health reinsurance. We also expect that privatisation of social programmes in a number of these markets will result in strong long-term growth in group business as well.

## **Financial Services**

### **General**

The Financial Services business seeks to be a premier provider of credit reinsurance, third party asset management for insurance companies, insurance linked securities and other capital management solutions. Operating income for our Financial Services business increased 21% to CHF 460 million. Our Financial Services business had consolidated net premiums earned of CHF 1,100 million in 2006, representing 3.7% of our total consolidated net premiums earned. In 2005, our Financial Services business had consolidated net premiums earned of CHF 907 million, representing 3.4% of our total consolidated net premiums earned.

Prior to our 2005 re-alignment, the Financial Services business served its clients through four business units: Risk Solutions, Credit Solutions, Capital Management and Advisory (CMA) and Asset Management (which encompassed both our proprietary asset management (PAM) operations and our third-party asset management (TPAM) operations). In 2005, in conjunction with the re-alignment of our business, Risk Solutions was transferred to our Property & Casualty business and the remaining three business units now comprise our Financial Services business.

Financial Services' products include a range of solutions from reinsurance and insurance-linked securities to asset management, benefiting from our expertise in the risk and capital management fields. The demand for these products is concentrated in developed markets and is primarily driven by financial institutions and some large corporations.

We provide credit reinsurance and structured credit underwriting solutions from our offices in Zurich, New York and London. In addition to our proprietary asset management operations, we provide asset management services principally to insurance companies and other financial institutions. CMA has offices in New York and London and competes with investment banks specialising in structured credit financing, asset-backed securities and insurance securitisation.

### **Credit Solutions**

The Credit Solutions unit offers trade credit and surety reinsurance as well as structured credit solutions globally to address specific credit risk and portfolio management issues of insurance clients as well as large banks and corporations. In 2006, Credit Solutions extended its leadership position in trade credit reinsurance and continued to benefit from a favourable credit environment. We use this unit to complement the stringent credit underwriting standards we impose with selective hedging, including credit default swaps and risk securitisation. While further consolidating its position in the reinsurance area, Credit Solutions successfully expanded in the structured credit and capital markets arena. The Insurance Solutions Acquisition included a strong trade finance portfolio, which helped us further diversify our Credit Solution's structured credit portfolio.

Trade credit and surety reinsurance addresses capital, capacity and portfolio risk management needs of surety and credit insurers globally.

Structured credit solutions are tailor-made covers involving insurance, reinsurance and capital markets products and address capital, risk and portfolio management needs of commercial and investment banks, multi-line insurers and corporations. Besides the selective offering of portfolio credit default swaps, structured credit underwriting offers insurance-based structured transactions and financial guarantee (re)insurance contracts to address capital, risk, and portfolio management needs.

Our Credit Solutions unit manages its portfolio for profits throughout the economic cycle, complementing stringent credit underwriting standards with selective hedging, including credit default swaps and risk securitisation. Pursuing this strategy, and with the combination within the Financial Services business of Credit Solutions' expertise in trade credit reinsurance with the ability to securities insurance risk, allowed us to successfully complete the first indemnity-based trade credit reinsurance securitisation in January 2006. Through this €252 million securitisation, we were able to transfer credit insurance risk to the capital markets, essentially providing credit protection for us for the next three years.

### **Capital Management and Advisory**

CMA originates, structures, places and trades interest rate, equity, credit, insurance and weather risks through financial products and capital markets.

At the beginning of 2001, Swiss Re Financial Products was established as a separate business unit to play a leading role in developing the convergence of insurance and capital markets. This unit was subsequently merged with similar business under the CMA brand. CMA's activities include credit and equity derivatives structuring and trading, as well as distribution of fixed-income securities, particularly insurance-linked, asset-backed and structured credit securities. CMA works closely with our other units to seek to develop synergies that will enhance existing Swiss Re businesses, thereby building our competitive advantage in both the insurance and capital markets arenas. CMA's core client base is the global insurance industry and selected financial services companies. CMA's aim is to become a leading provider of various forms of capital, structured investment products and financial risk management solutions through the integration of cash and derivative capabilities.

### **Asset Management**

Drawing on the full range of our group's capabilities, we manage fixed-income and traded equity and certain private equity investments both for the group and for third parties, primarily insurance companies.

**Proprietary Asset Management.** Our proprietary asset management activities are generally conducted by Swiss Re Asset Management (SRAM). Although investment management services for certain of the Insurance Solution assets that prior to the Insurance Solutions Acquisition were provided by GEAM, continue to be provided (for a period of three years) by GEAM, data on the Insurance Solutions portfolio is fully integrated in SRAM's systems. In addition to our portfolio of marketable securities, we make proprietary investments in third-party private equity and venture capital funds, as well as manage two private equity funds, and two funds of funds.

In addition, we from time to time seek to capitalise on competitive advantage arising from our knowledge, and expertise in understanding the business dynamics, of primary insurance companies. We may make minority investments with the goal of creating and enhancing our relationships with our reinsurance clients. Alternatively, as we have shifted our focus on concentration aspects of correlated risks, we are also investing in insurance companies that do not cede business to us.

Going forward, one of our alternative investment strategies is to increase our focus on indirect real estate investments related to the emerging markets and monitor the associated risks by using derivative instruments.

For a description of our proprietary asset management activities, see “Operating and Financial Review—Our Investment Portfolio.”

**Third-Party Asset Management.** We provide third-party asset management services for insurance clients under the Conning Asset Management (“Conning”) brand. Conning provides customised, client-tailored full service investment management services, including ALM strategy, portfolio management and investment accounting and reporting services, for over 110 institutional clients in the United States, Canada, Bermuda, the United Kingdom and continental Europe. In addition to TPAM services, Conning also provides subscription publications that include insurance industry forecasts and strategic industry studies as well as strategic advisory consulting services that assist clients with strategic financial issues such as capital management, strategic business planning and economic profit analysis. This brings the overall client relationships for the Conning Group to over 200.

Conning provides the insurance industry with the unique combination of a complete set of comprehensive investment management services together with insurance industry expertise and insight. The combination of insurance and investment capabilities allows Conning to develop valuable and lasting partnerships with its clients. Conning employs a client-tailored investment approach that explicitly considers each client’s asset, liability and capital positions, business plans, regulatory, accounting and tax requirements. This approach allows us to structure and implement an investment portfolio that meets our clients’ risk, return and liquidity objectives. We add value within the portfolio management process on both market and sector assessment levels, as well as on a security-selection level via our comprehensive and fundamental credit and structured security research, and extensive portfolio risk management. We offer expertise in the global capital markets and investment accounting through our ability to capture economies of scale.

With over CHF 85.4 billion (\$70 billion) in third-party assets under management, including the assets managed in both Conning’s U.S. and Dublin investment centres, as of January 31, 2007, we operate one of the largest U.S. insurance asset management firms. Conning has offices in London and Dublin in addition to its U.S.-based headquarters in Hartford, Connecticut.

### **Swiss Re’s Clients and Marketing**

We market our reinsurance products on a worldwide basis, principally under the “Swiss Re” brand name. Our marketing strategy is client-focused rather than product-focused. In this regard, we have sought to establish a local presence in growing markets to better meet the needs of our clients. We have opened offices in cities such as Paris, Milan, Moscow, Tel Aviv, Mumbai (Bombay), Kuala Lumpur, Bangkok, Seoul, Taipei, Beijing, Shanghai and São Paulo. We have set up a marketing unit for global clients that enables us to concentrate the particular expertise needed to serve the major international insurance groups. We organise our professional resources among specialties and geographic areas using a client management team approach that brings Swiss Re’s global resources to bear on our clients’ needs. These teams consist of a client manager, underwriters and other team members each of whom brings an added element of expertise to the client relationship. We provide a significant amount of technical advice and assistance to our clients as a means of enhancing our relationship with them and we take the lead in developing programmes so that we can significantly influence the terms and structure of the business we write.

Direct reinsurance relationships generally lead to the sharing of technical expertise between the reinsurer and the ceding company and tend to be stable and long-term. Reinsurance written through brokers tends to dominate in the London Market and in particular lines such as marine risks, large property and casualty facultative risks and business with large property and casualty corporate clients.

We believe that we have a well-developed client base, and that we are not dependent on any single client, group of clients or line of business. We do not believe that the loss of any single client would have a material adverse effect on our results of operations or financial condition.

## **Underwriting and Pricing**

Our underwriting units carry out their functions according to internal guidelines established at the Swiss Re Group, the lines of business and the operating division levels, which set forth limits for coverage and procedures for risk assessment, pricing and risk taking. The quality of risks, past experience and future exposure are the main criteria in determining price levels as well as available capacity.

We generally limit our capacity on a per claim, per event and per year basis through claims series clauses, aggregate annual limits and index clauses, which reset retention in the event of claims inflation. Our focus continues to be on underwriting discipline, tightly-controlled capacity and adherence to risk-adjusted return targets. We maintain a risk reporting and assessment function, which monitors and controls the amount and concentration of risk underwritten.

In developing underwriting guidelines and monitoring risk, our Executive Board and Executive Committee approve general principles for our risk tolerance and overall capacity allocation. The overall objective of these comprehensive procedures is to achieve an appropriate return for the risk we take while safeguarding our solvency and creditworthiness. In particular, we seek to maintain a sufficient level of capital that allows us to maintain top financial strength even after a loss from a once-in-a-hundred years event.

The Finance and Risk Committee of the Board of Directors reviews corporate integrated risk management reports and reviews our maximum exposures and the adequacy of our non-life reserves annually. The Group Capital and Capacity Allocation Committee reviews our risk tolerance and capacity allocations in terms of limits by type of business. It is also charged with determining the optimal allocation of risk-adjusted capital to underwriting, investment and credit risk categories, including the use of external reinsurance, if any. The Group Capital and Capacity Allocation Committee further reviews and approves Group Risk Reports and decides on methods we use for performance measurement as well as to calculate economic risk capital. Our Group Products and Limits Committee establishes underwriting limits per line of business and reviews our underwriting guidelines. It also makes decisions about deviations from our reinsurance guidelines and reviews/approves large transactions.

Our pricing takes into account past losses as well as possible future expected claims, based on risk research and regular monitoring of risk landscape developments. In addition, pricing includes charges for management expenses and cost of capital, as well as the time value of money. Pricing procedures differ according to the type of reinsurance (treaty or facultative, proportional or non-proportional); however, the overall pricing framework and monitoring are centrally coordinated.

For property and casualty business, typically, one reinsurer acts as the “lead” in negotiating principal reinsurance terms and pricing of reinsurance contracts. Our strong capital base, underwriting experience and willingness to provide substantial capacity on a direct basis provide us with opportunities to take a lead role in underwriting reinsurance contracts. We believe that being a lead underwriter is an important factor in achieving long-term success in the reinsurance market. Lead underwriters have greater influence in negotiation of reinsurance terms, attachment points and premium rates than following reinsurers. Reinsurers that lead treaties have greater access to preferred business and are better able to develop long-term relationships with their clients. For life and health business, typically a reinsurer assumes the entire obligation or acts as a co-reinsurer with no reinsurer acting as lead underwriter.

## **Catastrophe Risk**

We are exposed to losses affecting multiple insureds at the same time, arising out of the occurrence of a natural peril, such as an earthquake or hurricane, or a man-made event, such as a terrorist attack. The occurrence of any such catastrophe could generate insured losses in one or many of our reinsurance treaties or facultative contracts in one or more lines of business. See generally “Risk Factors—Risks Related to Our Business—Catastrophic events expose us to the risk of unexpected large losses” and “Operating and Financial Review—Industry Conditions—Property and Casualty Reinsurance.”

### **Generally**

Our Catastrophe Perils unit evaluates the frequency and severity of catastrophes and estimates our potential resulting loss exposure. Over 30 catastrophe risk specialists are employed in the modelling and evaluation of catastrophe risk exposure worldwide, using specially developed software and techniques. We prepare a formal report on our catastrophe exposure annually on market, peril and line of business bases. We also review the

coverage and pricing situation annually in our most important markets. We use these reports, together with other internal data, to evaluate our group-wide risk exposures and capital allocation.

We seek through our integrated Group risk model to quantify our total exposure through an aggregation process for all of our acceptances to produce a loss frequency curve from which we can derive a single annual aggregate loss distribution covering the full spectrum of losses (that is, all possible combinations of adverse and unexpected large losses) up to a one-in-10,000 years event. We also consider the diversification effect from other than natural catastrophe exposures.

For monitoring and capacity allocation and deployment purposes, we monitor our accumulated exposure to catastrophe losses and quantify our exposure in terms of the expected maximum loss, or EML. We define EML as our anticipated maximum loss, taking into account contract limits, caused by a catastrophe such as a hurricane or earthquake occurring within a given financial reporting period in a broad, contiguous geographic area. We estimate that our largest group-wide EMLs for earthquake risks are located in California, Japan and the New Madrid fault line in the central United States. We estimate that our largest EMLs for windstorm risks, including tropical cyclones, are located in Europe and in the United States, followed (though to a much smaller degree) by typhoon risk in Japan.

### **Terrorism**

The events of September 11, 2001 caused us to re-evaluate our exposure to man-made catastrophic events. Prior to September 11, the assumed maximum loss potentials arising from terrorist acts were thought to be of controllable size and comparable to property losses resulting from fire and explosion. The extraordinary nature and magnitude of the September 11 attack revealed the full extent and scope of the international terrorist threat and has made it necessary for us to substantially reassess terrorism risk.

The prospect of future substantial events similar to September 11 poses a challenge for risk managers and underwriters alike. There is also the prospect that the frequency of smaller terrorist events will rise in the future. We have undertaken, and will continue to undertake, measures to minimise our exposure to losses resulting from terrorism, including through an underwriting approach based on exclusions, separation of terrorism cover in stand-alone covers and total loss limits per city and country across the full portfolio. We consider a multitude of potential threat scenarios, some of which affect multiple lines of business simultaneously. Our modelled exposures are added to the Group risk model for aggregation purposes.

### **Reserves for Claims**

Significant periods of time may elapse between the occurrence of an insured loss giving rise to a claim, the reporting of the claim to the ceding company and the reinsurer and the ceding company's payment of that claim and subsequent payments to the ceding company from the reinsurer. To recognise liabilities for unpaid claims, claim adjustment expenses and future policy benefits, insurers and reinsurers establish reserves, which are balance sheet liabilities representing estimates of future amounts needed to pay reported and not yet reported claims and related expenses arising from insured losses that have already occurred.

Reserves are estimates that involve actuarial and statistical projections of the expected cost of the ultimate settlement and administration of claims. These estimates are based on facts and circumstances then known, predictions of future developments, estimates of future trends in claims frequency and severity and other variable factors such as inflation. For some types of claims, most significantly asbestos-related, environmental pollution and health hazard claims, it has been necessary, and may over time continue to be necessary, to revise estimated potential claims exposure and, therefore, the related claims reserves. Consequently, actual claims, benefits and related expenses ultimately paid may differ from estimates reflected in the reserves in our consolidated financial statements.

We typically establish our case reserves under proportional treaties by taking into account reserving methodologies and practices adopted on a group-wide basis. Generally, claims personnel at a ceding company establish a case reserve for the estimated amount of the ultimate payment for a reported claim. The estimate by the ceding company is based on the reserving practices and experience and knowledge of personnel at the ceding company regarding the nature and value of the specific types of claims. We generally establish reserve levels using reports and individual case estimates received from ceding companies. We maintain loss and loss adjustment expense reserves to cover our estimated liability for both reported and unreported claims. We utilise a reserving methodology that calculates a point estimate for our ultimate loss, and we then develop a range around

our point estimate. The point estimate represents management's best estimate of ultimate loss and loss adjustment expenses. Our internal actuaries review our reserving assumptions and our methodologies on a quarterly basis.

In the case of facultative and non-proportional business, we generally evaluate the ceding company's reserves taking into consideration coverage, liability, severity of injury or damage, jurisdiction, an assessment of the ceding company's ability to evaluate and handle the claims and the amount of reserves recommended by the ceding company. If we determine that the reserves established by the ceding company may be insufficient to cover the ultimate cost of particular claims, additional case reserves are established either per treaty or per facultative acceptance.

We also establish global claims reserves for claims incurred but not reported ("IBNR"). These reserves are established to provide for payments for incurred claims that have not yet been reported to an insurer or reinsurer. In calculating our IBNR reserves, we generally use accepted actuarial reserving techniques that take into account quantitative loss experience data, together with, where appropriate, qualitative factors. IBNR reserves are based on claims experience and are grouped both by line of business and by accident year. IBNR reserves are also adjusted to take into account such factors as changes in the volume of business written, reinsurance contract terms and conditions, the mix of business, claims processing and inflation that can be expected to affect our liability for claims over time.

In our Life & Health business, reserves for future policy benefits and claims are established based upon our best estimates of mortality, morbidity, persistency and investment income, with appropriate provision for adverse deviation. The liabilities for future policy benefits for individual risks or classes of business may be greater or less than those established by ceding companies due to the use of different mortality and other assumptions. Reserves for policy claims and benefits include both mortality and morbidity claims in the process of settlement and claims that have been incurred but not yet reported. Actual experience may differ from assumed experience and, consequently, may affect our operating results for a period, especially for disability business where the claims reserve reflects payments over a long period of time and is based on assumptions regarding morbidity and investment income.

Underwriting results from property and casualty business in the United States have been adversely affected by claims developing from alleged environmental pollution. We establish reserves for reported claims as well as an estimate for unreported claims and claim adjustment expenses. Although we believe that reserves for unpaid claims are adequate in the aggregate, uncertainties arise when estimating the ultimate future amounts that may be needed for unreported environmental pollution claims. These uncertainties exist in part due to inconsistent decisions reached in court cases in various jurisdictions, including decisions about:

- the existence of insurance coverage;
- which underlying policies provide the coverage;
- whether the release of contaminants is one "occurrence" or multiple occurrences for determination of applicable coverage/policy limits;
- how pollution exclusions should be applied;
- whether clean-up costs constitute covered damage; and
- whether an insurer has a duty to defend.

Since the early 1980s, underwriting results from property and casualty reinsurance business relating to the United States have been adversely affected by claims developing from asbestos-related coverage exposures. The majority of these claims allege bodily injury resulting from exposure to asbestos products. A lesser amount of claims allege damage to buildings resulting from the presence of asbestos. We monitor developments in this area and establish reserves for reported claims as well as an estimate for unreported claims and claim adjustment expenses. We believe uncertainties exist in estimates of the ultimate future amounts that may be payable for unreported asbestos-related claims. These uncertainties include estimations of the number and value of claims that may be reported, court decisions affecting the liability, and the maximum value of asbestos-related exposures written by our clients during expired coverage periods.

During the mid-1990s, we substantially strengthened our reserves for asbestos-related and environmental pollution claims. Since then, we have operated a proactive policy of managing our exposure through active claims management and commutation when appropriate. A measure that is often used to measure reserve adequacy for asbestos-related and environmental pollution liabilities is the three-year "survival" ratio, calculated as the total net provision held at the end of a period divided by the average net claims paid over the previous

three years. The survival ratio is an industry measure of the number of years it would take for a company to exhaust its reserves for asbestos and environmental claims based on the current level of claims payments. This measure is distorted by commutations, which appear as claims paid immediately after the commutation has been agreed, rather than being paid out gradually over a number of years. After adjusting for commutations, including one major commutation in 2000, our three-year survival ratio for asbestos-related, environmental and other long latent liability claims is 11.9 years as of December 31, 2006, based on our best estimates (as compared with 7.8 years for the insurance industry at the end of 2004 and an estimated 11.0 years at the end of 2005).

Recently, although we have seen a decrease in the number of size of class action filings in the United States, compensation awards for bodily injury claims are rising in Europe, with class action legislation emerging in response. We intend to actively monitor this trend, and will adjust our reserve levels and add to our reserves if we believe such changes are necessary.

During the late 1990s and early 2000s, we saw, particularly in the United States, claims relating to bankruptcies and corporate, financial and/or management improprieties. Following the major financial scandals, we also saw an increasing number of large claims resulting from actions brought against financial institutions, accounting firms and other professionals alleging primary liability, or liability for aiding and abetting, in respect of violations of the securities laws, often leading to large settlements. These resulted in an increase in frequency and severity of claims under professional liability covers.

We believe that our total reserves for property and casualty and life and health claims as of December 31, 2006 are adequate. Our reserves may, however, prove to be inadequate to cover our actual claims and benefits experience. To the extent reserves are insufficient to cover actual claims, claim adjustment expenses or future policy benefits, we would have to add to these reserves and incur a charge to our earnings.

## **Claims Management**

We normally settle individually notified claims on the basis of the notification provided by the ceding company after verification that reinsurance coverage exists. In addition, we routinely conduct an investigation when a life insurance claim is made within the first two years that the policy is in effect. Our technical accounting and claims operations personnel administer and selectively manage individual claims reported to us. In addition to administering reported claims and conferring with ceding companies on claim matters, our claims personnel conduct reviews of claims experience with our ceding companies as well as audits of specific claims and the claims procedures in general at the offices of ceding companies. We generally monitor whether the ceding company uses appropriate adjusting techniques, reserves appropriately, has sufficient staff and follows proper claims processing procedures. When we are involved as a direct insurer (for example, in our Admin Re<sup>SM</sup> business), we either investigate, manage and settle claims in line with the requirements of the specific portfolio or outsource these activities to suitable service providers. We have approximately 500 professionals worldwide engaged in claims handling.

## **Retrocession and Other Risk Transfer**

Some reinsurers purchase reinsurance to cover their own risk exposure. The purchase of reinsurance by reinsurers is referred to as retrocession. These reinsurance companies cede risks under retrocessional agreements for reasons similar to those that cause insurers to purchase reinsurance, namely to reduce net liability on individual risks, to protect against catastrophic claims, to stabilise financial ratios and to obtain additional underwriting capacity.

In general, our retrocession and risk transfer initiatives have two important strategic goals: to reduce earnings volatility and to protect our capital base against extreme events. We buy such protection in the capital markets and in traditional retrocession markets through a range of products, such as insurance-linked securities, traditional retrocession, industry loss warranties and other derivatives. In addition, from time to time we retrocede large single risks or a portfolio of concentrated risks. On an aggregate basis we ceded approximately 10.5% of our premiums earned during 2006 to third parties, compared to 9.0% in 2005.

During 2006, we issued \$950 million of protection against Atlantic hurricane, European windstorm, California earthquake and Japan earthquake (all our major natural catastrophe exposures) through our Successor programme. We also issued our third series of catastrophe bonds through the Vita Capital programme, worth \$705 million in principal amount, in January 2007 providing coverage for extreme mortality in the United States,

the United Kingdom, Germany, Japan and Canada. The mortality risks covered under the Vita Capital programme range from the outbreak of bird flu to a terrorist attack. Other examples of types of risks we have securitised and placed in the capital markets include:

- the transfer of \$163 million of multi-peril catastrophe risks (peak risk) through a take-down of our Arbor transaction;
- the transfer of €252 million of credit risk providing mass risk protection reducing volatility and our capital requirements, representing the first indemnity-based credit reinsurance securitisation ever placed; and
- the transfer of \$615 million of performance risk involving the securitisation of future profits from portfolios of U.S. life insurance business through our Queensgate and ALPS Capital transactions.

We aim to minimise the credit risk of our retrocession by using insurance-linked securities and other risk transfer initiatives, which are considered free of credit risk, by collateralising the coverage provided and by selecting predominantly counterparties with superior financial strength. In contrast to traditional retrocession where we would have counterparty risk but typically no basis risk, use of insurance-linked securities minimizes counterparty risk but creates potential basis risk (as it is unlikely that we can perfectly match our risk with a particular parametric index). To minimise basis risk between the risks of our reinsurance business and our protection bought, we continuously explore ways to enhance the structure of our protection, moving in some cases from parametric (event) triggers to market loss triggers, and enhancing the parametric indices based on the latest scientific findings and updated portfolio information.

As of December 31, 2006, we had \$3.3 billion of insurance-linked securities outstanding, providing protection, among other things, against peak insurance risks such as earthquakes, hurricanes, windstorms and pandemics. These securities are structured both as multi-peril and single-peril covers. See “Operating and Financial Review—Capital and Earnings Protection.”

We expect to continue to evaluate further risk transfer opportunities through various forms of traditional retrocession and capital markets products, based on existing solutions as well as new innovative structures. Our goal is to increase capital efficiency by mitigating potential volatility in respect of future cash flows related to both our assets and our liabilities. We can securitise the present value of future profits, monetise intangible assets and/or transfer risks arising in any of our Life & Health, Property & Casualty and Financial Services units, thus addressing liquidity, or reserving, investment or other business risks, or a combination thereof, in any one initiative.

## Employees

We had 10,891 full-time employees worldwide as of December 31, 2006. Our employees are distributed by geographic region as follows: Europe, 6,556; North America, 3,159; Asia/Pacific, 739; Australia, 164; Africa, 156; and Latin America, 117. We employed 8,882 people worldwide as of December 31, 2005 and 8,359 employees worldwide as of December 31, 2004. In connection with our restructuring efforts and the integration of the Insurance Solutions business, we have undertaken certain reductions in employee levels at both our underlying operations and the Insurance Solutions business’ operations. To date, a large number of lost positions have been due to natural attrition, and the remainder will be, and have been, implemented through early retirements and lay-offs.

We believe that our employee relations are good. In Australia, The Netherlands, Italy, France and Germany our employees are covered by various collective bargaining agreements relating to working conditions, which are negotiated periodically with the employees’ representatives.

We encourage our employees to contribute to the global effort to reduce pollution. We recently initiated a new “COYou2 reduce and gain” programme, supporting the Clinton global initiative, under which we will rebate each employee one half of the amount each one uses towards low-emission hybrid cars, use of public transportation or the installation of solar panels or heat pumps, up to a maximum per employee of CHF 5,000, through 2011.

## Competition

The reinsurance business is competitive and, except for regulatory and capital considerations, there are few barriers to entry. We compete with other reinsurers based on many factors, primarily:

- expertise, reputation, experience and qualifications of the reinsurer's employees;
- local presence;
- client relationships;
- financial strength of the reinsurer;
- geographic scope of the reinsurance business conducted;
- products and services offered;
- premium levels;
- contract terms and conditions; and
- speed of claims payment.

The reinsurance industry has experienced significant consolidation in recent years. Reinsurance companies have sought in recent years to expand their existing markets, obtain critical mass in new markets and further diversify risk. At the same time, consolidation in the worldwide insurance industry has created a smaller group of larger ceding companies that are retaining an increasing proportion of their business.

In the property and casualty business, factors such as general trends towards globalisation, a heightened customer preference to do business with the largest and best capitalised reinsurers, increasing competition among reinsurers and the emergence of the capital markets as an additional source of risk-bearing capacity, have resulted in significant consolidation and emphasis on the financial strength of reinsurers.

The life and health reinsurance market is also increasingly concentrated. We estimate that, based on premiums written, the largest three reinsurers represent half of the life and health market and the largest seven reinsurers represent three quarters of the market. Nevertheless, new competitors continue to enter the market.

As a direct writer of reinsurance, we compete with a number of major direct marketers of reinsurance both in local markets and internationally. We also compete with a number of major reinsurers who write business through reinsurance brokers, and with Lloyd's of London. We believe that our largest competitors, both locally and internationally, are:

- Munich Re, including its subsidiary American Reinsurance Company;
- General Re, including Cologne Re and Faraday Group (a London subsidiary), which is owned by Berkshire Hathaway, Inc. (which also owns National Indemnity Group, a company primarily engaged in the underwriting of specialized reinsurance covers for primary insurers and reinsurers); and
- Hannover Re.

## Properties

Our global headquarters are located in Zurich, Switzerland and include a training and management development centre in Rüschlikon, Switzerland. Our U.S. reinsurance operations are headquartered in Armonk, New York. We have constructed a new headquarters for Swiss Re Germany in Munich. As of December 31, 2006, we owned or leased office space in more than 90 cities in over 25 countries around the world. We believe that these facilities are adequate for our present needs in all material respects. Office space acquired in connection with acquisitions is integrated into our existing operations or disposed of as needed. We also hold other properties for investment purposes.

Our principal properties:

Location	Lease/owned	Type of facility	Total Area(m <sup>2</sup> )
<b>Switzerland</b>			
<b>Zurich</b>			
Am Eschenpark .....	Owned	Apartment	10,260
Badenerstr. 170/172 .....	Owned	Offices/Apartments	24,086
Giesshübelstr. 30 .....	Owned	Offices	12,355
Gotthardstr. 35/43 .....	Owned	Offices	11,156
Mythenquai 24 (Mythenschloss) .....	Owned	Offices/Apartments	25,367
Mythenquai 50 (Neubau) .....	Owned	Offices	13,263
Mythenquai 60 (Altbau) .....	Owned	Offices	11,326
<b>Adliswil</b>			
Soodring 6 .....	Owned	Offices	16,720
Soodring 33 .....	Owned	Offices	21,085
Soodstr 52 (Tüfihaus) .....	Owned	Offices	19,759
<b>Ruschlikon</b>			
Gheistr. 37 (Seminarzentrum) .....	Owned	Offices	16,766
<b>United Kingdom</b>			
<b>London</b>			
30 St Mary Axe .....	Leased	Offices	21,832 <sup>(2)</sup>
<b>United States</b>			
<b>New York</b>			
175 King Street, Armonk .....	Owned	Offices	33,946
55 E. 52nd Street, 39th—44th floor, NY .....	Leased	Offices	16,874
<b>Indiana</b>			
1700 Magnavox Way, Fort Wayne .....	Leased	Offices	23,517
<b>Kansas</b>			
5200 Metcalf Avenue, Overland Park .....	Leased	Offices	29,729
<b>Michigan</b>			
25800 Northwestern Highway, Southfield .....	Leased	Offices	14,948
<b>Tennessee</b>			
100 CAN Drive, Nashville .....	Owned	Offices	23,318
<b>Germany</b>			
<b>Unterföhring (Munich)</b>			
Dieselstrasse .....	Owned	Offices	25,225
<b>South Africa</b>			
<b>Johannesburg</b>			
Swiss Park, 10 Queens Road, Parktown .....	Owned/Leased <sup>(1)</sup>	Offices	20,833

(1) This property is 36% owned and 64% leased.

(2) In February 2007, we sold our London headquarters at 30 St. Mary Axe, for £600 million.

We are not aware of any material environmental issues that would affect our utilisation of the above properties other than our general obligation to comply with all applicable regulations.

### **Governmental, Legal and Arbitration Proceedings**

**Litigation and Arbitration.** Litigation and arbitration proceedings may affect various companies in our group as reinsurers, employers and taxpayers in the normal course of their business. Based on our assessment of current litigation and arbitration proceedings, we believe we have made adequate reserves for any such future proceedings.

We underwrote 25% of the excess coverage for the \$3.5 billion in first party insurance obtained by the lessees of the World Trade Center. Following the destruction of the World Trade Center, we initiated litigation against the lessees (the “Lessee”), its lenders and the lessor, the Port Authority of New York and New Jersey (the “Port Authority”) in the U.S. District Court for the Southern District of New York to obtain a declaration of our rights and obligations with respect to all parties in interest. The defendants filed counterclaims and joined other insurers in the lawsuit. In May 2004, a jury found we had bound coverage on a policy form under which, according to a previous court decision, the insureds may recover from us a maximum of our 25% share of the

\$3.5 billion policy limit. As a result, our exposure for claims related to the attack on the World Trade Center remains consistent with our existing loss estimates. In October 2006, the Court of Appeals for the Second Circuit affirmed the unanimous jury verdict, in our favour, that the destruction of the World Trade Center was a single event and not a double one as the Port Authority claimed. This decision confirms that our obligation is subject to the terms and conditions of the operative Willis policy and will not exceed our 25% share of the \$3.5 billion policy limit.

The October 2006 court decision in our favour did not extend to coverage provided by Industrial Risk Insurers, a unit of Insurance Solutions. An earlier jury trial had found that under the insurance binder used by nine other insurers, including Industrial Risk Insurers, pending negotiation of final coverage terms, the attack constituted two events subject to separate claims. Industrial Risk Insurers had provided \$237 million of the \$3.5 billion policy.

The Port Authority is the lessor of the World trade Center and owns additional adjacent property that was destroyed on September 11. We also have brought a declaratory judgment action against the Port Authority seeking a declaration that portions of the World trade Center leased to the Lessee were not covered under the Port Authority's separate \$1.5 billion excess coverage policy and that, in any event, the attack was a single occurrence under the policy. We also asked the court to consolidate our action with other insurers' actions. The Port Authority moved to dismiss or stay our action on the ground it is not ripe for a decision. We have opposed the motion, and no hearing date has been set. We intend to pursue these actions vigorously.

**Pending Regulatory Investigations.** Various regulatory authorities, including the SEC and State Attorneys General in the United States, including the Attorney General of the State of New York, State Insurance Commissioners in the United States and the U.K. Financial Services Authority, as well as law enforcement agencies, are conducting investigations of non-traditional, or loss mitigation insurance, products. We are among the companies that received subpoenas to produce documents relating to "non-traditional" products as part of these investigations. We announced that we are cooperating fully with all requests for documents addressed to us. GE also received similar subpoenas in respect of the Insurance Solutions operations and agreed to indemnify us for losses arising from certain investigations commenced within one year after the June 2006 closing of the acquisition.

It is unclear at this point what the ultimate scope of these investigations will be, in terms of the products, parties or practices under review, particularly given the potentially broad range of products that could be characterised as "non-traditional." Consequently, it is unclear at this point what the direct or indirect consequences of such investigations will be. The scope of the investigations could expand and other regulators and law enforcement agencies may initiate their own investigations. The consequences of these investigations could include, for example, but are not limited to, criminal or civil actions by regulators or lawsuits arising from practices under review, changes in the scope and nature of regulatory oversight of the insurance and reinsurance industries, changes to applicable accounting rules, adoption of new reporting rules, changes to the range of non-traditional products that are available and a reduction in the use of non-traditional products, changes in the criteria used by ratings agencies and changes to practices in respect of a range of non-traditional products by both providers and users of such products. The investigations could also adversely affect the levels of business, and the stock prices, of industry participants. See "Risk Factors—Risks Related to Our Business—Regulatory actions may have an adverse impact on the industry in general and on our business, results of operations and financial condition."

**Impact on us.** Except as set forth above under "—Litigation and Arbitration," we are not, and have not been in the previous 12 months, subject to any governmental, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which we are aware, which may have, or have had in the recent past, significant effects on our financial position or profitability.

## REGULATION

### General

The business of reinsurance is regulated in most countries, although the degree and type of regulation varies significantly in different jurisdictions. In almost all jurisdictions, insurance supervisory authorities evaluate the creditworthiness of reinsurance recoverables (indirect reinsurance supervision). Reinsurers traditionally were generally subject to less direct regulation in most countries than direct insurers. Some states require reinsurers to post collateral or impose a gross reserving system that allows ceding companies to get credit for reinsurance only if reinsurance recoverables are pledged by assets. While the focus of indirect supervision is the effect of reinsurance on the balance sheet and risk exposure of the ceding company, direct reinsurance supervision instead focuses on the reinsurance company itself. The main regulatory instruments of direct supervision are licensing requirements, adequacy of technical provisions, available and required solvency margin and governance rules.

Today, there is a growing trend towards direct reinsurance supervision of reinsurance. For example, in the United States and the United Kingdom, the licensing and supervision standards for reinsurance are comparable to those governing direct insurers, and include direct and indirect reinsurance supervision. Direct supervision enables supervisory authorities to intervene in the affairs of a reinsurer at an early stage should its financial position deteriorate or its risk governance prove to be insufficient. Given the global nature of reinsurance business, mutual recognition of supervisory systems is of increasing importance.

Our foreign subsidiaries and branches must comply with the respective regulations of their home and host states. As a U.S. licensed and authorised reinsurer, we are subject to considerable regulation by state insurance commissioners. Among other things, our U.S. entities have to comply with regulations on solvency (risk-based capital), reserving adequacy, and investment policies. Our U.S. entities are also subject to comprehensive statutory reporting requirements.

Going forward, the regulatory environment of our subsidiaries and branches in EU member states will be affected by the transposition of the EU Reinsurance Directive by end of 2007. The Directive aims to create a single European market in reinsurance, based on mutual recognition of home country control and minimum harmonisation of prudential rules. Our subsidiaries in EU member states will be treated as EU-licensed companies and benefit from the single license principle. As for direct insurance, the system of home-country control is limited to a cross-border structure of branches. The principle of branch separation between life and non-life does not, and will not, apply to reinsurance. The rules on financial supervision are based on the Solvency I standards for direct insurance, with certain adjustments. For non-life technical provisions, the Directive abolishes gross reserving systems. This means that member states may no longer require EU licensed reinsurers to pledge assets or post collateral. The solvency margin for life reinsurance is the same as for non-life reinsurance: it is the higher of a percentage of premiums (16-18%) and of claims (23-26%) minus the retrocession reduction factor. As in direct insurance, the solvency margin is increased by 50% for reinsurance covering general third-party liability, aviation and marine. The Directive's investment rules are based on a "prudent person approach" with an option for member states to introduce certain quantitative restrictions. The scope of the existing Directives on supplementary supervision of insurance groups and financial conglomerates will be extended to reinsurers that are part of a group. The Directive stipulates that non-EU reinsurance companies may not be treated more favourably than reinsurance companies having their head office in the EU. As for direct insurance, there is a provision on the negotiation of agreements with third countries on mutual recognition of reinsurance supervision. The Directive provides a mechanism of co-operation among EU supervisory authorities. The Reinsurance Directive is an interim measure, which will be amended by the forthcoming Solvency II framework directive.

Set forth below is a summary of the material reinsurance regulations applicable in the main jurisdictions where Swiss Re is located. We believe that all of the companies in our group are in compliance with the applicable laws and regulations pertaining to their business and operations.

### Switzerland

We conduct our business under an operating license, and are subject to continued supervision by FOPI. The FOPI is an administrative body of the Swiss Ministry of Finance. The FOPI monitors whether our organisation, management and operations are in compliance with the provisions of the Swiss FISA. The FOPI exercises control over the calculation of the technical provisions, the retrocession policy and solvency.

The Swiss insurance supervision is based on the Swiss FISA, which was revised in 2004 and entered into force January 1, 2006. On the same date, the Federal Council enacted secondary legislation, the new Supervision Ordinance, which replaced previous ordinances. The new laws extend the scope of prudential supervision to pure reinsurance companies and introduced supplementary group supervision of insurance groups and financial conglomerates. Pursuant to the new rules, reinsurance companies are required to maintain a minimum solvency margin which is calculated for the property and casualty business in accordance with the premium and claims index. It is the same formula that is applied to direct insurance companies. The solvency margin for life and health reinsurance is 1 per mille on capital at risk plus 3% of the mathematical provisions. The supervisory law also determines the admissible capital items to cover the solvency requirement (available solvency margin). In addition, as a financial conglomerate, we are subject to supplementary group supervision. This includes a group-wide consolidated solvency calculation, and reporting requirements relating to intra-group transactions and risk concentration. The Swiss regime of supplementary group supervision is equivalent with the rules set out in the EU Financial Conglomerate Directive. This enables the Swiss Supervisory Authority to assume the lead regulator function in exercising its supplementary group supervision over us. The new law also contains rules on corporate governance and internal risk management. It requires each insurance company (including pure reinsurers) to designate a responsible actuary to review its technical provisions and solvency margin in compliance with the prudential requirements. In contrast to primary insurance, reinsurance is not subject to the provisions governing the investments that cover the technical provisions.

In addition to the minimum solvency, the new Swiss insurance supervisory law introduced a risk-based capital requirement: the so-called Swiss Solvency Test (“SST”). The SST also applies to reinsurance companies. The SST distinguishes between the risk bearing capital (available capital) and the target capital (required capital). The calculation of the target capital requirement is based on both, insurance and financial risks. Reinsurance (or retrocession) is fully deductible from target capital. The credit risk related to reinsurance recoverables is part of the target capital calculation. Diversification effects at group level can be taken into account at legal entity level upon request to the FOPI. Swiss Re determines the target capital on the basis of its internal risk model. A characteristic feature of the SST is that all assets and liabilities are valued on a market consistent basis which should be compatible with emerging international accounting standards. The market consistent value of technical provisions is defined as the discounted best estimate plus the market value margin. The market value margin is approximated by using a cost of capital approach. This is defined as the cost of the present value of the future solvency capital which will be necessary to back the entire existing portfolio of liabilities during the run-off period. The SST is coupled with comprehensive risk reporting duties. The SST report contains all relevant information for the Swiss Supervisory Authority to assess the capital adequacy and risk position of the company. This risk-based solvency regime of the SST is expected to anticipate much of the Solvency II framework that is currently being developed in the EU.

## **United States**

Our U.S. reinsurance and insurance subsidiaries are regulated under the insurance statutes (including holding company regulations) of various states, including New York, Connecticut, Delaware, Arizona, California, Illinois, Indiana, New Hampshire and Texas, where our U.S. reinsurance and insurance subsidiaries are domiciled, as well as all states where a relevant subsidiary is licensed to do business. Currently, our principal operating subsidiaries are licensed, approved or accredited reinsurers, or are otherwise permitted to sell reinsurance in all fifty states, the District of Columbia and Puerto Rico.

State regulation generally has its source in statutes that delegate regulatory, supervisory and administrative authority to a department of insurance in each state. State regulatory authorities monitor compliance with, and periodically conduct examinations regarding, state mandated standards of solvency, licensing requirements, investment limitations, restrictions on the size of risks which may be insured or reinsured, deposits of securities for the benefit of reinsureds, methods of accounting, and reserves for unearned premiums, losses and other purposes. In general, these regulations are for the protection of reinsureds and, ultimately, their policyholders, rather than security holders. The states' regulatory schemes also extend to policy form approval and market conduct regulation, including the use of credit information in underwriting and other underwriting and claims practices. In addition, states have enacted variations of competitive rate making laws, which allow insurers to set premium rate for certain classes of insurance without obtaining the prior approval of the state insurance department. While reinsurers are generally regulated in a similar manner and to a similar extent as primary insurers, they are not subject to market conduct, policy form or rate regulations. State insurance departments also conduct periodic examination of the affairs of authorised insurance companies and require the filing of annual and other reports relating to the financial condition of companies and other matters.

*Holding Company Regulation.* Regulations vary from state to state, but generally require insurance holding companies and insurers and reinsurers that are subsidiaries of holding companies to register and file with state regulatory authorities certain reports including information concerning their capital structure, ownership, financial condition and general business operations.

*Guaranty Fund Assessments.* All states require licensed insurers to participate in various forms of guaranty associations in order to bear a portion of the loss suffered by certain insureds caused by the insolvency of other insurers. Depending upon state law, primary insurers can be assessed a percentage of the annual direct premiums written for the relevant lines of insurance in that state to pay the claims of an insolvent insurer. Most of these assessments are recoverable through premium rates, premium tax credits or policy surcharges.

*Involuntary Pools.* Our primary insurance subsidiaries are also required to participate in various involuntary assigned risk pools, principally involving workers' compensation and automobile insurance, which provide various insurance coverages to individuals or other entities that otherwise are unable to purchase such coverage in the voluntary market. Participation in these pools in most states is generally in proportion to voluntary writings of related lines of direct business in that state.

*Risk-Based Capital.* U.S. insurers are also subject to risk-based capital ("RBC") guidelines which provide a method to measure the total adjusted capital (statutory capital and surplus plus/minus other adjustments) of insurance companies taking into account the risk characteristics of the company's investments and products. The RBC formulas establish capital requirements for a number of categories of risk, the largest being: asset risk, insurance risk, interest rate risk and business risk. For each category, the capital requirement is determined by applying factors to asset, premium and reserve items, with higher factors applied to items with greater underlying risk and lower factors for less risky items. Insurers that have less statutory capital than the RBC calculation requires are considered to have inadequate capital and are subject to varying degrees of regulatory action depending upon the level of capital inadequacy. The RBC formulas have not been designed to differentiate among adequately capitalised companies that operate with higher levels of capital.

Therefore, it is inappropriate and ineffective to use the formulas to rate or to rank such companies. Our U.S. insurance subsidiaries have satisfied the RBC formula since it was created in the mid-1990s and have exceeded all recognised industry solvency standards. As of December 31, 2006, all of our U.S. insurance subsidiaries had adjusted capital in excess of amounts requiring company action.

*NAIC Ratios.* The NAIC Insurance Regulatory Information System, or IRIS, was developed to help state regulators identify companies that may require special attention. The IRIS system is comprised of statistical and analytical phases consisting of key financial ratios whereby financial examiners review annual statutory basis statements and financial ratios. Each ratio has an established "usual range" of results and assists state insurance departments in executing their statutory mandate to oversee the financial condition of insurance companies. A ratio result falling outside the usual range of IRIS ratios is not considered a failing result; rather unusual values are viewed as part of the regulatory early monitoring system. Furthermore, in some years, it may not be unusual for financially sound companies to have several ratios with results outside the usual ranges. An insurance company may fall out of the usual range for one or more ratios because of specific transactions that are in themselves immaterial. Generally, an insurance company will be notified of regulatory concerns and may be subject to regulatory action if it falls outside the usual ranges of four or more of the ratios. As of March 2007, none of our U.S. insurance subsidiaries had been notified of any regulatory actions as a result of IRIS ratios based on their 2006 Annual Statement filings.

*Surplus Lines Regulation.* Swiss Re International Business Insurance Limited, one of our U.S. subsidiaries may operate as a surplus line insurer in various states. The regulation of excess surplus lines insurers differs significantly from the regulation of licensed or authorised insurers. The regulations governing the surplus lines market have been designed to facilitate the procurement of coverage through specially licensed surplus lines brokers for hard-to-place risks that do not fit standard underwriting criteria and are otherwise eligible to be written on a surplus lines basis. In particular, surplus lines regulation generally provides for more flexible rules relating to insurance rates and forms. However, strict regulations apply to surplus lines placements under the laws of every state, and state insurance regulations generally require that a risk be declined by three licensed insurers before it may be placed in the surplus lines market. Initial eligibility requirements and annual re-qualification standards and filing obligations must also be met. In most states, surplus lines brokers are responsible for collecting and remitting the surplus lines tax payable to the state where the risk is located.

*Federal Initiatives.* Although the U.S. federal government typically does not directly regulate the business of insurance, federal initiatives often have an impact on the insurance industry. Proposed federal legislation includes

the establishment of an optional federal charter (“OFC”) for insurance and reinsurance companies. OFC legislation was introduced in both the House and the Senate during 2006 and is expected to be approved in 2007. Additionally, federal legislation has been introduced in 2007, namely HR 1065, which is aimed at improving the current state regulatory system by requiring that states defer to a US reinsurer’s home state for solvency and financial matters and by eliminating the ability of US host states to second guess the allowance of financial credit when a US insurer’s home state has permitted it. Similar legislation passed the House in 2006 on a unanimous vote.

The Terrorism Risk Insurance Act of 2002 (“TRIA”) established a programme under which the federal government will share with the insurance industry the risk of loss arising from certain kinds of terrorist attacks. TRIA was originally scheduled to expire in 2005, and although there was substantial uncertainty as to whether Congress would extend the programme beyond its scheduled expiration, the Terrorism Risk Insurance Extension Act of 2005 (“TRIA Extension”) was signed into law on December 22, 2005 extending TRIA, with some amendments, through December 31, 2007. TRIA imposes a deductible upon insurers that must be satisfied before federal assistance is triggered and also contains a coinsurance feature. The deductible, which has increased each year of the programme, is based on a percentage of direct earned premiums for commercial insurance lines from the previous calendar year. The federal programme covers 90% of losses in excess of the applicable deductible, while the insurance company retains the remaining 10%. The programme imposes an annual cap of \$100 billion on covered losses. Participation in the programme for commercial property and casualty insurers is mandatory.

Several provisions of TRIA were changed by the TRIA Extension including: increases in the individual company deductible to 17.5% in 2006 and 20% in 2007; reduction in the federal share of compensation in excess of a company’s deductible to 85% in 2007; and the addition of a requirement that aggregate industry insured losses resulting from a certified act of terrorism after March 31, 2006 exceed \$50 million in 2006 and \$100 million in 2007 in order to trigger federal participation in excess of a company’s deductible. The TRIA Extension requires the President’s Working Group on Financial Markets to study long-term availability and affordability of coverage for terrorism losses, including group life and nuclear, biological, chemical and radiological events and in consultation with industry, the National Association of Insurance Commissioners and policyholders, submit a report of its findings to the House Financial Services and Senate Banking Committees. While TRIA appears to provide the property and casualty sector with an increased ability to withstand the effect of potential terrorist events, any company’s results of operations or equity could nevertheless be materially adversely impacted, in light of the unpredictability of the nature, severity or frequency of such potential events. There can be no assurance that TRIA will be extended beyond 2007.

A permanent Federal terrorism risk backstop has been advocated to reduce the risk of market disruption from terrorism. However, international coordination and cooperation in undertaking such efforts will be crucial, despite this being a U.S.-based initiative.

Natural catastrophes in the U.S. have focused legislative and industry attention on how to best finance natural catastrophe risk in the future. Florida enacted legislation in early 2007 that expands the government-run insurer and reinsurance fund (Florida Hurricane Catastrophe Fund) substantially crowding out the insurance and reinsurance market. Other Gulf states, including Louisiana and South Carolina are considering what action to take to protect their residents. Some insurers and government officials have requested that the federal government create a national fund to provide coverage for all types of natural disasters. Several bills have been introduced in Congress that would address natural catastrophes. There is industry opposition to the creation of government funds, believing that the private market can adequately handle natural catastrophe risk if free market principles are allowed to operate.

## **Germany**

Our subsidiaries Swiss Re Germany AG and Swiss Re Frankona Rückversicherungs-Aktiengesellschaft are companies engaged exclusively in reinsurance business (pure reinsurer). They are subject to state supervision exercised by the Federal Financial Supervisory Authority (BaFin) located in Bonn. According to the German insurance supervisory law, as amended in 2004, pure reinsurers are subject to full and direct legal and financial supervision.

The main aspects of reinsurance supervision are rules concerning authorisation, solvency and investment requirements and internal accounting as well. As of December 21, 2004 reinsurance companies must obtain a license, which distinguishes between life and non-life reinsurance business, to operate. Swiss Re Germany AG and Swiss Re Frankona Rückversicherungs-Aktiengesellschaft are allowed to operate worldwide and to write any kind of business through any type of reinsurance agreement.

The capital requirement is calculated for all lines of business including life reinsurance on the basis of the non-life solvency margin (claims and premium index). Regular reports on the calculation of solvency must be submitted to the BaFin.

A reinsurance undertaking must have available assets covering technical provisions and liabilities arising from its reinsurance business (“Qualified Assets”). It must report on these assets to the BaFin every six months. Qualified Assets must satisfy certain qualitative requirements, in particular the principles of mix, spread, security, liquidity and profitability. The appropriateness of mix and spread depends largely on the capital resources and structure of the individual reinsurance company. There are no quantitative investment restrictions for reinsurers.

The supervisory authority also monitors internal accounting. Reinsurance companies are required to submit their published financial statements, the auditors’ report on their annual statements, and other detailed reports on the nature and volume of their business to the BaFin. The supervisory authority has the right to check the qualification and reliability of the members of the board of management, in particular in the context of verification of the investment management and internal controls and of holders of a qualifying participation. In addition, the BaFin also has the right to check the reliability of holders of a qualifying participation and of their members of the board of management.

Limited supervision of insurance holding companies was introduced effective January 1, 2005. An insurance holding company is a company domiciled in Germany that specialises in acquiring or holding participations in insurance or reinsurance companies. Our subsidiary Swiss Re Germany Holding GmbH is an insurance holding company and thus subject to this limited supervision. In particular the BaFin monitors the reliability and professional suitability of its board of management members (including appointments and retirements), and it has to report on its participations, on the holders of qualifying participations, and on any close links with other companies. The BaFin is also authorised to conduct local inspections of the reportable areas.

## **United Kingdom**

Our U.K. subsidiaries are subject to regulation and supervision under the Financial Services and Markets Act of 2000 (“FSMA”), its implementing regulations and the powers delegated to the FSA. Under FSMA, there is a single regime for the regulation of financial services in the United Kingdom and sole regulatory authority is vested in the FSA. The statutory objectives of the FSA are: market confidence, public awareness, the protection of consumers and the reduction of financial crime.

Subject to the exemptions ordered under FSMA, no person may carry out regulated activities in the United Kingdom without authorisation by the FSA. Regulated activities include effecting and carrying out contracts of insurance. The activities a company is permitted to undertake are normally specified in a permission (“Permission”) that is granted if certain threshold conditions in the FSA Authorisation Manual are satisfied. The grant of the Permission delivers authorisation. Our U.K. subsidiaries hold Permissions for reinsurance business, insurance business, both in life and non-life, and for investment business. These are specified by company in the FSA Register on the FSA website.

Under the FSMA the directors and senior management of a company are required to satisfy “fit and proper” tests, to set up and operate appropriate systems and controls and are otherwise subject to over arching principles applicable to the company and to designated Approved Persons who are individually and personally responsible for defined areas of functional accountability. The principles include integrity; skill, care and diligence; the need to ensure adequate capital resources and an effective risk management system.

Regulated companies are further subject to the rules and guidance set out in the Integrated Prudential Sourcebook (“PRU”) issued by the FSA. The PRU sets out a framework for the calculation of adequacy of financial resources and the proper management of categories of risk including credit, market, liquidity, operational, insurance and group risk.

Adequacy of financial resources is judged by the FSA according to various tests. The requirements of the FSA exceed the Minimum Capital Requirement for life and health (“MCR”) prescribed under EU rules both in terms of amount and sophistication. The Enhanced Capital Requirement for property and casualty (“ECR”) is derived from a risk-based but formula driven approach. The ECR calculation is supplemented by a principles-driven Individual Capital Assessment (“ICA”) conducted on a regulated basis. This aims to achieve that companies hold capital appropriate to their business and control risks and is intended to incentivise better risk

management. Regulated companies are required to have systems and procedures for assessing the adequacy of capital resources and for determining the appropriate level of financial resources, to identify the major sources of risk in each of the categories described in PRU (underwriting, operational, liquidity, market, group, credit) and any other risk, and for each of the major sources of risk, to carry out stress tests and scenario analyses justified as appropriate to the company as regards the sources of risk. Specific guidance is provided on basic approaches but on an explicitly non mandatory basis: the approach can be tailored differently, provided justified. Economic capital models of greater sophistication will be considered and evaluated in terms of their robustness but also in terms of their appropriate integration into a valuable surrounding control environment.

On the available asset side regulated companies can diverge from admissibility rules for MCR/ECR and accounting standards provided the appropriateness is supported. Technical provisions can be discounted and equalisation provisions may be extinguished as appropriate.

The analysis by the company is subjected to supervisory review which includes visits and inspections assessing control risks. The FSA then issues Individual Capital Guidance (“ICG”). The FSA has completed its first annual process of reviewing individual submissions and has issued sectoral guidance after subjecting them to consistency analysis. The FSA anticipates a certain observation period and as such is likely to be cautious in issuing ICG below ECR unless clearly justified.

Regulated companies are supervised under a regular and exception reporting framework as well as by periodic visits (Arrow Visits). Under FSMA reinsurance and insurance companies are required to file with the FSA an independently audited financial statement, and other prescribed documents (“FSA Return”). The local regulated company is required to notify the FSA of any changes in “closely linked” companies as well as change of “controllers” and to review risks deriving from reliance on its parent group company—both as a matter of credit risk as well as risks affecting the parent group company as such (group risk). The FSA enjoys very substantial powers of enforcement against firms and individuals concerning both prudential and conduct of business rules breaches.

## **Other Regulation**

Certain other entities through which we conduct non-insurance business are regulated under the applicable financial services regulations in their respective jurisdictions. Swiss Re Capital Markets Limited, located in London, England, is a company authorised and regulated in the conduct of its investment business in the United Kingdom by the FSA and is entered in the FSA’s register. Swiss Re Capital Markets Corporation, located in New York, United States, is a member of the NASD and the Securities Investor Protection Corporation, and is regulated by the NASD. Swiss Re Capital Markets (Japan) Corporation has a branch office in Tokyo, Japan, which is regulated by the Financial Services Agency in Japan. As we move into new and emerging markets we will continue to monitor local regulatory requirements and will take the necessary steps to comply.

## MANAGEMENT

### Board of Directors

Our Board of Directors is ultimately responsible for the policies and management of the Swiss Re Group. The Board of Directors establishes the strategic, accounting, organisational and financing policies to be followed by the group. The Board of Directors further appoints the executive officers and authorised signatories, and supervises management. In addition, the Board of Directors is entrusted with preparing shareholders meetings and carrying out shareholders resolutions. The Board of Directors may, pursuant to the Corporate Bylaws, delegate the conduct of day-to-day business operations to management under its control, and has delegated operational management to two management bodies: the Executive Board and the Executive Committee.

The members of our Board of Directors, their ages, positions and terms of office as of the date of this Offering Memorandum are as set forth in the following table followed by a brief description of each director's business experience and education, including the names of all companies and partnerships of which such person has been a member of the administrative, management or supervisory bodies or partner at any time in the previous five years (other than at other Group companies).

We require a majority of our Board of Directors to be independent and nominations are submitted to the general meetings of shareholders accordingly. 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). Ten of our twelve directors qualify as independent under these guidelines. With the exception of Walter Kielholz and John Coomber, both former Chief Executive Officers, no member of the Board of Directors has had a management position within the Group, and no director has any significant business connection with us or any of the Group companies.

Name	Age	Position	Term Expires In
Peter Forstmoser .....	63	Chairman <sup>(1)</sup>	2010
Walter B. Kielholz .....	55	Executive Vice Chairman <sup>(2)(3)</sup>	2010
Jakob Baer .....	62	Director <sup>(3)(4)</sup>	2009
Thomas W. Bechtler .....	57	Director <sup>(5)</sup>	2009
Raymund Breu .....	61	Director <sup>(5)(6)</sup>	2007
John R. Coomber .....	57	Director <sup>(7)</sup>	2009
Dennis D. Dammerman .....	61	Director <sup>(2)(3)(5)</sup>	2009
Rajna Gibson Brandon .....	44	Director <sup>(3)(6)</sup>	2008
Bénédict G.F. Hentsch .....	58	Director <sup>(2)</sup>	2009
Robert A. Scott .....	64	Director <sup>(3)(6)(8)</sup>	2010
John F. Smith, Jr. .....	68	Director <sup>(2)(6)</sup>	2007
Kaspar Villiger .....	65	Director <sup>(2)(3)</sup>	2008

- (1) Chair of the Governance Committee
- (2) Member of the Governance Committee
- (3) Member of the Finance and Risk Committee
- (4) Chair of the Audit Committee
- (5) Member of the Compensation Committee
- (6) Member of the Audit Committee
- (7) Chair of the Finance and Risk Committee
- (8) Chair of the Compensation Committee

**Peter Forstmoser.** Peter Forstmoser has been Chairman of our Board of Directors since 2000 and joined our Board of Directors in November 1990. He has been a partner in the Zurich law firm of Niederer Kraft & Frey since 1975 and a law professor at Zurich University since 1974. He is currently the chairman of the board of directors of Hesta AG and Hesta Tex AG, and a board member of Mikron Holdings AG, Ernst Basler AG, Remer Holding AG and Hyos Invest Holding AG. His home domicile is Horgen, Switzerland and his place of origin is Zurich, Switzerland. He is a Swiss citizen. His business address is Mythenquai 50/60, CH-8022 Zurich, Switzerland.

**Walter B. Kielholz.** Walter B. Kielholz joined our Board of Directors in June 1998. He has been chairman of Credit Suisse Group since 2003. He is also Executive Vice Chairman of our Board of Directors. Previously, he was Chief Executive Officer of Swiss Re from 1997 through 2002. Mr. Kielholz joined Swiss Re in 1989. He

became a member of Swiss Re's Executive Board in January 1993 and a member of the Executive Board Committee in April 1995. In addition, Mr. Kielholz is a member of the European Financial Roundtable, member of the board and the committee of the Swiss Business Federation (economiesuisse), chairman of supervisory board of the "Avenir Suisse" foundation, president of the International Monetary Conference, member of the Centre for Strategic and International Studies, a U.S.-based think tank, chairman of the Zurich Art Society and member of the Society of Zurich Friends of the Arts. His home domicile is Zurich, Switzerland and his place of origin is Zurich, Switzerland. He is a Swiss citizen. His business address is Mythenquai 50/60, CH-8022 Zurich, Switzerland.

**Jakob Baer.** Jakob Baer joined our Board of Directors in May 2005. Until his retirement in September 2004, he was Chief Executive Officer of KPMG Switzerland and a member of KPMG's European and international management boards. Mr. Baer is a member of the board of directors and chairman of the audit committee of Adecco S.A. and Allreal Holding AG, as well as a member of the board of directors of Rieter Holding AG, Emmentalische Mobiliar Versicherungs-Gesellschaft and IFBC—Integrated Financial Business Consulting AG. His home domicile is Kilchberg, Switzerland and his place of origin is Kleinandelfingen, Switzerland. He is a Swiss citizen. His business address is Bahnhofstrasse 13, CH-8001 Zurich, Switzerland.

**Thomas W. Bechtler.** Thomas W. Bechtler joined our Board of Directors in November 1993. He served as Vice Chairman from May through December 2002. He has been managing director of Hesta AG, a Swiss corporation, as well as Hesta Tex AG, since 1972 and chief executive officer and vice-chairman of both boards since 1982. He also serves on the boards of directors of Credit Suisse Group, Bucher Industries, Niederweningen, Sika AG and Conzzeta Holding. He is also chairman of the Zurich committee of Human Rights Watch. His home domicile is Hombrechtikon, Switzerland and his place of origin is St. Gallen, Switzerland. He is a Swiss citizen. His business address is Seestrasse 21, CH-8700 Küsnacht, Switzerland.

**Raymund Breu.** Raymund Breu joined our Board of Directors in May 2003. He will stand for re-election at the annual general shareholders meeting on April 20, 2007. He has been chief financial officer and a member of the executive committee of Novartis Group since the group's foundation in 1996. In the preceding three years, he was the head of group finance and a member of the executive board of Sandoz. Mr Breu is also a member of the board of directors of the SWX Swiss Exchange and its admission panel, as well as a member of the Swiss Takeover Board. His home domicile is Binnigen, Switzerland and his place of origin is Oberegg, Switzerland. He is a Swiss citizen. His business address is Lichtstrasse 35, CH-4058 Basle, Switzerland.

**John R. Coomber.** John R Coomber joined our Board of Directors in February 2006. He was our Chief Executive Officer from January 1, 2003 to December 31, 2005, when he retired. Prior thereto, among other functions, he had been appointed to our Executive Board in April 1995, responsible for the Life & Health Business Group and had been Chief Executive Officer of Swiss Re UK from 1993 to 1995. He joined Swiss Re in 1973. He also serves as a member of the supervisory board of Euler Hermes, as trustee for the Climate Group and as director of Pension Insurance Corporation Holdings LLP. His home domicile is Brentwood, Essex, Great Britain. He is a British citizen. His business address is Mythenquai 50/60, CH-8022 Zurich, Switzerland.

**Dennis D. Dammerman.** Dennis D. Dammerman 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 in 2009. He began his professional career when he joined General Electric in the Financial Management Program at GE Appliances. In 1984, he became senior vice president-finance of General Electric Company. He was elected to the General Electric Company's board of directors in December 1994 and was subsequently appointed vice chairman of the board. He remained an executive officer of GE, and a member of the corporate executive office. He also served as chairman of GE Capital Services until he retired from all General Electric positions at the end of 2005. He also serves as a non-executive director of BlackRock Inc. and serves as a member of the board of trustees of Skidmore College. His home domicile is Wellington, Florida, USA. He is an American citizen. His business address is Mythenquai 50/60, CH-8022 Zurich, Switzerland.

**Rajna Gibson Brandon.** Rajna Gibson Brandon joined our Board of Directors in June 2000. She has been a professor of financial economics at the Swiss Banking Institute since March 2000. She was previously a professor of finance at Lausanne University. Ms. Gibson Brandon was also a member of the Swiss Federal Banking Commission until the end of 2004. She is also a director of the National Centre of Competence in Research, NCCR, responsible for the Financial Valuation and Risk Management research network, and an adviser to scientific councils of various educational institutions. Her home domicile is Horgen, Switzerland and her place of origin is Chêne-Bougeries, Switzerland. She is a Swiss citizen. Her business address is Plattenstrasse 14, CH-8032 Zurich, Switzerland.

**Bénédict G.F. Hentsch.** Bénédict G.F. Hentsch joined our Board of Directors in November 1993. He was a partner of Lombard Odier Darien Hentsch & Cie (formerly Darier Hentsch & Cie) from 1985 until October 2001 and chaired the Swiss Private Bankers Association from 1998 until 2001. In 2004 he co-founded GEM—Global Estate Managers and was vice-chairman of Banque Bénédict Hentsch & Cie S.A., both entities dedicated to global wealth management. He is a member of the board of directors of the ISE Foundation and the MLE—Foundation, both at the University of St. Gallen. Mr. Hentsch was also a board member of the SAirGroup AG board of directors. In 2001, SAirGroup along with its subsidiaries filed for creditor protection due to insolvency. In connection with SAirGroup's insolvency and as a result of Mr. Hentsch's position on the board, he has been named in several lawsuits. As of this date, no judgment has been handed down in respect of Mr. Hentsch. His home domicile is Céliney, Switzerland and his place of origin is Geneva, Switzerland. He is a Swiss citizen. His business address is 5, avenue de Châtelaine, CH-1211 Geneva, Switzerland.

**Robert A. Scott.** Robert A. Scott joined our Board of Directors in May 2002. He was re-elected at the annual general meeting of shareholders on April 21, 2006. He is a retired group chief executive of CGNU plc. 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, Mr. Scott became group chief executive of CGNU plc, retiring in May 2001. Mr. Scott was Chairman of the Association of British Insurers in 2000-2001, and a board member during the previous four years. He is chairman of the board of directors of Yell Group plc, a non-executive director of the Royal Bank of Scotland Group plc and Jardine Lloyd Thompson Group plc. In addition, he is an advisor to Duke Street Capital and Pension Insurance Corporation Holdings LLP. His home domicile is Axford, Basingstoke, United Kingdom. He is a British and Australian citizen. His business address is Mythenquai 50/60, CH-8022 Zurich, Switzerland.

**John F. Smith, Jr.** John F. Smith, Jr. joined our Board of Directors in May 2003. He will stand for re-election at the annual general meeting of shareholders on April 20, 2007. He was chairman of the board of directors of General Motors Corporation from 1996 to April 2003. From 1992 to 2000 he also served as chief executive officer of that company. Mr. Smith is chairman of Delta Air Lines and a director of The Procter & Gamble Company. He also serves as a member of the chancellor's executive committee of the University of Massachusetts and a member of the board of trustees at Boston University. His home domicile is Naples, Florida USA. He is an American citizen. His business address is 300 Renaissance Centre, Detroit, Michigan, USA.

**Kaspar Villiger.** Kaspar Villiger joined our Board of Directors in May 2004. He served as a Federal Councilor in the Swiss government from 1989 until the end of 2003, first as Defense Minister and then as Finance Minister and was President of the Swiss Confederation in 1995 and 2002. Mr. Villiger is also a non-executive member of the board of directors of Nestlé SA and the newspaper Neue Zürcher Zeitung. His home domicile is Muri, Switzerland and his place of origin is Pfäffikon, Switzerland. He is a Swiss citizen. His business address is Monbijoustrasse 22, CH-3001 Berne, Switzerland.

## Board Structure

Under our Articles of Association, our Board of Directors is to consist of at least seven members and the term of a director is four years from the date of election by a general meeting of shareholders until the fourth subsequent annual general meeting of shareholders. Under our corporate bylaws, the age limit for a director is 70. Directors who reach the age of 70 during their term are to tender their resignations at the next annual general meeting. Members whose term expire are immediately eligible for re-election and re-election is substantiated by the Chairman of the Board of Directors at the annual general meeting and is separately voted on.

The Board of Directors meets as often as business requires, but at least four times per year. The attendance of half the Board of Directors in person or by means of communication is necessary as a quorum for resolutions to be passed, with the exception of resolutions for capital increases and the corresponding resolutions concerning amendments of the Articles of Association, for which no quorum requirement exists. Resolutions generally are passed by vote of a simple majority. In the event of a tie, the Chairman casts the deciding vote. Resolutions regarding matters not listed on the agenda for a meeting require a two-thirds majority. Resolutions may be adopted by written consent in lieu of a meeting provided no director requests oral deliberations and at least half the directors so consent. For every meeting, it is contemplated that an executive session be held for discussions between the Board of Directors and the Chief Executive Officer, discussions involving all members of the Board of Directors, or discussions among the independent members of the Board of Directors, as the case may be.

The Board of Directors is authorised to delegate responsibilities and powers to committees or to the Executive Vice Chairman, and has established an Audit Committee, a Compensation Committee, a Finance and

Risk Committee and a Governance Committee. The functions and responsibilities of these committees are set forth in our Corporate Bylaws. We reflect in our Corporate Bylaws not only the minimum standards required under Swiss corporate law but a variety of elements of corporate governance best practices.

### **Audit Committee**

All members of the Audit Committee must be non-executive, independent and financially literate. At least one member must have the attributes qualifying such member as an “audit committee financial expert” as determined by the Board of Directors in accordance with our Corporate Bylaws. Messrs Baer, Breu, Scott and Smith qualify as Audit Committee Financial Experts. Members may not accept any consulting, advisory, or other compensatory fee from any Group company. They should not serve on the audit committee of more than two other listed companies. Members of the Executive Board are not eligible for membership until three years after the termination of their executive employment. The Head of Group Internal Audit and two senior representatives of the external auditor regularly participate in Audit Committee meetings.

The Audit Committee is responsible for assisting the Board of Directors in fulfilling its oversight responsibilities with respect to the integrity of our financial statements and facilitates the ongoing communication between the external auditor, management Group Internal Audit and the Board of Directors. Other responsibilities include:

- monitoring internal control systems including the adequacy and effectiveness of the financial reporting process and any material issues, significant findings, disagreements or differences in opinion raised internally or by the external auditor;
- reviewing the results of internal and external audits;
- recommending appointment of the internal auditor, Head of Group internal audit and the external auditors;
- reviewing the external auditor’s qualifications and independence;
- reviewing compliance with legal and regulatory requirements;
- reviewing compliance with and sufficiency of internal policies and procedures;
- consulting with the Executive Committee, Head of Group internal audit and the external auditor as to risk and contingencies exposure;
- approving in advance audit and non-audit services expected to be provided by the external auditor and the internal audit function;
- reviewing and discussing with management the annual financial accounts and policies regarding publication of earnings and earnings guidance, as well as policies regarding communication of financial information provided to analysts and rating agencies;
- reviewing major changes to any accounting principles or practices;
- discussing with the Head of Group internal audit managements’ responses to any significant findings, any difficulties encountered in the course of the audits and any changes required in the audit plan; and
- reviewing and assessing annually the adequacy of its own processes and procedures.

### **Compensation Committee**

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

Formerly known as the Compensation and Appointments Committee, the Compensation Committee was renamed in February 2007, when personnel matters were transferred to the Governance Committee. The tasks and responsibilities below reflect the current status. The Compensation Committee is responsible for developing compensation principles for the Group. It then submits such principles to the Board of Directors for approval and monitors adherence to such principles. Other responsibilities include:

- keeping itself informed of industry and peer compensation practice;
- recommending to the Board of Directors the remuneration of the members of the Board of Directors other than the Chairman and the Executive Vice Chairman;
- determining the compensation of the Chairman, the Executive Vice Chairman, the CEO and the members of executive management on the basis of their performance;
- determining the total amount for bonus payments, related deferral plans and long-term incentive plans on the basis of achieved performance;

- reviewing and approving the Group's compensation and pension plans;
- ensuring compliance with any remuneration disclosure requirements;
- approving employment contracts with the Chairman, the Executive Vice Chairman, the Chief Executive Officer and the members of executive management; and
- reviewing its own performance annually.

### **Finance and Risk Committee**

The Finance and Risk Committee oversees risk management for the Group. Other responsibilities include:

- approving the Group's fundamental risk management principles and reviewing their implementation, as well as the appropriateness of the Group's risk management framework and its implementation;
- reviewing and making recommendations in respect of the Group's risk strategy proposed by management;
- evaluating the bases on which the Board of Directors determines the overall risk tolerance and the risk level for the Group's most significant risk taking activities and reviewing the strategic asset allocation, as well as its conformity with the risk tolerance levels as determined by the Board of Directors;
- reviewing the methodology for risk measurement, the results of risk adjusted capital calculations and the most significant risk exposures and their limits, and receiving semi-annually a report on the Group-wide use of derivative instruments;
- reviewing the valuation of assets and liabilities for economic, accounting and regulatory purposes and the treasury strategy;
- reviewing capital adequacy, the ratings received from the rating agencies and management's reaction and recommendations thereto; and
- reviewing the Group's integrated portfolio risk management activities, as well as its own performance annually.

### **Governance Committee**

Formerly known as the Governance and Shareholder Relations Committee, the Governance Committee was renamed in February 2007. The committee is now also responsible for personnel matters which used to be the duty of the former Compensation and Appointments Committee. The charter of the Governance Committee was amended accordingly. The tasks and responsibilities outlined below reflect the current status. The Governance Committee keeps itself informed of corporate governance developments, measures the Group's governance against relevant best practice standards and informs the Board of Directors of its findings and emerging trends. Other responsibilities include:

- making proposals that ensure an adequate size and a well-balanced composition of the Board of Directors and further ensuring that a majority of the Board of Directors is independent;
- evaluating candidates for Board of Director membership and making recommendations to the Board of Directors;
- evaluating proposals made to the Board of Directors for the appointment and removal of members of executive management;
- ensuring the effectiveness of executive succession and emergency planning processes;
- ensuring compliance with corporate governance disclosure requirements;
- reviewing annually the company's Articles of Association and the Corporate Bylaws and informing the Board of Directors of its findings and proposals;
- reviewing the Group's communication policy;
- monitoring the corporate philosophy, the corporate culture, the corporate social responsibility and the Group's orientation towards sustainability;
- monitoring investor relations activities;
- monitoring the relationship with rating agencies;
- examining how public reports are perceived, especially with regard to whether they fulfill the needs and expectations of international investors;
- monitoring the shareholder structure;

- performing an initial assessment of any merger and take-over proposals submitted to the Group;
- performing an initial review of material transactions with any of the Group's significant shareholders;
- establishing a procedure for the directors to comment on the Board of Directors' performance; and
- reviewing its own performance annually.

### **Executive Committee**

Our Executive Committee is composed of the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, the Chief Risk Officer and the heads of our business functions. The Executive Committee is responsible for management of the Group's operations. Typically, members of the Executive Committee attend the Board of Directors meetings in an advisory capacity. Attendance at committee meetings is normally restricted to those members of executive management with the information and expertise required for the relevant committee to perform its duties. The Executive Committee has, as a rule, two meetings per month, except when the Executive Board meets and in holiday seasons. The Chairman and the Vice-Chairman of the Board of Directors are invited to attend all Executive Committee meetings. In 2006, the Executive Committee met 32 times; it involved the members of the larger Executive Board in 16 of these meetings, some of which extended to two or more consecutive days. One meeting to consider strategic issues was held over a period of four days.

Specific responsibilities of the Executive Committee include:

- submitting proposals to the Board of Directors relating to all matters within its responsibilities, for the Board of Directors' consideration, such as the Group strategy, the business plan, risk tolerances, accounting principles and financial statements;
- approving the strategies, structures and business plans of the global functions and divisions;
- establishing principles on financing through capital markets, financing Group companies and the allocation of financial resources within the Group;
- deciding on individual debt issuances and credit facilities;
- establishing the performance targets for the Group, the global functions and the divisions,
- monitoring performance and taking any necessary related action;
- forming other committees, delegating authorities and responsibilities, and issuing binding Group guidelines;
- deciding on the underwriting authority of the business functions and divisions, and on individual reinsurance transactions exceeding the business function or division's underwriting authority;
- exercising oversight responsibilities in respect of the Group's internal control evaluation and certification process;
- overseeing the implementation of Group compliance procedures, monitoring remediation of identified regulatory and compliance deficiencies and ensuring that appropriate risk management committees are constituted; and
- assuming responsibility for personnel planning and management development of the Group, deciding on promotions to or removals of managing directors, and appointing the responsible actuary.

The following table sets forth the name, age and title of each member of the Executive Committee as at the date of this Offering Memorandum followed by a brief description of each member's business experience and education, including the names of all companies and partnerships of which such person has been a member of the administrative, management or supervisory bodies or partner at any time in the previous five years. The business address of each is Mythenquai 50/60, CH- 8002, Zurich.

Name	Age	Position
Jacques Aigrain <sup>(1)(2)(3)(4)</sup> .....	52	Chief Executive Officer
Andreas Beerli .....	55	Chief Operating Officer
George Quinn <sup>(1)(3)(4)</sup> .....	41	Chief Financial Officer
Christian Mumenthaler <sup>(3)</sup> .....	37	Chief Risk Officer
Michel M. Liès .....	53	Head of Client Markets
Stefan Lippe <sup>(3)</sup> .....	51	Head of Products
Roger Ferguson <sup>(3)</sup> .....	54	Head of Financial Services

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- (1) Advisory member of the Governance Committee
- (2) Advisory member of the Compensation Committee
- (3) Advisory member of the Finance and Risk Committee
- (4) Advisory member of the Audit Committee

**Jacques Aigrain.** Jacques Aigrain was appointed Chief Executive Officer effective January 1, 2006. Prior thereto, he had been appointed to the Executive Board and as head of the Financial Services Business Group when he joined the Group in June 2001, and he had been appointed Deputy CEO in August 2004. Previously, Mr Aigrain worked for JP Morgan in various positions and locations, predominantly in investment banking, capital markets, and mergers and acquisitions. Immediately prior to joining Swiss Re, he was a managing director and a member of JP Morgan's investment banking management committee, where he was co-head of client coverage, responsible for the financial institutions and classical economy sectors. He is also a board member of Swiss International Airlines, a member of the board of the International Association for the Study of Insurance Economics and a member of various advisory committees of a regional or financial nature. His domicile is Küsnacht, Switzerland and his place of origin is Brig-Glis, Switzerland. He is both a Swiss and a French citizen.

**Andreas Beerli.** Andreas Beerli is our Chief Operating Officer and was appointed to the Executive Committee, both as of January 2006. He has been a member of our Executive Board since November 1999. Prior to becoming our Chief Operating Officer he was head of the Americas Division within the Property and Casualty Business Group since January 2000. Mr Beerli joined Swiss Re in 1979, serving in various marketing functions until 1984. He then worked for Credit Suisse in private banking. From 1985 until 1993, he worked for the Baloise Insurance Group where he served in the company's foreign operations. He rejoined Swiss Re in 1993. In 1997, he restructured and integrated the newly acquired Italian reinsurance company Uniorias. In 1998, he assumed the additional position as Head of the Global Clients Unit. Mr Beerli is also a member of the board of the Reinsurance Association of America. His domicile is Oberwil/Lieli, Switzerland and his places of origin are Zurich and Basle, Switzerland. He is a Swiss citizen.

**George Quinn.** George Quinn was appointed as Chief Financial Officer and a member of the Executive Committee effective March 1, 2007. Mr. Quinn joined Swiss Re in Zurich on January 1, 1999 as Chief Accounting Officer. In 2003 he was appointed Chief Financial Officer for the Financial Services business group, a position he held, based in Zurich, until he moved to New York (as Regional Chief Financial Office for Swiss Re Americas) in 2005. Prior to joining Swiss Re, Mr. Quinn worked as a Chartered Accountant in England and Wales for KPMG. His domicile is Horgen, Switzerland. He is a British citizen.

**Christian Mumenthaler.** Christian Mumenthaler joined the Executive Board and the Executive Committee in January 2005 when he became our Chief Risk Officer and Head of Risk and Knowledge Division. As part of the realignment in September 2005, his title was changed to Chief Risk Officer. Mr. Mumenthaler served as an Associate at the Boston Consulting Group before joining Swiss Re in 1999 as manager in Group Strategic Planning. In 2002, Mr. Mumenthaler established a new unit, Group Retro and Syndication, which is responsible for optimising the Group's risk and capital base through retrocession and securitisations. As head of Group Retro and Syndication, he was responsible for a number of innovative capital market transactions, including the first securitisations of mortality risk. He also serves as vice chairman of the International Risk Governance Committee, as well as a member of the World Business Council for Sustainable Development and the Young Global Leaders at the World Economic Forum. His domicile is Winterthur, Switzerland and his place of origin is Murgenthal, Switzerland. He is a Swiss citizen.

**Michel M. Liès.** Michel M. Liès became Head Client Markets Business Function and a member of the Executive Committee in September 2005. He was formerly Head of the Europe Division within the Property & Casualty Business Group (until September 2005). He was appointed to the Executive Board in January 1998 when he was appointed head of the Latin America Division in July 1998. In April 2000, Mr. Liès was appointed head of the Europe Division within the Property & Casualty Business Group. Mr. Liès joined Swiss Re's Life department in 1978. Based in Zurich, he first covered the Latin American market. From 1983 to 1993, he was responsible for the life and health business in France and the countries of the Iberian peninsula and coordinated Swiss Re's life strategy in the European Community member states. In 1994, he transferred to the non-life sector of our Southern Europe/Latin America department, where he was initially responsible for the Spanish market. Mr. Liès was appointed head of the Southern Europe/Latin America department in 1997. He is also a member of the board of the Swiss Insurance Association. His domicile is Gockhausen, Switzerland. He is a Luxembourg citizen.

**Stefan Lippe.** Stefan Lippe became our Head of Products Business Function and a member of the Executive Committee in September 2005. He was appointed to the Executive Board in April 1995. He has been Head of our Property & Casualty Business Group since April 2001. Mr. Lippe joined Bavarian Re in October 1983. In 1986, he became head of Bavarian Re's Non-Proportional Underwriting department. Mr. Lippe was appointed deputy member of Bavarian Re's Management Board in 1988 and a full member of Bavarian Re's Management Board in 1991. His domicile is Wollerau, Switzerland. He is a German citizen.

**Roger Ferguson.** Roger Ferguson was appointed Head of Financial Services and a member of the Executive Committee effective October 3, 2006. Mr. Ferguson joined Swiss Re as Chairman of Swiss Re America Holding in June 2006, he will continue in that role. Prior to joining Swiss Re, Mr. Ferguson served as vice chairman of the board of governors of the US Federal Reserve System from 2001 to 2006, from 1984 to 1997 he was an associate and Partner at McKinsey & Company and from 1981 to 1984 he was an attorney at a NY based law firm. He is also a member of the board of overseers of Harvard University, the board of trustees of the Institute for Advanced Study and the Council on Foreign Relations and the Group of Thirty. His domicile is Washington, DC, USA. He is an American citizen.

## Executive Board

Our Executive Board is currently made up of twenty-one senior executive officers, and includes all of the members of the Executive Committee. From the beginning of 2004 through the date of this Offering Memorandum, our Executive Board membership has been between eighteen and twenty-one members. Members of the Executive Board are appointed by the Board of Directors upon recommendation of the Chief Executive Officer and after consultation with the Compensation Committee. The Executive Board is headed by the Chief Executive Officer and includes the heads of each of our divisions. The Executive Board, among other things, supports the Executive Committee, reviews group and global function strategies, considers the group's annual plan before it is submitted to the Board of Directors and establishes and aligns the business policies of the group.

The following table sets forth the name, age and title of each member of the Executive Board (other than members of the Executive Committee—see above) as at the date of this Offering Memorandum, followed by a brief description of each member's business experience and education, including the names of all companies and partnerships of which such person has been a member of the administrative, management or supervisory bodies or partner at any time in the previous five years. The business address of each is Mythenquai 50, CH-8002 Zurich.

Name	Age	Position
Martin Albers .....	46	Head Europe—Client Markets
Markus Diethelm .....	49	Chief Legal Officer
Agostino Galvagni .....	46	Head of Globals & Large Risks—Client Markets
Brian Gray .....	44	Head Property & Specialty—Products
Charlotte A. Gubler .....	54	Head of Communications & Human Resources
Benjamin Meuli <sup>(1)</sup> .....	50	Head of Asset Management—Financial Services
Jonathan Isherwood .....	41	Head of Claims and Liability Management—Products
Alberto Izaga .....	36	Head of Life & Health—Products
Philip Lotz .....	50	Head of Capital Markets and Advisory—Financial Services
Martin Oesterreicher .....	52	Head of Casualty—Products
Pierre L. Ozendo .....	56	Head of Americas Property & Casualty—Client Markets
Martyn Parker .....	49	Head of Asia—Products
W. Weldon Wilson .....	46	Head of Americas Life & Health and Admin Re—Client Markets
Yury Zaytsev .....	57	Head of Information Technology

(1) Advisory Member of the Finance and Risk Committee

**Martin Albers.** Martin Albers assumed his current position in September 2005. He was appointed to the Executive Board in January 2002 and as Head of Risk Solutions in the Financial Services Business Group in June 2002. Mr. Albers joined Swiss Re as head of Product Controlling in 1994, after having worked for over three years with Boston Consulting Group. In 1996 he became Head of Property and Casualty business in Canada and, in 1999, the United Kingdom. His domicile is Zurich, Switzerland and his place of origin is Zurich, Switzerland. He is a Swiss citizen.

**Markus Diethelm.** Markus Diethelm was appointed to the Executive Board effective January 1, 2007. He has been our Chief Legal Officer since he joined Swiss Re in April 1998. Prior to joining Swiss Re, Mr. Diethelm was a corporate lawyer in private practice. Mr. Diethelm is a member of the Board of Overseers of

the RAND Corporation's Institute for Civil Justice and is also a member of the Chief Legal Officers of the 21st Century Advisory Group, which is part of the Chief Legal Executive LLC. His domicile is Zurich, Switzerland. He is a Swiss Citizen.

**Agostino Galvagni.** Agostino Galvagni joined the Executive Board in September 2005 as Head of Globals & Large Risks in the Client Markets business function. Mr. Galvagni joined Bavarian Re as a trainee and he undertook various activities in the fields of underwriting and marketing as well as project work while at Bavarian Re. In 1998, Mr. Galvagni joined Swiss Re New Markets in New York and was involved in structuring and marketing insurance-linked and asset-backed securities. In 1999, he returned to Bavarian Re as a Member of the Board of Management with responsibility for P&C Treaty profit centre (Belgium, France, Greece, Italy, Luxembourg) and Facultative Property profit centre (Europe). In 2001, Mr. Galvagni re-joined Swiss Re, Zurich as Head of the "Globals" Business Unit and member of the Executive Team of Europe Division (P&C), with profit centre responsibility for European Global Clients (Headquarters). His domicile is Pfäffikon, Switzerland. He is an Italian citizen.

**Brian Gray.** Brian Gray joined the Executive Board in September 2005 as Head of Property and Specialty in the Products business function. Mr. Gray joined Swiss Re in 1985 and worked in a variety of underwriting and marketing roles for us in Toronto. In 1994, he moved to Zurich when he joined the former Asia-Pacific/Africa division and also undertook certain corporate integrated risk management functions. Mr. Gray returned to Swiss Re in Canada in 1997, when 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, a position he held until September 2005. His domicile is Rüschlikon, Switzerland. He is a Canadian citizen.

**Charlotte A. Gubler.** Charlotte A. Gubler joined the Executive Board when she became Head of Communications and Human Resources in January 2005. Ms. Gubler joined Swiss Re in 1993 as Senior Credit Risk Manager in the Credit & Surety department. In 1995, she was appointed to establish a global Credit Risk Management Function, first for our initial Alternative Risk Transfer Division and subsequently for the entire Swiss Re Group. In 2000, she became a Member of the Executive Team of Financial Services Business Group and Head of Credit Solutions, a business sector of Swiss Re, which encompasses the global credit risk underwriting business of the company. Her domicile is Uitikon, Switzerland and her place of origin is Frauenfeld, Switzerland. She is a Swiss citizen.

**Jonathan Isherwood.** Jonathan Isherwood was appointed Global Head of Claims and Liability Management Products and to the Executive Board effective January 1, 2007. Mr. Isherwood joined Swiss Re as Head of Product Integration following the Insurance Solutions Acquisition, effective June 2006. Prior to joining Swiss Re, he led the Global Property Division and Risk Management team at Insurance Solutions since 2000. Mr. Isherwood also held positions at GE Capital as an audit/consulting team leader (1994-2000) and Ernst & Young as a consultant (1991-1994). His domicile is Munich, Germany. He is a British citizen.

**Alberto Izaga.** Alberto Izaga joined Swiss Re and was appointed to the Executive Board in June 2006 as Head of Life & Health Products in connection with the Insurance Solutions Acquisition. Prior to joining Swiss Re, he held various positions within General Electric since 1998, most recently serving as President and CEO Life & Health Europe from 2003, as CEO Life & Health Continental Europe in London from 2002 to 2003, and as a Vice President of Business Development. He is also a member of the Board of the Association of British Insurers. His domicile is London, the United Kingdom. He is a Spanish Citizen.

**Philip Lotz.** Philip Lotz was appointed to the Executive Board effective January 1, 2007. He has been the Chief Executive Officer of CMA since April 1, 2003. Mr. Lotz joined Swiss Re as co-founder of Swiss Re Financial Products in 2000. Prior to joining Swiss Re Mr. Lotz was associated with Greenwich Capital Markets, Connecticut from 1984 to 1996, when he became Managing Director for Greenwich NatWest in London. His domicile is New Canaan, Connecticut, USA. He is a U.S. citizen.

**Benjamin Meuli.** Benjamin Meuli joined Swiss Re and was appointed to the Executive Board in April 2004 when he assumed his current position as Head of Asset Management—Financial Services and Chief Investment Officer. Prior to joining Swiss Re he had a 20 year career with Morgan Stanley, where he became managing director, in charge of the European Debt Capital Markets and the European Financial Institutions Group. He also held the positions of chief executive of JP Morgan Life Assurance Ltd and chief operating officer of the global fixed income division. In 1998 he joined Morgan Stanley as managing director with primary responsibility for investment banking, fixed income, equities, real estate, and associated asset and liability management issues linked to large multinational insurance groups. He also serves as a director of SCI Château des Roches, SCA Domaine des Roches and SAS MBF. His domicile is Pfäffikon, Switzerland. He is a British citizen.

**Martin Oesterreicher.** Martin Oesterreicher joined the Executive Board in September 2005, when he became Head of Casualty in the Products business function. Prior to joining Swiss Re, Mr. Oesterreicher worked in the steel industry. He joined Swiss Re in 1978 as a member of the Non-Proportional Property Treaty department. Since that time, he has worked in both the products/underwriting divisions and in various client market areas. From 1983 to 1989 Mr. Oesterrericher worked in Tokyo and from 1989 to 1992 he worked in Zurich in marketing for the Japanese and South Korean non-life market. In 1992 he moved to the department for Germany, Central and Eastern Europe, and was appointed head of that department in 1997. In 1998 he joined the Executive Team of the Europe Division with primary responsibility for Property and Casualty. Since 2001 he has served as Divisional Underwriting Officer for the Europe Division of the non-life market. Since 2005, he has served as a director of AWAC, Bermuda. His domicile is Mellingen, Switzerland and his place of origin is Müllheim, Switzerland. He is a Swiss citizen.

**Pierre L. Ozendo.** Pierre L. Ozendo was appointed to the Executive Board in July 1996. He joined the Swiss Re Group in 1995, taking on an assignment as chief executive officer of the subsidiary Union Re, effective 1 January 1996. Following Union Re's integration with Swiss Re, he was named Head of the Group's Asia Division in 1998. Before joining Swiss Re, Mr. Ozendo worked for General Re from 1975 to 1995. In 1986 he moved to Switzerland as General Manager of General Re (Europe) in Zurich. He was appointed president and managing director of General Re Europe Limited in 1994. Mr. Ozendo was previously employed as an underwriter by the New York Life Insurance Company in San Francisco. He also serves as a vice chairman of the Evian Group and as a board member for the International Insurance Society. His domicile is White Plains, New York, USA. He is an American and a French citizen.

**Martyn Parker.** Martyn Parker joined the Executive Board in September 2005, when he became the Head of Life & Health in the Products business function. He has worked in the administration, underwriting and claims management sectors of the reinsurance industry since 1974. Prior to joining Swiss Re, Mr. Parker worked at Mercantile & General Re, and he joined Swiss Re in connection with our acquisition of Mercantile & General Re in 1996. He has over 30 years of life reinsurance experience and has held a number of senior and international positions including leading marketing efforts in Asia based in Singapore, and as the Chief Executive of the South Africa Life Company (based in Cape Town) and Chief Executive of the European Division—non-life. He is also a director for Phoenix Travel Limited, Life Assurance Holding Corporation Limited, Windsor Life Assurance Company and Mercantile & General Re. His domicile is London. He is a British citizen.

**W. Weldon Wilson.** W. Weldon Wilson was appointed to the Executive Board in September 2003 with responsibility for the Americas Division of the Life & Health Business Group. He previously served as Executive Vice President and head of the business engineering services unit, where he was responsible for overseeing the firm's Admin Re programme as well as other non-traditional reinsurance solutions for life and health clients in North America. Mr. Wilson has been associated with Swiss Re, and previously Life Reinsurance Corporation of America, since 1991 as general counsel, secretary and director of Swiss Re Life & Health America Inc. and its subsidiaries. His domicile is Redding, Connecticut, USA. He is an American citizen.

**Yury Zaytsev.** Yury Zaytsev was appointed to the Executive Board and named the Head of Information, Processes & Technology Division in June 1999. He joined Swiss Re in 1992 as head of corporate information resource for U.S. subsidiaries. In 1995, he was put in charge of Group Information and Technology and the Group's Data Centre. Prior to joining Swiss Re, Mr. Zaytsev developed the IT system for the 1980 Olympic Games in Moscow. He then emigrated to the U.S., where he first worked as an IT project manager for the retail group K-Mart. He then spent seven years working for the American International Group, where he handled the firm's domestic and international IT applications. His domicile is Rüschlikon, Switzerland. He is an American citizen.

## **Remuneration of the Board of Directors and the Executive Committee**

### **Compensation of Directors and Executive Officers**

We paid an aggregate of CHF 71.23 million for fiscal 2006 (CHF 48.69 million for fiscal 2005) to the members of our Executive Committee and our Board of Directors for services in all capacities, of which CHF 5.33 million (CHF 9.84 million for fiscal 2005) represented bonuses taken in blocked shares and CHF 13.56 million represented amounts set aside to provide for pension, retirement and similar benefits. These amounts include all remuneration components. Cash payments, allowances, value of preferential rates on loans other financial benefits, as well as the amount of actuarial funding needed for pensions, are included in this

figure. In addition, Executive Committee members were granted long-term incentive units at a grant value of CHF 8.76 million. The new long-term incentive plan superseded stock options as a remuneration instrument for 2006 onwards. We do not have a separate pension plan for members of the governing bodies.

Compensation of the Chairman of the Board of Directors, the Executive Vice Chairman, the Chief Executive Officer and other members of the Executive Board is set by our Compensation Committee, on the basis of their performance. The Compensation Committee also recommends to the Board of Directors the remuneration of the other members of the Board of Directors. The Committee convenes three to four times a year and presents its proposals to the full Board of Directors for approval. Committee is responsible for developing and implementing the compensation principles and approving compensation plans. We have a “pay for performance” philosophy. The Executive Board is paid a base salary and variable bonus. The fixed salary consists of a cash payment, while the bonus can be either in cash or shares that are deferred for four years. In 2006, the Compensation Committee retained Mercer Human Resource Consulting, New York as an independent expert that provide advice regarding best practice and the levels of compensation, including comparisons with a peer group of companies.

Effective April 22, 2006, the members of the Board of Directors receive a compensation of CHF 325,000 per annum (previously CHF 250,000). A minimum of 40% of the honorarium must be taken in shares of our stock with a four-year deferral period. The Chairman of the Board, the Executive Vice Chairman and the Chairman of the Audit Committee receive a higher compensation to reflect their greater responsibilities and engagements. The Chairman of the Board and the Executive Vice Chairman are, in addition, eligible for a variable payment based on the company’s performance. The non-executive members are not eligible for any pension benefits or long-term incentive plans.

The members of the Executive Committee are paid a base salary as well as a variable annual performance incentive (bonus), and participate in our new long-term incentive plan. The fixed salary is paid in cash, while the bonus consists of a current portion (which can be elected either in cash or deferred shares with a blocking period of four years) and a delayed portion which is allocated to a newly introduced value alignment incentive plan (“VAI”). Under the VAI, 45% of the bonus for members of the Executive Board and 60% of the bonus for the CEO are automatically allocated to the VAI. The VAI was introduced during 2006 to support our philosophy of carrying appropriate reserves. It links the final bonus to be paid to an executive to the development of prior year claims over a three-year period. The part of the bonus which is allocated to the VAI is multiplied by a factor that varies between 62.5% and 187.5%, linked to the surplus or deficiency of the claims provisions set at the end of the current financial year (after a three-year development period). The VAI is paid in cash at the end of the three-year period.

We have stopped granting employee stock options on a regular basis. Instead our new long-term incentive plan was introduced in 2006 for a select group of senior executives. The plan contains performance criteria based on a matrix of average return on equity and compound earnings per share growth over a three-year period, thereby aligning it with shareholder interests. The long-term incentive grant is denominated in units consisting of the grant amount divided by the share price at the grant date. The initial grant for the members of the Executive Committee was CHF 8.76 million or 97,450 units for the year ended December 31, 2006, based upon the share price of CHF 89.9 at the March 3, 2006 grant date. The final payout will be the number of units multiplied by the share price at the end of the three-year period and by a factor that can vary between 0% and 200% (based a matrix of average ROE and compound earnings per share growth over the three-year period).

The Executive Board’s performance assessment is based on annual objectives involving financial and qualitative elements. The bonuses distributed for a year’s service are paid in March of the following year. All amounts disclosed relate to performance for fiscal 2006 with some elements credited in March 2007.

The following tables show all remuneration components except for shares and options, which are shown separately, for the executive members (acting and former) of Executive Board and for the non-executive members of the Board of Directors. Cash payments, allowances, variable pay, value of preferential rates on loans, other financial benefits, as well as the amount of actuarial funding needed for pensions, are included in the totals. We do not have a separate pension plan for members of the governing bodies.

	Year Ended December 31,	
	2005	2006
	(CHF in millions)	
<b>Executive Members (Executive Vice Chairman and 8 Executive Committee members)</b>		
Base salary and allowances .....	15.09	14.23
Variable Pay .....	19.06	34.25
Cash bonus (included in variable pay) .....	11.30	19.59
Bonus shares (included in variable pay) .....	7.76	2.62
VAI (include in variable pay) .....	0.00	12.04
LTI fair value earned in 2006 (included in variable pay) .....	0.00	6.07
Compensation due to member leaving <sup>(1)</sup> .....	0.00	6.07
<b>Subtotal</b> .....	<u>34.15</u>	<u>54.55</u>
Accelerated Actuarial funding of pension benefits .....	9.54	10.30
<b>Total</b> .....	<u>43.69</u>	<u>64.85</u>

(1) The member who left the Executive Committee in 2006 had an expatriate contract which contained tax equalisation provisions between his home country and the country where he resided. The amount is strongly impacted by such tax effects, some of which span over several years.

In addition, the estimated fair value of the long-term incentive units granted to 6 members of the Executive Committee was CHF 14.54 million as of December 31, 2006. This fair value was estimated based upon the actual results for 2006 and the forecast results for 2007 and 2008. It will change based upon the actual results in 2007 and 2008,

The 2006 disclosure for non-executive members relates to 12 members, compared to 10 members in 2005.

	Year Ended December 31,	
	2005	2006
	(CHF in millions)	
<b>Non-Executive members (Board of Directors)</b>		
Honorarium .....	1.92	2.67
Cash bonus .....	1.00	1.00
Deferred and non deferred shares .....	2.08	2.71
<b>Total</b> .....	<u>5.00</u>	<u>6.38</u>

	Year Ended December 31, 2006
	(CHF)
<b>Compensation for former members of governing bodies:</b>	
3 executive members .....	162,962
non-executive members .....	None
<b>Total</b> .....	<u>162,962</u>

All shares awarded to the Executive Board are subject to a four year deferral. The bonus plan stipulates that Executive Board members must decide on the final split between cash and shares by April. To reflect the deferred nature of these shares a discount of 6% per annum was applied, leading to a value of CHF 82.1 which has been used to determine the amount of compensation shown in the table above. This value is equal to the taxable value of the shares in Switzerland. At the end of the four-year deferral period the number of shares will be increased by 25%.

Members of the Board of Directors receive 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. The share price at March 3, 2006 of CHF 89.9 has been used for calculating the number of shares awarded based

upon the amount of the honorarium received in shares. The discounted taxable value of CHF 71.2 at March 3, 2006 has been used to determine the amount of compensation shown in the table above.

The total shown in the tables above includes all the remuneration components except for restricted shares and options, which are shown separately below. We do not have a separate pension plan for members of the governing bodies. Actuarial funding can vary substantially from year to year, depending on age and years of service of the benefiting Executive Committee members.

The following table shows share allotment for Executive and Non-executive members of the Board of Directors and the Executive Board

	Year Ended December 31, (Number of deferred shares held)	
	2005	2006
<b>The bonus shares allotted representing the variable pay shown above are as follows:</b>		
9 executive members (2005:9) .....	101,871	31,968
12 non-executive members (2005: 10) .....	26,252	38,090
<b>Total</b> .....	<b><u>128,123</u></b>	<b><u>70,058</u></b>

The following table shows the number of shares held by our executive and non-executive members of the Board of Directors and the Executive Board. In addition to those shares held by the person in question on the reporting date, shareholdings consist of any shares held by such person's spouse, minors, and of directly controlled companies.

	As of December 31, 2006 (Number of shares held)	
	2005	2006
<b>Share ownership</b>		
Executive members (7) .....	479,804	
Non-Executive members (11) .....		290,707
<b>Total</b> .....		<b><u>770,511</u></b>

### Options to Purchase Shares

We maintain various incentive plans for our employees. Our stock incentive plans provide for awards that can be exercised for cash or shares and include our long-term equity award programme, the fixed option plan and an additional grant to certain members of executive management. As of January 1, 2004, employees have the option of receiving options or, alternatively, one restricted share per four options such employee is entitled to receive. We also maintain a discount company stock purchase plan for all employees of the Group. Under our stock option plan, we grant options to members of the Executive Board and certain members of management. We had options to purchase an aggregate of 12,046,816 shares outstanding as of December 31, 2006. Of these, options to purchase on aggregate of 1,668,100 shares were held by members of our Executive Board and Board of Directors. The table below shows the exercise prices and expiration dates for the options to purchase shares. Options vest after four years, except in cases of earlier death. The following tables show information regarding the number and terms of options outstanding to purchase our shares.

Grant Year	Strike Price (CHF)	Weighted Average Strike Price (CHF)	Option Term	Number of Options Allocated as of Date of Grant	Number of Options Outstanding as of 12/31/06
1997	74.35	82	2007	140,000	78,040
1998	152	167	2008	623,040	497,000
1999	162.7	156	2009	990,200	823,500
2000	128.35	146	2010	1,628,720	1,360,600
2001	186	179	2011	1,941,660	1,173,060
2002	144.25	148	2012	1,985,513	1,825,980
2003	67.65	72	2013	2,049,900	1,982,400
2004	93	93	2014	2,009,210	2,009,210
2005	93	93	2015	2,215,226	2,197,026
2006	94	94	2016	100,000	100,000
Total				13,683,469	12,046,816

### Options

#### Executive Members

Strike price:	67	74	91	93	128	144	152	162	181
Grant Year									
1997 (2)			18,000						
1998 (5)							41,400		
1999 (5)								64,200	
2000 (4)					90,000				
2001 (5)									287,000
2002 (7)						198,500			
2003 (7)		245,000							
2004 (5)				162,000					
2005 (4)			165,000						

(In brackets: number of participating members)

#### Non-Executive members

Strike price:	78	83	93	128	144	152	162	186
Grant Year								
1998 (1)						11,000		
1999 (1)							12,000	
2000 (1)				24,000				
2001 (1)								40,000
2002 (1)					40,000			
2003 (1)	120,000							
2004 (1)			60,000					
2005 (2)		90,000						

(In brackets: number of participating members)

All 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, i.e. each option entitles the beneficiary to purchase one share at an unadjustable strike price. In addition to the above, 100,000 options with a strike price of CHF 94 were granted to a former executive member, who left Swiss Re during 2006.

### Restricted shares

In 2004 and 2005, the beneficiaries of the long-term incentive award programme were given a choice of receiving options or restricted shares. Those electing to receive restricted shares received one restricted share for each four stock options they otherwise would have been granted. The restricted shares vest after four years. During the vesting period, there is a risk of forfeiture.

#### Executive members

	Share price as of date of grant (CHF)	
	93	83
<b>Grant year</b>		
2004 (2) .....	8,750	
2005 (5) .....		38,750

#### Non-Executive members

	Share price as of date of grant (CHF)	
	93	83
<b>Grant year</b>		
2004 (1) .....	10,000	
2005 (1) .....		5,000

#### Additional fees and remuneration

We did not pay any honorariums (e.g. consultancy fees) or other remuneration billed to any member of a governing body, or parties closely linked to such persons for additional services performed during 2006, in the case of sums exceeding half of the ordinary remuneration of the member in question.

#### Loans to members of governing bodies

	(CHF in millions)
Mortgages and loans to 5 Executive members .....	12.1
Mortgages and loans to Non-Executive members .....	none

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 our 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.

#### Highest total compensation

The compensation of the highest paid member of the Board of Directors (Peter Forstmoser) during 2006 can be broken down as follows:

	Number of shares	(CHF in millions)
Compensation .....		1.70
Number of shares .....	16,409	

The shares awarded have a discounted value of CHF 82.10. The share price of March 2, 2007 will be used for the actual allocation of the shares.

## **Potential Conflicts of Interest**

None of the members of the Board of Directors (current or expected to be proposed) or Executive Board (current or expected) have any private interest or other duties which conflict or could potentially conflict with their duties to us.

## **Employment and Service Agreements**

Generally, the members of the Executive Committee and the Executive Board have employment letters. Our Executive Board members who are U.S. residents are “employees at will” and have no employment letters. The members of the Board of Directors have service agreements, except for the Executive Vice Chairman who has an employment agreement. The employment letters and service agreements contain customary terms such as function and title, place of employment, remuneration, allowance compensation, social security, fringe benefits, vacation, insurance, covenants as to confidentiality, duties and a notice period. None of the employment letters or service contracts provide for benefits upon termination of employment or service, other than benefits provided upon termination of service under traditional pension schemes in the country of employment.

## **Employee Pension Plans**

We sponsor various funded defined benefit pension plans covering the majority of our worldwide operations. 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. Our 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. We also provide certain health-care and life insurance benefits for retired employees and their dependents. Employees become eligible for these benefits when they become eligible for pension benefits. The measurement date of these plans is 30 September for each year. See Note 11 to our audited financial statements included elsewhere in this Offering Memorandum for details regarding the balance outstanding under each such plan.

## **Corporate Governance**

In addition to the relevant provisions in the Swiss Code of Obligations, two sets of rules regarding corporate governance were introduced in Switzerland in July 2002: the Swiss Code of Economiesuisse, the largest umbrella organisation representing Swiss business establishments and the Directive on Information Relating to Corporate Governance of April 17, 2002 of the SWX Swiss Exchange (the “CGD”). The Swiss Code of Economiesuisse is non-binding and recommends good corporate standards in line with international business practice. The CGD is binding for Swiss companies whose shares are listed on the SWX Swiss Exchange and requires them to disclose important information on the management and control mechanisms at the highest corporate level (or to give specific reasons why this information is not disclosed). We are in compliance with the provisions of the Swiss Code of Obligations relating to corporate governance and the CGD.

Under the current Swiss corporate law and the SWX Swiss Exchange rules, no general duty relating to the individual disclosure of salary and benefits information for the members of the Board of Directors and senior managers of an issuer exists. Pursuant to the CGD, each issuer incorporated in Switzerland whose shares are listed on the SWX Swiss Exchange required to disclose certain information about compensation and remuneration in its annual report. On October 7, 2005, an amendment to the Swiss Code of Obligations was passed by the Swiss parliament establishing a duty to disclose the salary and other remuneration of, as well as the granting of loans and credits to, the current and former members of the Board of Directors and senior managers on an aggregate and individual basis in the notes to the annual financial statements. Effective January 1, 2007, we are subject to a duty to disclose.

## **Auditing Fees**

The following summarises fees for professional services for the year ended December 31, 2006.

### **Audit Fees**

PricewaterhouseCoopers .....	CHF 32.9 million
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### **Audit Related Fees**

PricewaterhouseCoopers .....	CHF 3.8 million
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Audit related fees comprise, among other things, amounts for due diligence reviews, comfort letters, accounting advice, information systems reviews and reviews on internal controls.

#### **Additional Fees**

In addition to the fees described above, aggregate fees of CHF 4.2 million were billed by PricewaterhouseCoopers during the year ended December 31, 2006, primarily for the following:

##### **Income tax compliance and related tax services**

PricewaterhouseCoopers .....	CHF 2.5 million
------------------------------	-----------------

##### **Other fees**

PricewaterhouseCoopers .....	CHF 1.7 million
------------------------------	-----------------

Other fees comprise advisory work related to a range of projects. In 2006, these included work in connection with the restructuring of certain reinsurance entities, including the Mercantile & General Solvent scheme of arrangement in the UK, and review of selected reporting processes.

#### **Supervisory and Control Instruments vis-à-vis the External (Independent) Auditor**

Our Board of Directors has established the Audit Committee, which historically holds at least four meetings a year and to which the two head auditors are regularly invited as advisory guests. The Audit Committee held six regular and three extra meetings in 2006. Beginning in 2007, the Audit Committee will meet eight times a year. The Audit Committee's responsibilities with respect to the external auditor include:

- annually evaluating the external auditor;
- recommending one firm to the Board of Directors for election at the following annual general meeting of shareholders;
- consulting the auditor in respect of significant risks, contingencies or other obligations of the company;
- reviewing and approving the planned audit services and discussing the audits with the auditor;
- approving in advance non-audit services expected to be provided by the auditor, including reviewing and approving other non-audit services that have been pre-approved by the Chairman of the Audit Committee between Audit Committee meetings;
- reviewing major changes to the company's accounting principles and practice brought to its attention by the auditor;
- reviewing the adequacy and efficacy of the financial reporting process, the system of internal controls and quality control procedures, as well as any other significant findings and recommendations provided by the auditor;
- periodically meeting, at least annually, with the auditor to review any significant disagreement between management and the auditor, if and when such disagreements arise;
- discussing the results of the annual audit with the auditor, and in particular the auditor's report on the financial statements, necessary changes in the audit plan, critical accounting policies and alternative accounting treatments that have been discussed with management, including the consequences of using such alternatives;
- discussing other material written communications with management, such as management letters and management's responsiveness to such letters, or schedules of unadjusted differences;
- requesting that the auditor, at least once a year, supply a formal written statement delineating all relationships with the company that might affect auditor independence;
- actively engaging in a dialogue with the auditor in respect of any disclosed relationships or services that might impact the auditor's objectivity and independence, and recommending to the Board of Directors appropriate action in response to the aforementioned statement;
- obtaining 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; and
- reviewing the audit fees and the fees paid to the auditor in respect of non-audit services to consider if the levels of fees is appropriate.

### **Convictions, Public Incriminations and Bankruptcies**

There have been no convictions in relation to fraudulent offenses or official public incriminations or sanctions of any member of our Board of Directors or Executive Board by statutory or regulatory authorities (including designated professional bodies), and these persons have never been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer, for at least the past five years. There have been no bankruptcies, receiverships or liquidations with which any member of our Board of Directors or Executive Board acting in the capacity of a member of the administrative, management or supervisory bodies, partner, founder or senior manager of the entity concerned, was associated, for the past five years.

## PRINCIPAL SHAREHOLDERS

The aggregate number of options and shares held by members of our Board of Directors and Executive Committee as of March 7, 2007 represented less than 1% of our total equity capital.

Under the applicable provisions of the Swiss Stock Exchange Act, shareholders and groups of shareholders acting in concert who, directly or indirectly, reach, exceed or fall below the thresholds of 5%, 10%, 20%, 33 1/3%, 50% or 66 2/3% of the voting rights of a Swiss listed corporation must notify the corporation and the SWX Swiss Exchange, whether or not their voting rights can be exercised. Following receipt of this notification, the corporation must inform the public of the notification. Further, investors that hold or intend to acquire a qualifying interest in our shares may be subject to notification or approval requirements under applicable local insurance or other financial services regulations.

As of the date of this Offering Memorandum, The Capital Group Companies, Inc. ("The Capital Group") (333 South Hope Street, Los Angeles, CA 90071, USA) has notified us that it holds a reportable amount of our shares. The Capital Group notified us on November 22, 2005, that it held indirectly through its subsidiaries Capital Research and Management Company (333 South Hope Street, Los Angeles, CA, USA), Capital Guardian Trust Company (11100 Santa Monica Blvd 15th Fl., Los Angeles, CA, USA), Capital International Limited (25 Bedford St., London, England), Capital International Inc. (11100 Santa Monica Blvd 15th Fl., Los Angeles, CA, USA) and Capital International S.A. (3, place des Bergues, 1201 Geneva, Switzerland) as asset manager for investment funds and customers 16,438,374 shares, representing 5.10% of our shares and voting rights. The shares held by this company have not been registered under it or its subsidiaries' names, and therefore we are unable to independently track changes in this shareholder's aggregate holdings. We do not have to file a cross-shareholding report with respect to either of these companies as we do not own 5% of more of either of their shares or voting rights.

Following the completion of the Insurance Solutions Acquisition, General Electric Company (3135 Easton Turnpike, Fairfield, Connecticut 06828, USA) has notified us that it held, directly or indirectly through group subsidiaries, 33,300,957 Swiss Re shares on December 31, 2006, representing 8.89% of our shares and voting rights. On March 6, 2007, GE settled the sale of this equity stake, and we repurchased 16,650,479 of those shares. As a result, GE's ownership of our shares has fallen below the 5% threshold and we had 32,951,863 own shares (treasury shares without voting rights), which represents 8.8% of the voting rights relative to our 374,440,378 issued shares as currently registered in the commercial register.

We do not have to file a cross-shareholding report with respect to either of the above companies as we do not own 5% of more of either of their shares or voting rights.

Each of our shares carries one vote. None of our principal shareholders has different voting rights.

## TAXATION

### Swiss Tax Disclosure

#### General

The following summary does not purport to address all tax consequences of the acquisition, ownership and disposal of Loan Notes, and does not take into account the specific circumstances of any particular investor. This summary is based on the tax laws, regulations and regulatory practices of Switzerland and a tax ruling with the Swiss federal tax administration as in effect on the date hereof, which are subject to change (or subject to changes in interpretation), possibly with retroactive effect.

Loan Noteholders or prospective Loan Noteholders are advised to consult their own tax advisers in light of their particular circumstances as to the Swiss tax laws, regulations and regulatory practices that could be relevant for them in connection with acquiring, owning and disposing of Loan Notes and receiving interest, principal or other payments on the Loan Notes and the consequences of such events under the tax laws, regulations and regulatory practices of Switzerland.

#### Issuance Stamp Tax, Withholding Tax and Securities Turnover Tax

Under the conditions that the aggregate number of Loan Noteholders under the Loan Notes which are not Qualifying Banks (as defined in the Conditions) will not at any time exceed ten and the aggregate number of our lenders (including Loan Noteholders) which are not Qualifying Banks (as defined in the Conditions) under all outstanding loans (including intra-Group), facilities and/or private placements (including under the Loan Notes) will not at any time exceed twenty, the issuance of the Loan Notes will neither be a taxable event for purposes of the Swiss Issuance Stamp Tax (Emissionsabgabe) nor for purposes of the Swiss Securities Turnover Tax (Umsatzabgabe). Subject to the same limitations, payments on the Loan Notes will not be subject to the Swiss Withholding Tax (Verrechnungssteuer), and dealings in the Loan Notes after issuance will not be subject to the Swiss Securities Turnover Tax. The Conditions require all Loan Noteholders and us to comply at all times with such limitations on lenders that are not Qualifying Banks (as defined in the Conditions).

#### Swiss Federal, Cantonal and Communal Income Taxation

##### *Non-Resident Loan Noteholders*

Payments under the Loan Notes to a Loan Noteholder who is not resident in Switzerland for tax purposes, and who, during the relevant taxation year, has not engaged in a trade or business through a permanent establishment or fixed place of business in Switzerland for tax purposes, and who is not subject to corporate or individual income taxation in Switzerland for any other reason will not be subject to any Swiss federal, cantonal or communal income tax, capital tax or wealth tax.

##### *Resident Loan Noteholders and Loan Noteholders with a Trade or Business in Switzerland*

Loan Noteholders who hold Loan Notes as part of a trade or business in Switzerland for tax purposes, in the case of residents abroad carried on a permanent establishment or a fixed place of business, are required to recognise payments on the Loan Notes and capital gains or losses realised on the disposal of Loan Notes in their income statement for the respective taxation period and are subject to Swiss federal, cantonal and communal corporate or individual income tax, as the case may be, on any net taxable income (including payments on the Loan Notes and capital gains or losses realised on the disposal of Loan Notes) for such taxation period. The same taxation treatment also applies to Swiss-resident private individuals who, for income tax purposes, are classified as "professional securities dealers" for reasons of, *inter alia*, frequent dealing, or leveraged investments, in securities.

Private individuals resident in Switzerland and holding Loan Notes as part of their private fortune, are required to include interest payments (but not repayment of principal) on the Loan Notes in their personal income tax return and are subject to Swiss federal, cantonal and communal income tax on any net taxable income (including the interest payments (but not repayment of principal) on the Loan Notes) for the relevant taxation period. For private individuals capital gains resulting from the disposal of Loan Notes are not subject to Swiss federal, cantonal and communal income tax; this is also the case for accrued interest. Capital losses are not tax-deductible. Swiss resident private individuals who hold the Loan Notes as part of their private fortune are required to report their Loan Notes as part of their taxable wealth and will be subject to cantonal and communal wealth tax, provided that their net taxable wealth (including the Loan Notes) exceeds applicable allowances or levels.

## OFFERING AND TRANSFER RESTRICTIONS

### Generally

The outstanding Loan Notes may only be held by Qualifying Banks (as defined in the Conditions of the Loan Notes) and one single Permitted Non-Qualifying Lender (as defined in the Conditions of the Loan Notes). No Loan Noteholder will be permitted to sub-participate or sub-contract its obligations under the Loan Notes. The Loan Notes may not be resold or otherwise transferred except upon delivery by the transferee to the Agent of a certification, in form and substance satisfactory to the Registrar, that such transferee is a Qualifying Bank or the Permitted Non-Qualifying Lender and is acquiring the Loan Notes in compliance with applicable securities laws.

The Loan Notes will be issued in certificated, registered form, and will bear a legend setting forth the applicable transfer restrictions.

Prospective investors understand and agree that the Loan Note(s) will be sold, and may be held or transferred, only in denominations of at least £50,000, all in accordance with the transfer restrictions in Condition 9 of Terms and Conditions of the Notes. Further, the Loan Note(s) may only be transferred together with the €1,000,000,000 5.252% Perpetual Subordinated Step-Up Loan Notes issued by the Issuer in May 2006 or with the prior written consent of the Issuer.

### U.S. Securities Law and Other U.S. Restrictions

The Loan Notes have not been, and will not be registered, under the Securities Act and may not be resold in the United States.

In all events, because the Loan Notes will likely be treated as an equity security for U.S. federal income tax purposes and an investment in a ‘passive foreign investment company’ they may be unsuitable as investments by taxable U.S. holders. We will not provide to holders the ‘PFIC Annual Information Statement’ that would enable such holders to make a ‘qualified electing fund’ election under Section 1295 of the U.S. Internal Revenue Code of 1986.

Employee benefit plans subject to Title I of the U.S. Employee Retirement Income Security Act of 1974 and/or Section 4975 of the U.S. Internal Revenue Code of 1986 (collectively, “ERISA Plans”), and person investing with assets of, or on behalf of, any ERISA Plan will not be permitted to purchase or hold the Loan Notes, and each investor, by its purchase or holding of the Notes, will be deemed to have represented to us that such investor is not an ERISA Plan, and is not investing with the assets of, or on behalf of, any ERISA Plan.

### Other Restrictions

This document is directed only at persons who (i) are outside the United Kingdom or (ii) have professional experience in matters relating to investments or (iii) are persons falling within Articles 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc”) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as “relevant persons”). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

The distribution of this document in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of U.S. securities laws or the laws of any such other jurisdictions.

### **INDEPENDENT AUDITORS**

Our financial statements as of December 31, 2006 and for the year then ended included in this Offering Memorandum have been audited by PricewaterhouseCoopers AG, independent auditors, as stated in their report appearing herein. PricewaterhouseCoopers AG is a member of the Swiss Institute of Certified Accountants and Tax Consultants.

## GENERAL INFORMATION

### **The Company**

Swiss Reinsurance Company (Schweizerische Rückversicherungs-Gesellschaft, Compagnie Suisse de Réassurances, Compagnia Svizzera di Riassicurazioni, Compañía Suiza de Reaseguros) was incorporated on December 19, 1863 for an unlimited duration as an *Aktiengesellschaft* (a stock corporation with limited liability) under the laws of Switzerland. Our registered office and the principal executive offices are located at Mythenquai 50/60, CH-8022 Zurich, Switzerland. Our telephone number there is (41) 43-285-21-21. The Company has been entered in the Commercial Register of the Canton of Zurich since May 1, 1883. (The Canton of Zurich Commercial Register has been in existence since 1883.) The firm-number is CH-020-3-923-568-5 (formerly 3-533-521-001).

Swiss Reinsurance Company performs a dual role within the Swiss Re Group as both a reinsurance company and a holding company. Please refer to pages F-42 to F-44 of our consolidated financial statements for a list of our subsidiaries and equity investees.

### **Purpose**

Our business purpose, according to Article 2 of our Articles of Association, is to transact any kind of reinsurance business and to provide related services. We may also participate in other enterprises, including insurance companies.

### **No Significant Change**

There has been no significant change to the financial or trading position of the Group since December 31, 2006, being the date of our most recent audited consolidated balance sheet included in our consolidated financial statements contained in pages F-2 through F-47 of this Offering Memorandum.

### **Significant Subsidiaries**

For a list of our significant subsidiaries, including name, country of residence and proportion of ownership interest, see pages F-42 to F-44 of our audited consolidated financial statements included elsewhere in this Offering Memorandum.

### **Unconsolidated Holdings**

The Group does not have any significant unconsolidated holdings.

### **Related Party Transactions**

We paid an aggregate of CHF 71.23 million for fiscal 2006 (CHF 48.69 million for fiscal 2005) to the members of our Executive Committee and our Board of Directors for services in all capacities, of which CHF 5.33 million (CHF 9.84 million for fiscal 2005) represented bonuses taken in blocked shares and CHF 13.56 million represented amounts set aside for pension, retirement, and similar benefits. These amounts include all remuneration components. Cash payments, allowances, value of preferential rates on loans, other financial benefits, as well as the amount of actuarial funding needed for pensions, are included in this figure. We do not have a separate pension plan for members of governing bodies. In addition, Executive Committee members were granted long term incentive units at a grant value of CHF 8.76 million. The new long-term incentive plan superseded stock options as a remuneration instrument for 2006 onwards. We do not have a separate pension plan for members of the governing bodies. Loans to members of the Executive Board (5 recipients in total) aggregated CHF 12.1 million in 2006 (CHF 20.5 million in 2005); no such loans were extended to non-executive members of the Board of Directors. See “Management—Remuneration of the Board of Directors and Executive Board—Compensation of Directors and Executive Officers,” and “—Options to Purchase Shares” for details regarding remuneration component.

We have investments in certain entities that we account for as equity investees (see note 15 to our consolidated financial statements).

Other than as noted below, and other than payments to the members of the Board of Directors and Executive Board in respect of fees and remuneration in the ordinary course, there have been no related party transactions since December 31, 2006 up to the date of this Offering Memorandum. During 2006, one member of our Executive Committee left the Group and this former member was granted 100,000 options with a strike price of CHF 94 during 2006. Further, this member had an expatriate contract which contained tax equalisation provisions between his home country and the country where he resided. The amount is strongly impacted by such tax effects, some of which span over several years.

## GLOSSARY OF SELECTED INSURANCE AND REINSURANCE TERMS

Acquisition costs	The cost of acquiring, maintaining and renewing insurance business: including the intermediaries' commission, the company's sales expense, and other related expenses.
Administrative reinsurance (Admin Re <sup>SM</sup> )	The reinsurance of in-force insurance portfolios, including the acquisition of an entire life insurance company
Adverse development	Losses in respect of a year for which initial estimates prove in subsequent years to be insufficient
Alternative asset reinsurance	A type of credit reinsurance providing protection of principal relating to private equity fund investments
Asset Liability Management (ALM)	Asset Liability Management or 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
Capacity	Maximum amount of risk that can be accepted in insurance. One factor in determining capacity is government regulations that define minimum solvency requirements. Capacity also refers to the amount of insurance coverage allocated to a particular policyholder or in the marketplace in general
Captive insurance company	A company that is wholly owned by another organisation (generally a non-insurance enterprise), the main purpose of which is to insure the risks of the parent organisation
Catastrophe excess reinsurance	A form of excess reinsurance that indemnifies the ceding company for the amount of claims in excess of a specified retention and up to a specified limit for an accumulation of claims resulting from a catastrophic event or a series of catastrophic events
Cede; ceding company; cession	When an insurer reinsurance its risk with a reinsurer (a "cession"), it "cedes" business and is referred to as the "ceding company"
Ceding commission	In reinsurance, an allowance (usually a percentage of the reinsurance premium) made by the reinsurer for part or all of a ceding company's acquisition and other costs
Claim	Demand by an insured for indemnity under an insurance contract.
Claim adjustment expenses	The expenses of investigating and settling claims, including certain legal and other fees, and the expenses of evaluating and settling the claims adjudication process
Claims development	The process of change in amount of claims as a policy or accident year matures, as measured by the difference between paid claims and estimated outstanding losses at one point in time, and paid claims and estimated outstanding claims at some previous point in time. In common usage it might refer to development on reported cases only, whereas a broader definition also would take into account the IBNR claims. Also known as "loss development"
Claims ratio	The ratio of a non-life insurance or reinsurance company's claims paid, change in the provisions for unpaid claims and claim adjustment expenses to premiums earned

Claims reserves	Reserves established by an insurer or reinsurer and reflected on its balance sheet to reflect the estimated cost of payments for claims for which the insurer or reinsurer ultimately will be required to indemnify insureds or reinsureds in the future for claims occurring on or prior to the balance sheet date on insurance or reinsurance it has written. Non-life claims reserves are composed of case reserves and IBNR reserves
Coinurance	Arrangements by which a number of insurers and/or reinsurers share a risk
Combined ratio	The sum of the claims ratio and the expense ratio for a non-life insurance company or a reinsurance company
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
Excess reinsurance	Indemnifies the reinsured against all or a specified portion of claims on underlying insurance policies in excess of a specified amount, which is called a “level” or “retention.” Also known as “non-proportional reinsurance” and “excess of loss reinsurance”
Expected Maximum Loss (“EML”)	An estimate of the loss, expressed as a monetary amount or as a percentage of the total sum insured, which could be sustained by an insurance company on insured values as a result of a rare but possible catastrophe event. Typically, an EML is associated with a loss-excess-frequency between 100 to 1000 years
Expense ratio	For non-life insurance and reinsurance, the ratio of operating expenses (acquisition expenses and administration expenses) to premiums earned
Facultative reinsurance	A type of reinsurance under which the ceding company has the option to cede and the reinsurer has the option to accept or decline individual risks. The contract describes how individual facultative reinsurances shall be handled
Gross premiums written	Total premiums for insurance and reinsurance assumed during a given period before deduction of total premiums for insurance or reinsurance ceded to others in such period
Incurred but not yet reported (“IBNR”) reserves	Reserves for estimated claims and claim expenses which have been incurred but not yet reported to the insurer or reinsurer, including future development of claims which have been reported to the insurer or reinsurer but where the established reserves may ultimately prove to be inadequate
Layer	The 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 up to the maximum limit of indemnity. Individual layers may be placed with different insurers or reinsurers
Morbidity	Frequency of illness, sickness and diseases contracted
Mortality	Frequency of death

Non-proportional reinsurance	Reinsurance under 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"
Premium	The payment, or one of the periodical payments, a policyholder agrees to make for an insurance policy
Premiums earned	The portion of premiums written that is recognised for accounting purposes as revenues during a period
Premiums written	Total premiums for insurance written and reinsurance assumed during a given period after deduction of total premiums for insurance and reinsurance ceded to others during such period
Proportional reinsurance	Arrangement whereby the insurer cedes to the reinsurer an agreed fixed percentage of premiums and claims and other liabilities for each policy covered on a pro rata basis
Quota share reinsurance	A form of proportional reinsurance in which the reinsurer assumes an agreed upon percentage of each insurance policy being reinsured and shares all premiums and claims accordingly with the reinsured
Renewal	In our property & casualty business, treaties renew on an annual basis. The time of year for the renewals varies by region and type of business. A treaty that renews during the January renewal season renews effective January 1 of that season
Retention	The amount or portion of insurance risk that a ceding company retains for its own account. In proportional reinsurance, the retention may be a percentage of the original policy's limit. In excess reinsurance, the retention typically is a fixed amount of claim, a claims ratio or a percentage above a predetermined limit
Retrocessional reinsurance; Retrocessionnaire	An arrangement under which a reinsurer cedes to another reinsurer (the "retrocessionnaire") all or a portion of the insurance risks reinsured by the first reinsurer. Retrocessional reinsurance generally does not legally discharge the ceding reinsurer from its liability to the original ceding company
Run-off	Liability of an insurance or reinsurance company for future claims that it expects to pay and for which a reserve has been established. This term also can refer to the period of discontinuance related to a book of business for which no new premiums are being written and claims are continuing to be paid
Subrogation	The legal process by which an insurance company, after paying for a loss, seeks to recover the amount of the loss from another party who is legally liable for it
Tail	The period of time that elapses between the occurrence and settlement of claims under a policy. A "short-tail" insurance or reinsurance product is one where ultimate claims are known and settled comparatively quickly; ultimate claims under a "long-tail" insurance or reinsurance product are sometimes not known and settled for many years
Treaty reinsurance	A type of reinsurance in which the ceding company automatically cedes and the reinsurer automatically assumes a predetermined portion or category of risk underwritten by the ceding company rather than single risks

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## INDEX TO FINANCIAL STATEMENTS

### Swiss Re Group

#### Financial Statements Full Year 2005 and 2006

<i>Income Statement</i> .....	F-2
<i>Balance Sheet</i> .....	F-3
<i>Statement of Shareholders' Equity</i> .....	F-5
<i>Statement of Comprehensive Income</i> .....	F-6
<i>Statement of Cash Flow</i> .....	F-7
<i>Notes to the Group Financial Statements</i> .....	F-8
<i>Report of the Group Auditors</i> .....	F-48

### Swiss Reinsurance Company, Zurich

#### Financial Statements Full Year 2005 and 2006

<i>Income Statement</i> .....	F-49
<i>Balance Sheet</i> .....	F-50
<i>Notes to the Financial Statements</i> .....	F-52
<i>Report of the Statutory Auditors</i> .....	F-59

**SWISS RE GROUP**  
**INCOME STATEMENT**

	Notes	For the years ended 31 December	
		2005	2006
		CHF millions	
<b>Revenues</b>			
Premiums earned .....	8, 14	26,891	<b>29,515</b>
Fee income from policyholders .....	8, 14	881	<b>879</b>
Net investment income .....	2	6,137	<b>6,990</b>
Net realised investment gains/losses .....	2	3,474	<b>1,948</b>
Trading revenues .....	2	346	<b>654</b>
Other revenues .....		283	<b>280</b>
<b>Total revenues</b> .....		<u>38,012</u>	<u><b>40,266</b></u>
<b>Expenses</b>			
Claims and claim adjustment expenses .....	8, 14	(14,758)	<b>(11,799)</b>
Life and health benefits .....	8, 14	(8,668)	<b>(9,594)</b>
Interest credited to policyholders .....	8, 14	(3,019)	<b>(2,827)</b>
Acquisition costs .....	8, 14	(5,927)	<b>(6,079)</b>
Other operating costs and expenses .....	14	(3,081)	<b>(4,111)</b>
<b>Total expenses</b> .....		<u>(35,453)</u>	<u><b>(34,410)</b></u>
<b>Income before income tax expense</b> .....		<u>2,559</u>	<u><b>5,856</b></u>
Income tax expense .....	10	<u>(255)</u>	<u><b>(1,296)</b></u>
<b>Net income</b> .....		<u><b>2,304</b></u>	<u><b>4,560</b></u>
<b>Earnings per share in CHF</b>			
Basic .....	9	7.44	<b>13.49</b>
Diluted .....	9	7.14	<b>12.53</b>

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

**SWISS RE GROUP  
BALANCE SHEET**

	Notes	<b>As of 31 December</b>	
		<b>2005</b>	<b>2006</b>
		<b>CHF millions</b>	
<b>Investments</b> .....		2, 3	
Fixed income securities:			
Available-for-sale, at fair value (including 7,770 in 2005 and 18,744 in 2006 subject to securities lending and repurchase agreements) (amortised cost: 2005: 77,124; 2006: 92,151) .....	79,344	<b>93,127</b>	
Trading (including nil in 2005 and 2,234 in 2006 subject to securities lending and repurchase agreements) .....	14,457	<b>22,622</b>	
Equity securities:			
Available-for-sale, at fair value (including nil in 2005 and 923 in 2006 subject to securities lending and repurchase agreements) (amortised cost: 2005: 7,001; 2006: 8,839) .....	8,116	<b>10,845</b>	
Trading .....	11,476	<b>20,828</b>	
Policy loans, mortgages and other loans .....		7,305	<b>7,058</b>
Investment real estate .....		1,729	<b>4,227</b>
Short-term investments, at amortised cost, which approximates fair value .....		4,539	<b>9,464</b>
Other invested assets .....		3,635	<b>4,336</b>
<b>Total investments</b> .....		<u>130,601</u>	<u><b>172,507</b></u>
Cash and cash equivalents .....		8,368	<b>13,606</b>
Accrued investment income .....		1,379	<b>1,782</b>
Premiums and other receivables .....		10,754	<b>14,726</b>
Reinsurance recoverable on unpaid claims and policy benefits .....	8	13,191	<b>18,699</b>
Funds held by ceding companies .....		13,927	<b>14,211</b>
Deferred acquisition costs .....	5, 8	5,393	<b>5,270</b>
Acquired present value of future profits .....	5	6,535	<b>7,550</b>
Goodwill .....		3,429	<b>4,838</b>
Income taxes recoverable .....		466	<b>714</b>
Financial services assets			
Fixed income securities, trading (including 1,526 in 2005 and 8,746 in 2006 subject to securities lending and repurchase agreements) .....		15,218	<b>23,714</b>
Other financial services assets .....		7,143	<b>8,638</b>
Other assets .....		4,895	<b>5,045</b>
<b>Total assets</b> .....		<u>221,299</u>	<u><b>291,300</b></u>

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

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

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

**SWISS RE GROUP**  
**STATEMENT OF SHAREHOLDERS' EQUITY**

	<b>For the years ended 31 December,</b>	
	<b>2005</b>	<b>2006</b>
	<b>CHF millions</b>	
<b>Common shares</b>		
Balance, beginning of year .....	32	<b>32</b>
Issue of common shares .....		<b>5</b>
Balance, end of year .....	<b>32</b>	<b>37</b>
<b>Additional paid-in capital</b>		
Balance, beginning of year .....	6,862	<b>6,852</b>
Issue of common shares .....	2	<b>4,234</b>
Share based compensation .....	(13)	<b>57</b>
Realised gains/losses on treasury shares .....	1	<b>(7)</b>
Balance, end of year .....	<b>6,852</b>	<b>11,136</b>
<b>Treasury shares</b>		
Balance, beginning of year .....	(239)	<b>(209)</b>
Purchase of treasury shares .....	(278)	<b>(284)</b>
Sale of treasury shares .....	308	<b>221</b>
Balance, end of year .....	<b>(209)</b>	<b>(272)</b>
<b>Net unrealised gains/losses, net of tax</b>		
Balance, beginning of year .....	2,134	<b>1,908</b>
Change during the year .....	(226)	<b>322</b>
Balance, end of year .....	<b>1,908</b>	<b>2,230</b>
<b>Foreign currency translation</b>		
Balance, beginning of year .....	(1,301)	<b>971</b>
Change during the year .....	2,272	<b>(1,176)</b>
Balance, end of year .....	<b>971</b>	<b>(205)</b>
<b>Adjustment for pension and post-retirement benefits</b>		
Balance, beginning of year .....		<b>(59)</b>
Reclassification of additional minimum liability prior year .....	(84)	
Change during the year .....	25	<b>(665)</b>
Balance, end of year .....	<b>(59)</b>	<b>(724)</b>
<b>Retained earnings</b>		
Balance, beginning of year .....	13,007	<b>14,898</b>
Net income .....	2,304	<b>4,560</b>
Dividends on common stock (CHF 1.60 and CHF 2.50 per share in 2005 and 2006, respectively) .....	(497)	<b>(776)</b>
Reclassification of additional minimum liability prior year .....	84	
Balance, end of year .....	<b>14,898</b>	<b>18,682</b>
<b>Total shareholders' equity</b> .....	<b>24,393</b>	<b>30,884</b>

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

**SWISS RE GROUP**  
**STATEMENT OF COMPREHENSIVE INCOME**

	<b>For the years ended 31 December,</b>	
	<b>2005</b>	<b>2006</b>
	<b>CHF millions</b>	
Net income .....	2,304	<b>4,560</b>
Other comprehensive income, net of tax:		
Change in unrealised gains/losses (tax: -180 for 2005, and 178 for 2006) .....	(226)	<b>322</b>
Change in foreign currency translation (tax: -18 for 2005, and 38 for 2006) .....	2,272	<b>(1,176)</b>
Change in adjustment for pension benefits (tax: -7 for 2005, and 210 for 2006) .....	25	<b>(665)</b>
<b>Comprehensive income</b> .....	<b>4,375</b>	<b>3,041</b>

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

**SWISS RE GROUP**  
**STATEMENT OF CASH FLOW**

	For the years ended 31 December,	
	2005	2006
	CHF millions	
<b>Cash flows from operating activities</b>		
Net income .....	2,304	<b>4,560</b>
Adjustments to reconcile net income to net cash provided/used by operations:		
Depreciation, amortisation and other non-cash items .....	782	<b>886</b>
Net realised investment gains/losses .....	(3,474)	<b>(1,948)</b>
Change in:		
Technical provisions, net .....	5,243	<b>(2,140)</b>
Funds held by ceding companies and other reinsurance balances .....	(519)	<b>524</b>
Other assets and liabilities, net .....	(3)	<b>1,033</b>
Income taxes payable/recoverable .....	183	<b>910</b>
Income from equity-accounted investments, net of dividends received .....	(407)	<b>(375)</b>
Trading positions, net .....	(2,459)	<b>(1,674)</b>
Change in financial services assets and liabilities:		
Financial services assets .....	(4,556)	<b>(10,251)</b>
Financial services liabilities – Short term debt .....	2,246	<b>(662)</b>
Financial services liabilities – Long term debt .....	1,478	<b>779</b>
Financial services liabilities – Other .....	1,154	<b>9,912</b>
<b>Net cash provided/used by operating activities</b> .....	<b>1,972</b>	<b>1,554</b>
<b>Cash flows from investing activities</b>		
Fixed income securities:		
Sales and maturities .....	39,035	<b>59,024</b>
Purchases .....	(41,422)	<b>(46,105)</b>
Net purchase/sale/maturities of short-term investments .....	(1,061)	<b>(4,760)</b>
Equity securities:		
Sales .....	4,861	<b>7,873</b>
Purchases .....	(6,488)	<b>(8,799)</b>
Acquisitions/disposals, net of cash acquired/disposed .....	643	<b>(3,506)</b>
Net purchases/sales/maturities of other investments .....	802	<b>(683)</b>
<b>Net cash provided/used by investing activities</b> .....	<b>(3,630)</b>	<b>3,044</b>
<b>Cash flows from financing activities</b>		
Issuance of long-term debt .....	987	<b>3,146</b>
Issuance/repayment of short-term debt .....	(599)	<b>(380)</b>
Equity issued .....	2	<b>1,323</b>
Net purchase sales of treasury shares .....	30	<b>(63)</b>
Dividends paid to shareholders .....	(497)	<b>(776)</b>
<b>Net cash provided/used from financing activities</b> .....	<b>(77)</b>	<b>3,250</b>
<b>Total net cash provided/used</b> .....	<b>(1,735)</b>	<b>7,848</b>
Reclassification to financial services assets .....		<b>(2,451)</b>
Effect of foreign currency translation .....	422	<b>(159)</b>
<b>Change in cash and cash equivalents</b> .....	<b>(1,313)</b>	<b>5,238</b>
Cash and cash equivalents as of 1 January .....	9,681	<b>8,368</b>
<b>Cash and cash equivalents as of 31 December</b> .....	<b>8,368</b>	<b>13,606</b>

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

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

## NOTES TO THE GROUP FINANCIAL STATEMENTS

### 1. Organisation and summary of significant accounting policies

#### *Nature of operations*

The Swiss Re Group, which is headquartered in Zurich, Switzerland, comprises Swiss Reinsurance Company (the parent company, referred to as “Swiss Re Zurich”) and its subsidiaries (collectively, the “Swiss Re Group,” or the “Group”). The Group provides reinsurance and other related products and services to insurance companies, clients and others worldwide, through a network of offices in over 25 countries as well as through reinsurance brokers.

#### *Basis of presentation*

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

#### *Principles of consolidation*

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

#### *Use of estimates in the preparation of financial statements*

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

#### *Foreign currency remeasurement and translation*

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

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

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

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

#### *Investments*

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

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

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

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

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

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

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

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

### *Derivative financial instruments and hedge accounting*

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

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

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

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

### *Cash and cash equivalents*

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

### *Deferred acquisition costs*

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

### *Acquired present value of future profits*

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

### *Goodwill*

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

#### *Financial services assets and liabilities*

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

#### *Other assets*

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

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

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

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

#### *Capitalised software costs*

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

#### *Deferred income taxes*

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

#### *Unpaid claims and claim adjustment expenses*

Liabilities for unpaid claims and claim adjustment expenses for property and casualty reinsurance contracts are accrued when insured events occur and are based on the estimated ultimate cost of settling the claims, using reports and individual case estimates received from ceding companies. A provision is also included for claims incurred but not reported, which is developed on the basis of past experience adjusted for current trends and other factors that modify past experience. The establishment of the appropriate level of reserves is an inherently uncertain process involving estimates and judgements made by management, and therefore there can be no assurance that ultimate claims and claim adjustment expenses will not exceed the loss reserves currently established. These estimates are regularly reviewed, and adjustments for differences between estimates and actual payments for claims and for changes in estimates are reflected in income in the period in which the estimates are changed or payments are made.

The Group does not discount liabilities arising from prospective property and casualty insurance and reinsurance contracts, including liabilities which are discounted for US statutory reporting purposes. Liabilities arising from property and casualty insurance and reinsurance contracts acquired in a business combination are initially recognised at fair value in accordance with the purchase method of accounting.

Experience features which are directly linked to a reinsurance asset or liability are classified in a manner that is consistent with the presentation of that asset or liability.

#### *Liabilities for life and health policy benefits*

Liabilities for life and health policy benefits from reinsurance business are generally calculated using the net level premium method, based on assumptions as to investment yields, mortality, withdrawals, lapses and

policyholder dividends. Assumptions are set at the time the contract is issued or, in the case of contracts acquired by purchase, at the purchase date. The assumptions are based on projections from past experience, making allowance for possible adverse deviation. Interest assumptions for life and health reinsurance benefits liabilities range from 1% to 13%. Assumed mortality rates are generally based on experience multiples applied to the actuarial select and ultimate tables based on industry experience. Liabilities for policy benefits are increased if it is determined that future cash flows, including investment income, are insufficient to cover future benefits and expenses.

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

#### *Policyholder account balances*

Policyholder account balances relate to universal life-type contracts and investment contracts. Interest crediting rates for policyholder account balances range from 3% to 10%.

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

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

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

#### *Funds held assets and liabilities*

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

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

#### *Premiums*

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

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

#### *Reinsurance ceded*

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

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

#### *Pensions and other post-retirement benefits*

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

#### *Share-based payment transactions*

The Group has a long term incentive plan, a fixed option plan, a restricted share plan, and an employee participation plan. These plans are described in more detail in note 11. The Group accounts for share based payment transactions with employees using the fair value method. Under the fair value method, the fair value of the awards is recognised in earnings over the vesting period.

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

#### *Treasury shares*

Treasury shares are reported at cost in shareholders' equity. Treasury shares also include stand-alone derivative instruments indexed to the Group's shares that meet the requirements for classification in shareholders' equity as well as embedded derivative instruments indexed to the Group's shares, which are bifurcated from the host contract and meet the requirements for classification in shareholders' equity.

#### *Earnings per common share*

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

#### *New accounting pronouncements*

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

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

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

## 2. Investments

### *Investment income*

Net investment income by source was as follows:

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

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

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

### *Realised gains and losses*

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

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

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

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

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

*Trading revenues*

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

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

*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:

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

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

*Maturity of fixed income securities available-for-sale*

The amortised cost or cost and estimated fair values of investments in fixed income securities by remaining maturity are shown below. Fixed maturity investments are assumed not to be called for redemption prior to the stated maturity date. As of 31 December 2005 and 2006, CHF 2,148 million and CHF 5,426 million, respectively, of fixed income securities were callable.

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

*Assets on deposit or pledged*

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

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

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

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

*Unrealised losses on fixed income securities available for sale*

The following table shows the fair value and unrealised losses of the Group's fixed income securities, aggregated by investment category and length of time that individual securities were in a continuous unrealised loss position, as of 31 December 2005 and 2006. A continuous decline in the value of equity securities available-for-sale for longer than twelve months is considered other-than-temporary and recognised as net realised investment gains/losses in the income statement. Therefore, as of 31 December 2005 and 2006, the gross unrealised loss on equity securities available-for-sale of CHF 1,347 million and CHF 262 million relates to declines in value for less than 12 months.

	As of December 2005					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealised losses	Fair value	Unrealised losses	Fair value	Unrealised losses
CHF millions						
Debt securities issued by governments and government agencies .....	25,288	1,213	8,372	382	33,660	1,595
Corporate debt securities .....	6,261	255	551	28	6,812	283
Mortgage and asset-backed securities .....	7,253	184	1,153	49	8,406	233
<b>Total</b> .....	<b>38,802</b>	<b>1,652</b>	<b>10,076</b>	<b>459</b>	<b>48,878</b>	<b>2,111</b>
As of 31 December 2006						
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealised losses	Fair value	Unrealised losses	Fair value	Unrealised losses
	CHF millions					
Debt securities issued by governments and government agencies .....	20,633	295	13,443	483	34,076	778
Corporate debt securities .....	6,362	104	2,618	269	8,980	373
Mortgage and asset-backed securities .....	4,939	51	4,138	139	9,077	190
<b>Total</b> .....	<b>31,934</b>	<b>450</b>	<b>20,199</b>	<b>891</b>	<b>52,133</b>	<b>1,341</b>

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

*Mortgages, loans and real estate*

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

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

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

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

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

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

### **3. Derivative financial instruments**

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

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

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

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

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

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

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

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

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

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

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

#### *Hedges of the net investment in a foreign operation*

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

#### 4. Acquisitions and dispositions

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

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

##### *Determination of purchase price*

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

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

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

### *Allocation of the purchase price*

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

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

### *Intangible assets*

Historic intangible assets including goodwill, deferred acquisition costs and present value of future profits have been eliminated. Qualifying purchased intangible assets, including customer related intangibles, present value of future profits and goodwill have been established. The following table presents details of acquired intangible assets subject to amortisation as of the date of acquisition:

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

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

### *Equalisation reserves*

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

### *Investments*

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

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

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

### *Life and health policy benefits and present value of future profits*

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

### *Other assets and liabilities*

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

### *Deferred taxes*

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

### *Pro forma financial results (unaudited)*

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

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

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

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

The amortisation of DAC in 2006 represents CHF 3427 million, CHF 309 million, and CHF 364 million for the Property & Casualty, Life & Health, and Financial Services business segments, respectively.

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

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

## 6. Debt

The Group enters into long- and short-term debt arrangements to obtain funds for general corporate use and specific transaction financing. The Group defines short-term debt as debt having a maturity at the balance sheet date of less than one year and long-term debt of greater than one year. The Group's debt as of 31 December 2005 and 2006 was as follows:

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

### *Maturity of long-term debt*

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

	<b>2005</b>	<b>2006</b>
	CHF millions	
Due in 2007 .....	1,900	<b>0<sup>(1)</sup></b>
Due in 2008 .....	1,697	<b>1,935</b>
Due in 2009 .....	940	<b>1,818</b>
Due in 2010 .....	953	<b>1,201</b>
Due in 2011 .....	21	<b>917</b>
Due after 2011 .....	4,730	<b>8,867</b>
<b>Total carrying value</b> .....	<u>10,241</u>	<b><u>14,738</u></b>
<b>Total fair value</b> .....	<u>10,567</u>	<b><u>15,081</u></b>

(1) This balance was reclassified to short-term debt.

## Senior debt

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

(1) Assumed in the acquisition of GE Insurance Solutions

(2) Assumed in the acquisition of Life Re Corporation

## Subordinated debt

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

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

### *Interest expense on long-term debt*

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

	2005	2006
	CHF millions	
Senior financial debt .....	105	121
Senior operational debt .....	146	216
Subordinated financial debt .....	124	221
<b>Total .....</b>	<b>375</b>	<b>558</b>

### *Debt issued in 2006*

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

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

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

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

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

## 7. Unpaid claims and claim adjustment expenses

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

	<b>2005</b>	<b>2006</b>
	<b>CHF millions</b>	<b>CHF millions</b>
Non-life .....	59,104	<b>80,391</b>
Life & Health .....	12,655	<b>14,620</b>
<b>Total</b> .....	<b>71,759</b>	<b>95,011</b>

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

	<b>2005</b>	<b>2006</b>
	<b>CHF millions</b>	<b>CHF millions</b>
<b>Balance as of 1 January</b> .....	50,099	<b>59,104</b>
Reinsurance recoverable .....	(1,718)	<b>(2,555)</b>
Deferred expense on retroactive reinsurance .....	(1,040)	<b>(1,057)</b>
<b>Net</b> .....	<b>47,341</b>	<b>55,492</b>
Incurred related to:		
Current year .....	13,692	<b>12,292</b>
Prior year .....	1,000	<b>(593)</b>
Amortisation of deferred expense on retroactive reinsurance and impact of commutations .....	66	<b>100</b>
<b>Total incurred</b> .....	<b>14,758</b>	<b>11,799</b>
Paid related to:		
Current year .....	(1,601)	<b>(2,853)</b>
Prior year .....	(10,129)	<b>(10,538)</b>
<b>Total paid</b> .....	<b>(11,730)</b>	<b>13,391</b>
Foreign exchange .....	4,616	<b>(1,796)</b>
Effect of acquisitions, disposals, new retroactive reinsurance and other items .....	507	<b>19,790</b>
<b>Net</b> .....	<b>55,492</b>	<b>71,894</b>
Reinsurance recoverable .....	2,555	<b>7,622</b>
Deferred expense on retroactive reinsurance .....	1,057	<b>875</b>
<b>Balance as of 31 December</b> .....	<b>59,104</b>	<b>80,391</b>

The Group does not discount liabilities arising from prospective property and casualty insurance and reinsurance contracts, including liabilities which are discounted for US statutory reporting purposes. Liabilities arising from property and casualty insurance and reinsurance contracts acquired in a business combination are initially recognised at fair value in accordance with the purchase method of accounting.

### *Asbestos and environmental claims exposure*

The Group's obligation for claims payments and claims settlement charges also includes obligations for long-latent injury claims arising out of policies written prior to 1985, in particular in the area of US asbestos and environmental liability.

Due to the inherent uncertainties and assumptions on which these estimates are based, however, the Group cannot exclude the need to make further additions to these provisions in the future.

At the end of 2006 the Group carried net reserves for US asbestos, environmental and other long-latent health hazards equal to CHF 2,226 million, which includes an increase of CHF 1,203 million because of acquisitions. During 2006, the net claims paid against these liabilities totalled CHF 244 million.

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

## 8. Reinsurance information

*Premiums written, premiums earned and fees assessed against policyholders*

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

*Claims and claim adjustment expenses*

	2005			2006		
	Non-Life	Life & Health	Total	Non-Life	Life & Health	Total
				CHF millions		
<b>Claims</b>						
Claims paid, gross .....	(12,332)	(9,057)	(21,389)	(16,825)	(9,631)	(26,456)
Claims paid, retro .....	602	1,304	1,906	3,434	1,731	5,165
Claims paid, net .....	(11,730)	(7,753)	(19,483)	(13,391)	(7,900)	(21,291)
Change in unpaid claims and claim adjustment expenses; life and health benefits, gross .....	(3,671)	(1,166)	(4,837)	3720	(1,922)	1,798
Change in unpaid claims and claim adjustment expenses; life and health benefits, retro .....	643	251	894	(2,128)	228	(1,900)
Change in unpaid claims and claim adjustment expenses; life and health benefits, net .....	(3,028)	(915)	(3,943)	1,592	(1,694)	(102)
<b>Claims and claim adjustment expenses; life and health benefits</b> .....	<b>(14,758)</b>	<b>(8,668)</b>	<b>(23,426)</b>	<b>(11,799)</b>	<b>(9,594)</b>	<b>(21,393)</b>
<b>Acquisition costs</b>						
Acquisition costs, gross .....	(3,802)	(2,617)	(6,419)	(3,970)	(2,596)	(6,566)
Acquisition costs, retro .....	96	396	492	147	340	487
<b>Acquisition costs, net</b> .....	<b>(3,706)</b>	<b>(2,221)</b>	<b>(5,927)</b>	<b>(3,823)</b>	<b>(2,256)</b>	<b>(6,079)</b>

### Reinsurance assets and liabilities

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

### 9. Shareholders' equity

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

Dividends are declared in Swiss francs. For the years ended 31 December 2005 and 2006 the Group's dividends per share were CHF 1.60 and CHF 2.50, respectively.

#### Share data

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

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

### 10. Income taxes

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

	2005		2006	
	CHF millions			
Current taxes .....		533		581
Deferred taxes .....		(278)		715
<b>Income tax expense .....</b>		<u>255</u>		<u>1,296</u>

*Tax rate reconciliation*

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

	2005	2006
	CHF millions	CHF millions
Income tax at the Swiss statutory tax rate of 21.3% .....	545	1,247
Increase (decrease) in the income tax charge resulting from:		
Foreign Income taxed at different rates .....	(80)	421
Tax exempt income/deduction for dividends received .....	(65)	(262)
Intercompany dividends subject to tax .....	261	0
Impact of tax deductible goodwill .....	(113)	(14)
Change in the valuation allowance .....	(244)	(228)
Other, net .....	(49)	132
<b>Total</b> .....	<b>255</b>	<b>1,296</b>

The components of deferred income taxes were as follows:

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

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

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

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

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

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

## 11. Benefit plans

### Defined benefit pension plans and post-retirement benefits

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

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

The Group also provides certain health-care and life insurance benefits for retired employees and their dependants. Employees become eligible for these benefits when they become eligible for pension benefits. Incremental effect of the newly issued generally accepted guidance on employee benefit plans as of 31 December 2006:

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

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

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

	Swiss plans pension benefits	Foreign plans pension benefits	Other benefits	Total
<b>Amounts recognised in the balance sheet in 2006 consist of:</b>				
Non-current assets .....	27	47		74
Current liabilities .....		(10)	(13)	(23)
Non-current liabilities .....		(843)	(657)	(1,500)
<b>Net amount recognised .....</b>	<b>27</b>	<b>(806)</b>	<b>(670)</b>	<b>(1,449)</b>

	Swiss plans pension benefits	Foreign plans pension benefits	Other benefits	Total
<b>Amounts recognised in accumulated other comprehensive income in 2006 consist of, gross of tax:</b>				
Net gain/loss .....	457	403	60	920
Prior service cost/credit .....	79	2	(46)	35
<b>Total .....</b>	<b>536</b>	<b>405</b>	<b>14</b>	<b>955</b>

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

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

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

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

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

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

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

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

	Swiss plans pension benefits		Foreign plans pension benefits weighted average		Other benefits weighted average	
	2005	2006	2005	2006	2005	2006

#### Principal actuarial assumptions

##### a) Assumptions used to determine obligations at the end of the year

Discount rate .....	3.0%	3.2%	5.2%	5.2%	3.7%	3.9%
Rate of compensation increase .....	2.3%	2.3%	4.8%	4.5%	4.5%	4.5%

##### b) Assumptions used to determine net periodic pension costs for the year ended

Discount rate .....	3.8%	3.0%	5.8%	5.2%	4.3%	3.7%
Expected long-term return on plan assets .....	5.0%	5.0%	6.8%	6.5%		
Rate of compensation increase .....	2.3%	2.3%	4.8%	4.8%	4.5%	4.5%

##### c) Assumed medical trend rates at year end

Medical trend – initial rate .....				7.0%	7.1%
Medical trend – ultimate rate .....				4.4%	4.4%
Year that the rate reaches the ultimate trend rate ...				2015	2014

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

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

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

#### Plan asset allocation by asset category

The actual asset allocation by major asset category for defined benefit pension plans as of the respective measurement dates in 2005 and 2006, are as follow:

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

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

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

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

*Expected contributions and estimated future benefit payments*

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

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

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

*Defined contribution pension plans*

The Group sponsors a number of defined contribution plans to which employees and the Group make contributions. The accumulated balances are paid as a lump sum at the earlier of retirement, termination, disability or death. The amount expensed in 2005 and in 2006 was CHF 19 million and CHF 28 million, respectively.

## 12. Share-based payments

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

*Effect of adoption of fair value recognition*

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

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

*Stock option plans*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### *Restricted shares*

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

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

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

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

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

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

### *Long term incentive plan*

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

### *Appreciation rights*

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

### *Unrecognised compensation cost*

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

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

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

### *Employee participation plan*

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

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

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

### 13. Commitments and contingent liabilities

#### *Leasing commitments*

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

<b>As of 31 December 2006</b>	<b>CHF millions</b>
2007 .....	84
2008 .....	64
2009 .....	55
2010 .....	50
2011 .....	44
After 2011 .....	190
<b>Total operating lease commitments</b> .....	<b>487</b>
Less minimum non-cancellable sublease rentals .....	(137)
<b>Total net future minimum lease commitments</b> .....	<b>350</b>

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):

	<b>2005</b>	<b>2006</b>
	<b>CHF millions</b>	
Minimum rentals .....	47	66
Sublease rental income .....	(10)	(9)
<b>Total</b> .....	<b>37</b>	<b>57</b>

#### *Other commitments*

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

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

#### *Legal proceedings*

In the normal course of business operations, the Group is involved in various claims, lawsuits and regulatory matters. In the opinion of management, the disposition of these or any other legal matters, except as disclosed in this note, is not expected to have a material adverse effect on the Group's business, consolidated financial position or results of operations.

*11 September 2001*

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

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

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

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

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

#### **14. Information on business segments**

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

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

Financial Services provides structuring support for certain transactions, for example insurance-linked securities, issued on behalf of the business segments. The Financial Services business segment includes the fees charged in net investment income. The business segments provide origination services for certain transactions underwritten and accounted for within another business segment. The commissions are included in acquisition costs. The accounting policies of the business segments are in line with those described in the summary of significant accounting policies (see Note 1).

a) **Business segment results**

	<b>2005</b>				
	<b>Property &amp; Casualty</b>	<b>Life &amp; Health</b>	<b>Financial Services</b>	<b>Other</b>	<b>Total</b>
	<b>CHF millions</b>				
<b>Revenues</b>					
Premiums earned .....	16,346	9,638	907		26,891
Fee income .....		881			881
Net investment income .....	1,988	4,000	85	64	6,137
Net realised investment gains/losses .....	1,188	1,799	29	458	3,474
Trading revenues .....	27		319		346
Fees, commissions and other revenues .....	46		220	17	283
<b>Total revenues</b> .....	<b>19,595</b>	<b>16,318</b>	<b>1,560</b>	<b>539</b>	<b>38,012</b>
<b>Expenses</b>					
Claims and claim adjustment expenses: life and health benefits .....	(14,430)	(8,668)	(328)		(23,426)
Interest credited to policyholders .....		(3,019)			(3,019)
Acquisition costs .....	(3,411)	(2,221)	(295)		(5,927)
Other operating costs and expenses .....	(924)	(765)	(558)	(834)	(3,081)
<b>Total expenses</b> .....	<b>(18,765)</b>	<b>(14,673)</b>	<b>(1,181)</b>	<b>(834)</b>	<b>(35,453)</b>
<b>Operating income/loss</b> .....	<b>830</b>	<b>1,645</b>	<b>379</b>	<b>(295)</b>	<b>2,559</b>
	<b>2006</b>				
	<b>Property &amp; Casualty</b>	<b>Life &amp; Health</b>	<b>Financial Services</b>	<b>Other</b>	<b>Total</b>
	<b>CHF millions</b>				
<b>Revenues</b>					
Premiums earned .....	17,441	10,974	1,100		29,515
Fee income .....		879			879
Net investment income .....	2,883	3,946	79	82	6,990
Net realised investment gains/losses .....	752	1,521	27	(352)	1,948
Trading revenues .....	4		573	77	654
Fees, commissions and other revenues .....	74		184	22	280
<b>Total revenues</b> .....	<b>21,154</b>	<b>17,320</b>	<b>1,963</b>	<b>(171)</b>	<b>40,266</b>
<b>Expenses</b>					
Claims and claim adjustment expenses: life and health benefits .....	(11,306)	(9,594)	(493)		(21,393)
Interest credited to policyholders .....		(2,827)			(2,827)
Acquisition costs .....	(3,549)	(2,256)	(364)		(6,079)
Other operating costs and expenses .....	(1,373)	(961)	(646)	(1,131)	(4,111)
<b>Total expenses</b> .....	<b>(16,138)</b>	<b>(15,638)</b>	<b>(1,503)</b>	<b>(1,131)</b>	<b>(34,410)</b>
<b>Operating income/loss</b> .....	<b>5,016</b>	<b>1,682</b>	<b>460</b>	<b>(1,302)</b>	<b>5,856</b>

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

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

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

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

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

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

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

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

	2005	2005
	CHF millions	
<b>United States</b> .....		<b>12,175</b>
United Kingdom .....		2,614
Germany .....		1,830
Canada .....		989
France .....		1,223
Australia .....		853
Italy .....		849
Switzerland .....		750
Netherlands .....		647
Other .....		5,842
<b>Total</b> .....	<b>27,772</b>	<b>30,394</b>

## 15. Subsidiaries, equity investees and variable interest entities

### Subsidiaries and equity investees

	Share capital (CHF millions)	Affiliation in % as of 31.12.2006	Method of consolidation
<b>Europe</b>			
<b>Denmark</b>			
Swiss Re Denmark Holding ApS <sup>2</sup> .....	329	100	f
Swiss Re Denmark Reinsurance A/S <sup>2</sup> .....	193	100	f
France			
Frasecur Société d'Investissement à Capital			
Variable <sup>1</sup> .....	147	100	f
<b>Germany</b>			
Swiss Re Germany AG .....	72	100	f
Swiss Re Germany Holding AG .....	80	100	f
Swiss Re Frankona Holding GmbH <sup>2</sup> .....	43	100	f
Swiss Re Frankona Rückversicherungs AG <sup>2</sup> .....	558	100	f
Swiss Re Frankona Management Service GmbH <sup>2</sup> ...	0	100	f
<b>Hungary</b>			
Swiss Re Treasury (Hungary) Ltd. .....	0	100	f
<b>Ireland</b>			
Swiss Re International Treasury (Ireland) Ltd. .....	0	100	f
Swiss Re Ireland Ltd. .....	135	100	f
Swiss Re Life & Health (Ireland) Ltd. .....	1	100	f
Swiss Reinsurance Ireland Limited <sup>2</sup> .....	151	100	f
<b>Luxembourg</b>			
Swiss Re Management (Luxembourg) S.A. .....	320	100	f
Swiss Re Treasury (Luxembourg) S.A. .....	169	100	f
Swiss Re Finance (Luxembourg) S.A. .....	0	100	f
Luxembourg European Reinsurance S.A. <sup>2</sup> .....	197	100	f
<b>Netherlands</b>			
Algemene Levensherverzekerings Maatschappij			
N.V. .....	8	100	f
Atradius .....	91	34.95	e
Calam C.V. .....	0	100	f
Reassurantie Maatschappij Nederland N.V. .....	12	100	f
Swiss Re Life & Health Nederland N.V. .....	6	100	f
Swiss Re Nederland Holding B.V. .....	1	100	f
<b>Malta</b>			
Swiss Re Finance (Malta) Ltd. .....	3,086	100	f
<b>Switzerland</b>			
Dix Holding .....	9	37.26	e
European Reinsurance Company of Zurich .....	312	100	f
SR Institutional Funds <sup>1</sup> .....	16,882	99.68	f
Swiss Re Asset Management (Switzerland) AG .....	15	100	f
Swiss Re Partnership Holding AG .....	0	100	f
<b>United Kingdom</b>			
Banian Investments UK Ltd. ....	1	100	f
Calico Leasing (GB) Ltd. ....	84	100	f
Cyreniac Investments (UK) Ltd. ....	1,435	100	f
Dex Hold Ltd. ....	0	100	f
European Credit and Guarantee Insurance			
PCC Ltd. ....	10	100	f
GE Life Group Limited and group companies <sup>3</sup> ....	358	100	f
Life Assurance Holding Corporation Ltd. ....	175	100	f
Palatine Insurance Company Ltd. ....	18	100	f

	Share capital (CHF millions)	Affiliation in % as of 31.12.2006	Method of consolidation
Reassure UK Life Assurance Company Ltd. ....	914	100	f
SR Delta Investments (UK) Ltd. ....	16	100	f
SR International Business Insurance			
Company Ltd. ....	294	100	f
Swiss Re Capital Markets Ltd. ....	73	100	f
Swiss Re Financial Services Ltd. ....	17	100	f
Swiss Re GB Plc. ....	1,526	100	f
Swiss Re Life & Health UK Ltd. ....	454	100	f
Swiss Re Properties Ltd. ....	0	100	f
Swiss Re Services Ltd. ....	5	100	f
Swiss Re Specialised Investments			
Holdings (UK) Ltd. ....	2	100	f
Swiss Reinsurance Company UK Ltd. ....	1,132	100	f
The Mercantile & General Reinsurance			
Company Ltd. ....	334	100	f
XSMA Ltd. ....	36	100	f
Windsor Life Assurance Company Ltd. ....	7	100	f
Swiss Re Frankona Reinsurance Ltd <sup>2</sup> ....	0	100	f
Swiss Re Frankona LM Limited <sup>2</sup> ....	17	100	f
Swiss Re Specialty Insurance (UK) Ltd. <sup>2</sup> ....	43	100	f
<b>North America and Caribbean</b>			
<b>Barbados</b>			
Accra Holdings Corporation ....	20	100	f
Atlantic International Reinsurance Company Ltd. ....	5	100	f
European Finance Reinsurance Company Ltd. ....	6	100	f
European International Holding Company Ltd. ....	200	100	f
European International Reinsurance			
Company Ltd. ....	195	100	f
Gasper Funding Corporation ....	0	100	f
Stockwood Reinsurance Company, Ltd. ....	1	100	f
Underwriters Reinsurance Company			
(Barbados) Ltd. ....	20	100	f
<b>Bermuda</b>			
30 St Mary Axe (Bermuda) L.P. ....	0	100	f
Englewood Ltd. ....	0	100	f
Life Re International, Ltd. ....	0	100	f
Old Fort Insurance Company Ltd. ....	0	100	f
Securitas Allied (Bermuda) L.P. ....	0	100	f
SwissRe Capital Management (Bermuda) Ltd. ....	0	100	f
SwissRe Finance (Bermuda) Ltd. ....	0	100	f
SwissRe Investments (Bermuda) Ltd. ....	0	100	f
<b>Canada</b>			
Swiss Re Holdings (Canada) Inc. ....	123	100	f
Swiss Re Life & Health Canada ....	119	100	f
Swiss Reinsurance Company Canada ....	11	100	f
<b>Cayman Islands</b>			
Ampersand Investments (UK) Ltd. ....	0	100	f
Dunstanburgh Finance (Cayman) Ltd. ....	0	100	f
Farnham Funding Ltd. ....	6	100	f
SR Cayman Holdings Ltd. ....	0	100	f
SR York Ltd. ....	119	100	f
SV Corinthian Investments Ltd. ....	5	100	f
Swiss Re Dorus Investment Ltd. ....	5	100	f
Swiss Re Funding (UK) Ltd. ....	0	100	f
Swiss Re Hedge Funds SPC ....	84	100	f

	Share capital (CHF millions)	Affiliation in % as of 31.12.2006	Method of consolidation
Swiss Re Strategic Investments (UK) Ltd. ....	0	100	f
Cobham Funding Ltd. ....	24	100	f
Kilgallon Finance Ltd. ....	24	100	f
<b>United States</b>			
Conning & Company and group companies ....	0	100	f
Facility Insurance Corporation ....	1	100	f
Facility Insurance Holding Corporation ....	0	100	f
Life Re Capital Trust I ....	4	100	f
North American Capacity Insurance Company ....	5	100	f
North American Elite Insurance Company ....	4	100	f
North American Specialty Insurance Company ....	6	100	f
Reassure America Life Insurance Company ....	3	100	f
Sage Life Holdings of America Inc. ....	3	100	f
Southwestern Life Insurance Company ....	4	100	f
Swiss Re Alternative Assets LLC ....	0	100	f
Swiss Re America Holding Corporation ....	0	100	f
Swiss Re Asset Management (Americas) Inc. ....	9	100	f
Swiss Re Atrium Corporation ....	1	100	f
Swiss Re Capital Markets Corporation ....	0	100	f
Swiss Re Financial Products Corporation ....	0	100	f
Swiss Re Financial Services Corporation ....	0	100	f
Swiss Re Life & Health America Holding Company ....	5	100	f
Swiss Re Life & Health America Inc. ....	5	100	f
Swiss Re Management Corporation ....	0	100	f
Swiss Reinsurance America Corporation ....	7	100	f
Valley Forge Life Insurance Company ....	3	100	f
Washington International Insurance Company ....	4	100	f
SR PA Finance Inc. ....	0	100	f
Swiss Re Funding Inc. ....	0	100	f
Swiss Re Treasury (US) Corporation ....	0	100	f
Swiss Re Solutions Holding Corp <sup>2</sup> ....	11	100	f
Core Insurance Holdings Inc. <sup>2</sup> ....	0	100	f
Coregis Insurance Company <sup>2</sup> ....	0	100	f
Employers Reinsurance Corporation <sup>2</sup> ....	41	100	f
First Specialty Insurance Corporation <sup>2</sup> ....	6	100	f
Industrial Risk Insurers <sup>2</sup> ....	0	100	f
Westport Insurance Corporation <sup>2</sup> ....	6	100	f
<b>Australia</b>			
Swiss Re Australia Ltd. ....	19	100	f
Swiss Re Life & Health Australia Ltd. ....	0	100	f
The Mercantile and General Reinsurance Company of Australia Ltd. ....	14	100	f
<b>Africa</b>			
South Africa			
Swiss Re Life & Health Africa Ltd. ....	0	100	f
Swiss Re Africa Ltd. ....	2	100	f

Method of consolidation:

f full

e equity

1 Net Asset value instead of share capital

2 from acquisition of GE Insurance Solutions

3 from acquisition of GE Life

### Variable interest entities

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

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

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

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

Other investment vehicles consist of private equity limited partnerships and hedge funds. The Group's variable interests arise through an ownership interest in the vehicle or a guarantee of the value of the assets held by the vehicle. The maximum exposure to loss equals the carrying amount of the ownership interest or the maximum amount payable under the guarantee. Debt financing is a loan from a bank which the Group uses to invest in an investment company. The maximum exposure to loss is equal to the credit default of the loan from the bank. The following table shows the total assets of VIEs of which the Group is the primary beneficiary, but does not hold a majority voting interest:

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

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

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

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

## 16. Restructuring provision

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

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

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

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

## 17. Change in accounting basis

*Reconciliation of previously published 2005 Swiss GAAP figures to US GAAP*

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

### References

- 1) Under Swiss GAAP, available-for-sale fixed income securities are carried at amortised cost. Under US GAAP, available-for-sale fixed income securities are carried at fair value with changes in fair value recognised in shareholders' equity.
- 2) US GAAP requires adjustment to unrealised gains and losses which, when realised, would be credited to policyholders. The adjustment affects the PVFP balance, policyholder liabilities and unrealised gains and losses in shareholders' equity. Under Swiss GAAP, shadow PVFP adjustments are not recognised because available-for-sale fixed income securities are carried at amortised cost.
- 3) Under Swiss GAAP, goodwill is amortised using the straight-line method over periods that correspond to the benefits expected to be derived from the related acquisitions. Under US GAAP, effective 1 January 2002, goodwill is no longer amortised but is tested for impairment annually.
- 4) Under Swiss GAAP, reserves prescribed by local regulatory authorities for future claims fluctuations and for large and catastrophic losses are established and included in the unpaid claims and claim adjustment expenses liability. Under US GAAP, equalisation reserves are not recognised as a liability.

- 5) Under Swiss GAAP, Swiss Re discounted certain property and casualty reserves, principally provisions which are discounted under US statutory accounting policies. This approach is permitted but not required under US GAAP. Swiss Re has adopted a policy not to discount property and casualty reserves under US GAAP. Purchase GAAP accounting is not affected by this policy and requires acquired assets and liabilities to be recognised at fair value.
- 6) With the adoption of US GAAP the Group designated certain fixed income securities as trading. Trading securities are remeasured through earnings rather than shareholders' equity, including the associated foreign exchange effect. Future mark- to-market movements on such trading securities will be reflected in earnings.
- 7) Under Swiss GAAP, entities generally treated foreign currencies as functional. Under US GAAP, certain entities have now changed to a single functional currency. Non-monetary assets and liabilities, except for those carried at fair value, are remeasured at historical rates. Fixed income and equity securities available-for-sale are remeasured at current rates through unrealised gains/losses in shareholders' equity.
- 8) Represents the effect on income tax expense and deferred tax assets/liabilities of the adoption of the new accounting basis.

REPORT OF THE GROUP AUDITORS



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Report of the Group auditors

To the Annual General Meeting of  
Swiss Reinsurance Company  
Zurich

As auditors of the Group, we have audited the consolidated financial statements (income statement, balance sheet, statement of shareholders' equity, statement of comprehensive income, statement of cash flow and notes to the Group financial statements/pages F-2 to F-47) of the Swiss Re Group for the year ended 31 December 2006.

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

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

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

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

**PricewaterhouseCoopers AG**

David JA Law  
Auditor in charge

Dawn M Kink

Zurich, 28 February 2007

PricewaterhouseCoopers is represented in about 140 countries worldwide and in Switzerland in Aarau, Basle, Berne, Chur, Geneva, Lausanne, Lucerne, Lugano, Neuchâtel, Sion, St. Gall, Thun, Winterthur, Zug and Zurich and offers Assurance, Tax & Legal and Advisory services.

**SWISS REINSURANCE COMPANY, ZURICH**  
**INCOME STATEMENT**

	Notes	For the years ended 31 December	
		2005	2006
		CHF millions	
<b>Reinsurance</b>		1	
Premiums earned .....		17,742	<b>16,083</b>
Claims and claim adjustment expenses .....		(12,434)	<b>(11,210)</b>
Life and health benefits .....		(3,323)	<b>1,112</b>
Change in equalisation reserve .....			<b>(250)</b>
Acquisition costs .....		(3,284)	<b>(5,786)</b>
Other reinsurance result .....		520	<b>972</b>
Operating costs .....		(1,108)	<b>(1,379)</b>
Allocated investment return .....		917	<b>1,095</b>
<b>Reinsurance result</b> .....		(970)	<b>637</b>
Investments .....	2		
Investment income .....		4,485	<b>5,431</b>
Investment expenses .....		(1,453)	<b>(2,634)</b>
Allocated investment return .....		(917)	<b>(1,095)</b>
<b>Investment result</b> .....		2,115	<b>1,702</b>
<b>Other income and expenses</b> .....			
Other interest income .....		120	<b>244</b>
Other interest expenses .....		(194)	<b>(301)</b>
Other income .....		340	<b>122</b>
Other expenses .....		(200)	<b>(190)</b>
<b>Result from other income and expenses</b> .....		66	<b>(125)</b>
<b>Income before tax</b> .....		1,211	<b>2,214</b>
<b>Tax</b> .....		(142)	<b>(70)</b>
<b>Net income</b> .....		1,069	<b>2,144</b>

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

**SWISS REINSURANCE COMPANY, ZURICH**  
**BALANCE SHEET**

	Notes	For the years ended 31 December				
		2005	2006			
		CHF millions				
<b>Assets</b>						
<b>Invested assets</b>						
<b>Investments</b>						
Investment real estate .....		1,024	<b>970</b>			
Investments in subsidiaries and affiliated companies .....		14,326	<b>17,249</b>			
Loans to subsidiaries and affiliated companies .....		7,411	<b>8,859</b>			
Mortgages and other loans .....		748	<b>762</b>			
Equity securities .....		6,980	<b>8,956</b>			
Fixed income securities .....		17,338	<b>19,204</b>			
Short-term investments .....		968	<b>1,709</b>			
Assets in derivative financial instruments .....		348	<b>562</b>			
<b>Total investments</b> .....		<b>49,143</b>	<b>58,271</b>			
<b>Tangible assets</b> .....		842	<b>871</b>			
<b>Intangible assets</b> .....		69	<b>59</b>			
<b>Total invested assets</b> .....		<b>50,054</b>	<b>59,201</b>			
<b>Current assets</b>						
Premiums and other receivables from reinsurance .....	3	7,411	<b>7,295</b>			
Funds held by ceding companies .....	3	18,908	<b>17,698</b>			
Deferred acquisition costs .....	3	2,515	<b>1,103</b>			
Cash and cash equivalents .....		3,489	<b>2,158</b>			
Other receivables .....		121	<b>3,134</b>			
Other assets .....		746	<b>677</b>			
Accrued income .....		913	<b>955</b>			
<b>Total current assets</b> .....		<b>34,103</b>	<b>33,020</b>			
<b>Total assets</b> .....		<b>84,157</b>	<b>92,221</b>			

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

The Company has revised the classification between certain balance sheet categories, as described in the notes on page F-53, and adjusted the comparative balance sheet positions.

**SWISS REINSURANCE COMPANY, ZURICH**  
**BALANCE SHEET**

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

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

**SWISS REINSURANCE COMPANY, ZURICH**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Significant accounting principles**

*Basis of presentation*

The financial statements are prepared in accordance with Swiss Company Law. Swiss Reinsurance Company, Zurich, modified the presentation of its financial information.

The previously reported 2005 financial year figures have been adapted accordingly.

Details are shown under "Balance sheet/Assets classification" on page F-53.

*Time period*

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

*Income statement*

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

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

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

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

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

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

*Balance sheet/Assets*

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

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

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

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

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

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

#### *Balance sheet/Assets classification*

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

#### *Balance sheet/Liabilities*

Technical provisions are valued in accordance with the following principles:

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

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

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

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

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

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

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

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

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

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

#### *Foreign currency translation*

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

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

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

The currency exchange rates applicable for key currencies are shown on page F-9.

**SWISS REINSURANCE COMPANY, ZURICH**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Additional information on the financial statements**

**1. Reinsurance result**

	2005			2006		
	Gross	Retro	Net	Gross	Retro	Net
	CHF millions					
Premiums written .....	23,128	(5,261)	17,867	<b>19,891</b>	(3,579)	<b>16,312</b>
Change in unearned premiums .....	(484)	359	(125)	(632)	403	(229)
<b>Premiums earned</b> .....	<b>22,644</b>	(4,902)	17,742	<b>19,259</b>	(3,176)	<b>16,083</b>
Claims paid and claim adjustment expenses .....	(8,016)	886	(7,130)	(8,181)	1,796	(6,385)
Change in unpaid claims .....	(6,724)	1,420	(5,304)	(4,752)	(73)	(4,825)
<b>Claims and claim adjustment expenses</b> .....	<b>(14,740)</b>	2,306	(12,434)	<b>(12,933)</b>	1,723	(11,210)
<b>Life and health benefits</b> .....	<b>(5,381)</b>	2,058	(3,323)	<b>1853</b>	(741)	<b>1,112</b>
<b>Change in equalisation reserve</b> .....	<b>—</b>	<b>—</b>	<b>—</b>	<b>(250)</b>	<b>—</b>	<b>(250)</b>
Fixed commissions .....	(3,426)	598	(2,828)	(6,116)	657	(5,459)
Profit commissions .....	(475)	19	(456)	(370)	43	(327)
<b>Acquisition costs</b> .....	<b>(3,901)</b>	617	(3,284)	<b>(6,486)</b>	700	(5,786)
Other reinsurance income and expenses .....	(30)	(10)	(40)	150	(69)	81
Result from cash deposits .....	600	(40)	560	1,057	(166)	891
<b>Other reinsurance result</b> .....	<b>570</b>	<b>(50)</b>	<b>520</b>	<b>1,207</b>	<b>(235)</b>	<b>972</b>
<b>Operating costs</b> .....			(1,108)			(1,379)
<b>Allocated investment return</b> .....			917			1,095
<b>Reinsurance result</b> .....			<b>(970)</b>			<b>637</b>

**2. Investment result**

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

The company has revised the classification between certain balance sheet categories, as described in the notes on page F-53, and adjusted the comparative income statement positions.

**3. Assets from reinsurance**

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

#### 4. Liabilities from reinsurance

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

#### 5. Shareholders' equity

##### Change in shareholders' equity

	2005	2006
	CHF millions	
Shareholders' equity on 31 December (previous year) .....	12,227	<b>12,802</b>
Dividend paid for the previous year .....	(497)	(776)
Capital increase including premium .....	3	4,239
Profit for the financial year .....	<u>1,069</u>	<u>2,144</u>
<b>Shareholders' equity on 31 December before allocation of profit</b> .....	<b>12,802</b>	<b>18,409</b>
Dividend payment .....	(776)	(1,218) <sup>1</sup>
<b>Shareholders' equity on 31 December after allocation of profit</b> .....	<b>12,026</b>	<b>17,191</b>

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

##### Sources of shareholders' equity (after allocation of profit)

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

##### Contingent liabilities

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

##### Leasing contracts

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

	2005	2006
	CHF millions	
2006 .....	14	—
2007 .....	10	<b>13</b>
2008 .....	7	<b>8</b>
2009 .....	4	<b>3</b>
2010 .....	3	<b>2</b>
After 2011 .....	1	<b>1</b>

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

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

#### *Security deposits*

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

#### *Securities lending*

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

#### *Investment funds*

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

#### *Fire insurance value of tangible assets*

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

#### *Obligations towards employee pension funds*

Other liabilities include CHF 6 million (2005: CHF 6 million) payable to the employee pension funds. In addition, a provision of CHF 37 million (2005: CHF nil) was established as of 31 December 2006 for transitional obligations concerning the change in the pension plan structure from a defined benefit scheme to a defined contribution scheme effective 1 January 2007.

#### *Debentures*

As of 31 December 2006 the following debentures were outstanding:

- 3 3/4% interest, CHF 500 million, 2 July 1997–2007.
- 3 3/4% interest, CHF 600 million, perpetual from 15 June 1999 but not less than 12 years.

#### *Investments in subsidiaries*

Details on the Swiss Re Group's subsidiaries are disclosed on pages F-42 to F-44.

#### *Treasury shares*

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

*Deposit account*

Deposit arrangements generated the following balances which are included in:

	<b>2005</b>	<b>2006</b>
	<b>CHF millions</b>	<b>CHF millions</b>
Reinsurance result .....	10	<b>31</b>
Premiums and other receivables from reinsurance .....	378	<b>287</b>
Funds held by ceding companies .....	1,151	<b>182</b>
Funds held under reinsurance treaties .....	64	—
Reinsurance balances payable .....	1,580	<b>566</b>

*Claims on and obligations towards Group companies*

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

*Conditional capital and authorised capital*

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

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

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

*Change in undisclosed reserves*

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

*Major shareholders*

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

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

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

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

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

#### *Personnel information*

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

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

#### *Management fee contribution*

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

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

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

REPORT OF THE STATUTORY AUDITORS

**PRICEWATERHOUSECOOPERS** 

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To the Annual General Meeting of  
Swiss Reinsurance Company  
Zurich

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes/pages F-49 to F-58) of Swiss Reinsurance Company for the year ended 31 December 2006.

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

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

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

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

**PricewaterhouseCoopers AG**

David JA Law                    Dawn M Kink  
Auditor in charge

Zurich, 28 February 2007

PricewaterhouseCoopers is represented in about 140 countries worldwide and in Switzerland in Aarau, Basle, Berne, Chur, Geneva, Lausanne, Lucerne, Lugano, Neuchâtel, Sion, St. Gall, Thun, Winterthur, Zug and Zurich and offers Assurance, Tax & Legal and Advisory services.

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